

UGU DISTRICT MUNICIPALITY

"The Municipality"



SUPPLY CHAIN MANAGEMENT POLICY

Council resolves in terms of section 111 of the Local Government Municipal Finance Management Act (No. 56 of 2003), to adopt the following proposal as the Supply Chain Management Policy of the Ugu District Municipality for the 2014/2015 Financial Year

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Annexures to this policy:

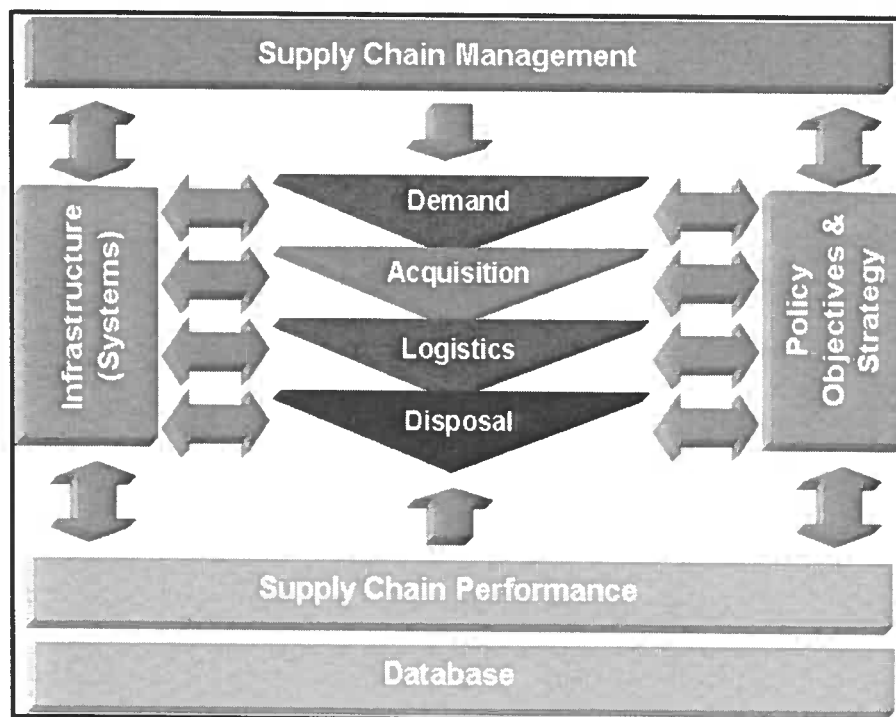
1. Bid committee declaration
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1. Introduction

- (1) In terms of section 217 of the Constitution of the Republic of South Africa, 1996:

*“When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is **fair, equitable, transparent, competitive and cost-effective.**”*

Supply Chain Management is a critical support function to ensure effective and efficient service delivery to achieve the mandates and objectives of the municipality. The diagram below graphically illustrates the various elements of the supply chain management system and how they interact with the overall SCM system.



Central to the SCM system are the four elements of Demand Management, Acquisitions Management, Logistics Management (Stores) and Disposals Management. Underpinning the entire SCM system are the two pillars of Supply Chain Performance and the Supplier Database. The SCM system has to be supported by effective and efficient SCM systems, policies and standard operating procedures that achieve the overall SCM strategy and objectives.

(2) Demand Management

Demand Management is the first phase of Supply Chain Management. It is the action of assessing 'what' good and/or service is needed, and then 'planning considering local content and product' when and how that good and/or service will be acquired.

Demand Management starts with the assessment of, and accepts input from:

- ✓ The Integrated Development Plan;
- ✓ Service Delivery Budget Implementation Plan;
- ✓ Approved Budget; and
- ✓ Existing Contract Register.

A critical output of demand management is the generation of annual procurement plans by the end-user Departments at the beginning of the financial year that are approved by the Accounting Officer. Procurement during the year will be guided by these procurement plans, with any deviations thereto approved by the Accounting Officer. The primary intention of these procurement plans are to identify goods and services required well in advance, to identify the appropriate procurement method to be deployed and to implement the necessary procurement processes timeously to ensure compliance and that goods and services are procured on time and when needed.

(3) Acquisitions Management

The word 'acquire' means to obtain or attain something which, in the Government context, may be a good, works and/or service that is required to fulfil a need. Acquisitions Management thus refers to the management of the entire process of acquiring that particular good, works and/or service which satisfies the need. This process covers the acquiring of the good, works and/or service by implementing the sourcing strategy determined by Demand Management and the administration thereof.

The primary objective of Acquisitions Management is to fulfil the demand determined by the Demand Management phase of Supply Chain Management. Acquisitions Management is thus driven by the Municipality's Procurement Plan and refers to a process of establishing: what will be acquired, when, how and from where it will be acquired, how much is required and at what price, as well as contracting with the vendor. The desired outcome is a well-managed process of acquisition that results in the satisfaction of the need that arose.

(4) Logistics Management

Logistics Management is the third element of Supply Chain Management and deals with the ordering and provisioning of goods, works and/or services within the Municipality. It is the process of determining when goods, works and/or services are procured, received, stored and distributed.

Typically this involves the processes of ordering, receiving, payment, provisioning and managing inventory.

(5) Disposal Management

Disposal is the final process when the institution needs to do away with unserviceable, redundant or obsolete movable assets done jointly by SCM& Asset Management. The Accounting Officer appoints a specific committee to deal with disposals, to make recommendations with regard to the disposal of any inventory item. It is the responsibility of the Accounting Officer or his/ her delegate to consider the recommendation of the appointed committee.

(6) Supply Chain Management Performance

Supply chain management performance is a critical component underpinning the entire SCM system. It is twofold in that, firstly, there should be effective monitoring of the SCM system. This requires effective and efficient monitoring of the implementation of and adherence to the SCM policy and standard operating procedures, as well as rigorous and robust monitoring of vendor performance.

Secondly, it entails monthly reporting to relevant structures within the Municipality, as well as external structures, as a key component of the Supply Chain Management framework. It interacts with each of the main functional areas represented in the framework and provides an overall look at the performance of the Municipality's Supply Chain Management. The Municipal Finance Management Act, Act No. 56 of 2003, and the Supply Chain Management Regulations, Practice Notes, Instruction Notes and Circulars, specify a number of reporting requirements that are required by National Treasury and Provincial Treasury.

(7) Supplier Database

Underpinning the entire SCM system is the legislative requirement in terms of the SCM regulations that prescribes that the Accounting Officer shall maintain a list of accredited service providers with whom the Municipality shall procure from, and the rules and regulations governing the maintenance of the supplier database.

2. Definitions and abbreviations

(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 the Act.

“municipality” means the Ugu District Municipality

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

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

“days” means calendar days, including weekends and public holidays;

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

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

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

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

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

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

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

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

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

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

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

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

“specific bid” means bid under consideration;

“end user” means the unit requiring service or goods to be procured;

“sole supplier” means the instance where there is only one supplier on the municipalities supply database for the provision of particular goods or services ; and

“preferred supplier” means the status awarded to a supplier by the municipality subsequent to due procurement process, awaiting the fourteen day appeal process and resolution of any appeals received.

Black Designated Groups Means:

- a) Unemployed not attending and not required by law to attend an educational institution and not awaiting admission to an educational institution.
- b) Black people who are youth as defined in the National Youth Commission Act of 1996.
- c) Black people who are persons with disabilities as defined in the Code of Goods Practice on employment of people with disabilities issued under the Employment Equity Act
- d) Black people living in rural areas and under-developed areas.

Black People Means: Only natural persons who are citizens of the Republic of South Africa by birth.

(2) Abbreviations

“AO”	Accounting Officer
“BAC”	Bid Adjudication Committee
“BBBEEA”	Broad-Based Black Economic Empowerment Act
“BEC”	Bid Evaluation Committee
“BSC”	Bid Specification Committee
“CFO”	Chief Financial Officer
“CIPC”	Companies and Intellectual Property Commission
“HDI”	Historically Disadvantaged Individuals
“KZN”	KwaZulu-Natal



"MBD"	Municipal Bid Documents
"MFMA"	Municipal Finance Management Act, 2003 (Act 56 of 2003)
"PPFA"	Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000)
"SCM"	Supply Chain Management
"SCMU"	Supply Chain Management Unit

3. Policy goal and objectives

- (1) The goal of the SCM policy is to ensure that there are effective and efficient SCM processes and systems in place to create an enabling environment towards the Municipality's service delivery objectives, whilst ensuring compliance with SCM legislation and regulations.
- (2) The above goal shall be achieved through the following objectives:
 - ✓ SCM practice and procedures shall comply with the SCM policy at all times, unless authorised otherwise by the Accounting Officer; and
 - ✓ Appropriate and sufficient resources shall be made available to ensure compliance with the SCM policy.

4. Overview of key SCM legislation

- (1) The figure below provides a simplified graphic overview of the legislative building blocks for SCM in the Ugu District Municipality.

LEGISLATIVE MANDATES

The Constitution of the Republic of South Africa (Act No. 108 of 2006)	
Municipal Finance Management Act (No. 56 of 2003)	Preferential Procurement Policy Framework Act (No. 5 of 2000)
Broad Based Black Economic Empowerment Act 53 of 2003	The Promotion of Access to Information Act (No. 2 of 2000)
Construction Industry Development Board Act (No. 38 of 2000)	The Promotion of Administrative Justice Act (No. 3 of 2000)
The Protected Disclosures Act (No. 26 of 2000)	State Information Technology Agency Act, (Act No. 88 of 1998)
National Treasury Supply Chain Management Regulations	National Treasury Supply Chain Practice Notes and Circulars

- (2) The Municipality will comply with the following legislative requirements that the SCM unit of the Municipality is bound and guided by:

(a) The Constitution of the Republic of South Africa (Act No. 108 of 2006)

Section 217(1) provides the basis for procurement and determines that:

“When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective”.

Subsection 217 (2) indicates that Section 217 (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for:

- ✓ Categories of preference in the allocation of contracts; and
- ✓ The protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.

Section 217(3) of The Constitution, 1996, further confers an obligation for National Legislation to prescribe a framework providing for preferential procurement to address the social and economic imbalances of the past.

(b) Municipal Finance Management Act (No. 56 of 2003)

The Municipal Finance Management Act 56 of 2003 was promulgated to regulate financial management in the Municipal spheres of government. Considerable powers are assigned to Accounting Officers and Accounting Authorities to enable them to manage their financial affairs within the parameters outlined by the prescribed Norms and Standards.

The onus of responsibility for Supply Chain Management is placed on the Accounting Officers/Authorities.

(c) Preferential Procurement Policy Framework Act (No. 5 of 2000) and its Regulations

The Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) (PPPFA) and its accompanying Regulations were promulgated to prescribe a framework for a preferential procurement system to give effect to section 217(3) of The Constitution. The PPPFA and its Regulations provides for the implementation of a preference point system in the allocation of contracts for



categories of service providers and the promotion of goals, including socio-economic goals, to advance the interest of persons disadvantaged by unfair discrimination on the basis of race, gender or disability and implementing the programmes of the Reconstruction and Development Programme (RDP).

(d) Broad Based Black Economic Empowerment Act (BBBEE) (No. 53 of 2003)

The BBBEE Act allows the Minister of Trade and Industry to issue codes of practice that could include 'qualification criteria for preferential purposes for procurement and other economic activities'. Where BEE should at all times be included as a priority, at least until certain prescribed targets have been achieved, allowance should also be made for pursuing other policy priorities through PPPFA (such as job creation and SMME development).

(e) Construction Industry Development Board Act (No. 38 of 2000)

The Act is applicable to all organs of state involved in procurement relating to the construction industry. It establishes a means by which the Board can promote and implement policies, programmes, and projects aimed at procurement reform, standardization, and uniformity in procurement documentation, practices and procedures within the framework of the procurement policy of government. It establishes a national register of contractors to manage public sector procurement risk.

(f) The Promotion of Access to Information Act (No. 2 of 2000)

This Act gives effect to Section 32 of the Constitution (Access to Information) by setting out how anyone can get access to information held by the state. By so doing, it promotes transparency and prevents government from operating in secret.

(g) The Promotion of Administrative Justice Act (No. 3 of 2000)

This Act gives effect to Section 33 of the Constitution (Just Administrative Action). It ensures that decisions that affect the public are taken in a way that is procedurally fair and it gives people the right to request written reasons for decisions they disagree with. In this way, it creates greater transparency - people may be less tempted to act corruptly if they know they will have to explain themselves to the public.

(h) The Protected Disclosures Act (No. 26 of 2000)

The Act (often called the 'Whistleblowers Act') was passed to encourage employees to disclose information about unlawful and irregular behavior in the workplace. It offers protection from



victimisation for 'whistleblowers', as long as they meet the requirements and follow the procedure set out in the Act.

(i) National Treasury Supply Chain Management Regulations

The Municipality shall apply the Treasury Regulations issued in terms of the MFMA as it pertains to SCM. It serves as a formal requirement for the Municipality, to ensure the establishment and implementation of an effective and efficient Supply Chain Management Unit (SCMU).

It also stipulates the establishment of an effective and efficient SCMU within the office of the Chief Financial Officer (CFO), as an integral part of their financial systems.

A Supply Chain Management system must be utilised and provide at least for the following:

- ✓ Demand Management;
- ✓ Acquisitions Management;
- ✓ Logistics Management;
- ✓ Disposal Management;
- ✓ Risk Management; and
- ✓ Supply Chain Performance and Reporting.

(j) State Information Technology Agency Act, (Act No. 88 of 1998)

The State Information Technology Agency (SITA) Act, Act No 88 of 1998, as amended by Act 38 of 2002, requires that SITA must act as the procurement agency for the Municipality's information technology requirements.

(k) Other Legislative Requirements

In addition to the above mentioned legislative framework the Ugu District Municipality will also comply with the provisions of the following legislation that will impact on the supply chain environment:

- ✓ The Supply Chain Management Guide for Accounting Officers;
- ✓ The Prevention and Combating of Corrupt Activities Act, Act 12 of 2004;
- ✓ The National Small Business Act, Act 102 of 1996;
- ✓ Provincial Growth and Development Strategy;
- ✓ Public Service Act, Act No 23 of 1994;
- ✓ The Competition Act, Act No 89 of 1998; and



- ✓ The King Report on Corporate Governance for South Africa.

CHAPTER 1

IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY

5. Supply chain management policy

- (1) All officials and other role players in the supply chain management system of the municipality must implement this Policy in a way that –
- (a) gives effect to –
 - (i) section 217 of the Constitution; and
 - (ii) Part 1 of Chapter 11 and other applicable provisions of the Act;
 - (b) is fair, equitable, transparent, competitive and cost effective;
 - (c) complies with –
 - (i) the Regulations; and
 - (ii) any minimum norms and standards that may be prescribed in terms of section 168 of the Act;
 - (d) is consistent with other applicable legislation;
 - (e) does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres; and
 - (f) is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.
- (2) This Policy applies when the municipality–
- (a) procures goods or services;
 - (b) disposes goods no longer needed;
 - (c) selects contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the Municipal Systems Act applies; or
- (3) This Policy, except where provided otherwise, does not apply in respect of the procurement of goods and services contemplated in section 110(2) of the Act, including –
- (a) water from the Department of Water Affairs or a public entity, another municipality or a municipal entity; and
 - (b) electricity from Eskom or another public entity, another municipality or a municipal entity.



6. Delegation of supply chain management powers and duties

- (1) The council hereby delegates all powers and duties to the accounting officer which are necessary to enable the accounting officer –
 - (a) to discharge the supply chain management responsibilities conferred on accounting officers in terms of –
 - (i) Chapter 8 or 10 of the Act; and
 - (ii) this Policy;
 - (b) to maximise administrative and operational efficiency in the implementation of this Policy;
 - (c) to enforce reasonable cost-effective measures for the prevention of fraud, corruption, favoritism and unfair and irregular practices in the implementation of this Policy; and
 - (d) to comply with his or her responsibilities in terms of section 115 and other applicable provisions of the Act.
- (2) Sections 79 and 106 of the Act apply to the subdelegation of powers and duties delegated to an accounting officer in terms of subparagraph (1).
- (3) The accounting officer may not subdelegate any supply chain management powers or duties to a person who is not an official of the municipality or to a committee which is not exclusively composed of officials of the municipality.
- (4) This paragraph may not be read as permitting an official to whom the power to make final awards has been delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 26 of this Policy.

7. Sub delegations

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

Table 1: Specific Procurement Delegations

No	Scope	Delegated Authority	Threshold Value	Conditions Applicable To Delegation
1.	Obtain Council Resolution for the approval of SCM Policy, SCM Delegations, Procedure Manual and Standard Operating Procedures for End Users.	AO	N/A	<ul style="list-style-type: none"> ✓ Annual reviews of the SCM Policy, SCM Delegations, Procedure Manual and Standard Operating Procedures for End Users.
2.	Appointment of BSC, BEC and BAC members.	AO	N/A	<ul style="list-style-type: none"> ✓ Members of the BSC, BEC and BAC must be appointed annually. ✓ At least five (5) members must be appointed to each Bid Committee. ✓ The Bid Committees must comprise suitably qualified and experienced members at least at middle management level. ✓ Members with specialist expertise may be co-opted onto these Bid Committees. ✓ No member may serve on both the BEC and the BAC.
3.	Deviations from this delegated authority.	AO	Unlimited	<ul style="list-style-type: none"> ✓ Any deviation from these delegations MUST be approved by the AO in writing.

No	Scope	Delegated Authority	Threshold Value	Conditions Applicable To Delegation
	Detailed contract price adjustment. ie deviations and variations.			✓ Any request for deviation MUST be accompanied by detailed motivation in terms of the legal prescripts.

Table 2: Specific Procurement Threshold Values

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
1.	Level 1: Procurement for an estimated value up to R2 000 (Including VAT) per case	Manager, subject to condition regarding Petty Cash funded purchases	R2 000	<ul style="list-style-type: none"> ✓ PPPFA does not apply. ✓ Authority to procure by means of petty cash vests with the Accounting Officer. ✓ Re-imbursement of expenditure must be supported by actual invoice/ receipt/ cash sale slip from supplier up to R2 000. ✓ For petty cash procurement between R501 and R2 000, 1 written quotations must be obtained and awarded to the cheapest supplier. ✓ The total monetary value of petty cash purchases per month, per General Manager may not exceed R8000. ✓ Suppliers not registered on the Institution's Suppliers Database may be considered. ✓ Records and appropriate documents for each purchase must be submitted to the relevant General Manager with 48 hours of purchase.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
				<ul style="list-style-type: none"> ✓ Submission of monthly Petty Cash reconciliation reports to BTO from each General Manager must contain the total number and total value of petty cash purchases for that month.
2.	Level 2 Procurement for an estimated value of more than R2 000 up to R10 000 (Including VAT) per case.	Manager	R10 000	<ul style="list-style-type: none"> ✓ Authority to procure may not be delegated to an official lower than a Manager. ✓ At least three (3) written quotations must be obtained from suppliers registered on the Institution's Suppliers Database. ✓ If only one or two suppliers are available, Preapproval by CFO must be obtained prior to the purchase order. Operations to ascertain that all suppliers on the Database has been invited to quote. ✓ Awarded to the lowest acceptable quote.
3.	Level 3: Procurement for an estimated value of more than R10 000 up to R30 000 (Including VAT) per case.	General Manager	R30 000	<ul style="list-style-type: none"> ✓ Authority to procure may not be delegated to an official lower than a General Manager. ✓ At least three (3) written quotations must be obtained from suppliers registered on the Institution's Suppliers Database. ✓ Where there is less than (3) quotations the CFO must pre approve. ✓ Awarded to the lowest acceptable quote. ✓ PPPFA does not apply.
4.	Level 4: Procurement for an estimated value of more than R30 000 up to R200 000 (Including VAT) per case.	General Manager	R200 000	<ul style="list-style-type: none"> ✓ Authority to procure from R30 001 up to R200 000 may not be delegated to an official lower than a General Manager.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
				<ul style="list-style-type: none"> ✓ Procurement above R30 000 must be advertised for a period of seven (7) days on the Municipal Notice Board and Website. ✓ The successful Supplier/Service Provider is the one that scores the highest points for Price (80) and Preference Points (20) in terms of the PPPFA, provided that all minimum and functionality criteria have been met in terms of the approved specification. ✓ PPPFA shall apply.
5.	Level 5: Procurement for an estimated value of more than R200 000 (Including VAT) per case.	AO	Above R200 000.00	<ul style="list-style-type: none"> ✓ The Competitive Bidding process must be used for ALL bids. ✓ Public Invitation of the Bid for 14 days, or 30 days if transaction value exceeds R10m. ✗ Bids must be invited publicly in at least one local newspaper . ✓ Bid Specifications must be approved by the BSC prior to advertising. ✓ All bids are evaluated by the BEC and a report is submitted to the BAC recommending the successful bidder. ✓ All bids are adjudicated by the BAC and a recommended award is submitted to the AO or his delegate for approval and award.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
6.	Exceptional And Emergency Cases (in terms of section 34 of this policy)	AO	Unlimited	<ul style="list-style-type: none"> ✓ Goods and/or services may be procured, by making use of suppliers registered on the Institution's Suppliers Database. ✓ In these cases it is permissible to invite at least three verbal or written quotations (where practical). The relevant suppliers must confirm their offers in writing within 2 days of verbal quotations. ✓ Where only one quotation is received and accepted, and taking the circumstances into account, all reasonable steps must be taken to ensure that a fair (market related) price is obtained. ✓ The conditions contained in the General Conditions of Contract must be made applicable to the purchase. ✓ The reasons for the urgency or emergency and the losses or consequences that will follow if action was not taken must be recorded and must serve as the basis for a written motivation as to why it is impractical to invite competitive bids. ✓ Such written motivation must be approved by the Accounting Officer or his/her delegate. ✓ The standard deviation form must be completed and approved by the AO or his delegate.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
7.	Sole Supplier	AO	Unlimited	<ul style="list-style-type: none"> ✓ Where a bid is invited from a sole agent or supplier, provision must be made in the bid documents for the inclusion of particulars in order to determine the reasonableness of the price(s). ✓ All sole supplier bids shall be approved in writing by the Supply Chain Manager, or the Chief Financial Officer if the transaction value exceeds R100 000. ✓ Original tax clearance certificates should be a pre-requisite for award. ✓ Sole supplier bids may be accepted; provided it complies with the specification and that the prices are proved to be and are certified as fair and reasonable. Proof of reasonableness must be determined in the following sequence: <ul style="list-style-type: none"> (i) Comparison with prices, after discounts, to other clients and the relative discount that the Municipality enjoys. (ii) Where this is not possible, profit before tax, based on a full statement of relevant costs. (iii) In all cases, comparison with previous bid prices where these are available. (iv) Proof of reasonableness of prices where only one bid is received, must be available for audit purposes.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
8.	Variation Orders/ Contingencies/ Extensions to Contracts	AO	R20 Million	<ul style="list-style-type: none"> ✓ Contracts may be expanded or varied by not more than 20% or R20 million (including all applicable taxes) for construction related goods, works and/or services and 15% or R15 million (including all applicable taxes) for all other goods and/or services of the original value of the contract, whichever is the lower amount. ✓ All variations must be recommended by the relevant management prior to seeking the approval of the AO. ✓ Extensions to any contracts on a month to month basis must not exceed a period of 6 months. ✓ All variations must be reported to Council.
10.	Negotiations	AO	Unlimited	<ul style="list-style-type: none"> ✓ The AO may delegate a Negotiating Team as in when negotiating is required. ✓ The negotiation in terms of price quotations must be conducted in a formal sitting with all nominated Suppliers/ Service Providers that have been invited for purposes of fairness and equality. ✓ The Accounting Officer may ✓ Where a bid is invited from a sole agent or supplier, negotiation may take place so as to obtain the best possible price and quality for the required goods and/or services.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
				<ul style="list-style-type: none"> ✓ Any discounts received conditionally as a result of negotiations must adhere to Regulation 11 of the Preferential Procurement Regulations. ✓ Other acceptable means of negotiations with Suppliers/ Service Providers will include confirmation of specifications, deliverables, scope of work, implementation plans, project charters, catalogues, performance standards, packaging, delivery, warranties, guarantees, payment terms and milestones, penalties, responsibilities of the Institution and vendor, monitoring mechanisms, etc.

- (2) The power to make a final award:
- (a) above R10 million (VAT included) may not be sub delegated by the accounting officer;
 - (b) above R2 million (VAT included), but not exceeding R10 million (VAT included), may be sub delegated but only to –
 - (i) the chief financial officer;
 - (ii) a general manager; or
 - (iii) a bid adjudication committee of which the chief financial officer or a general manager is a member; or
 - (c) not exceeding R2 million (VAT included) may be sub delegated but only to:
 - (i) the chief financial officer;
 - (ii) a general manager;
 - (iii) a manager directly accountable to the chief financial officer or a general manager; or
 - (iv) a bid adjudication committee.
- (3) An official or bid adjudication committee to which the power to make final awards has been sub delegated in accordance with subparagraph (2) must within five days of the end of each month submit to the official referred to in subparagraph (4) a written report containing particulars of each final award made by such official or committee during that month, including–
- (a) the amount of the award;
 - (b) the name of the person to whom the award was made; and
 - (c) the reason why the award was made to that person.
- (4) A written report referred to in subparagraph (3) must be submitted –
- (a) to the accounting officer, in the case of an award by –
 - (i) the chief financial officer;
 - (ii) a senior manager; or
 - (iii) a bid adjudication committee of which the chief financial officer or a senior manager is a member; or
 - (b) to the chief financial officer or the senior manager responsible for the relevant bid, in the case of an award by –
 - (i) a manager referred to in subparagraph (2)(c)(iii); or
 - (ii) a bid adjudication committee of which the chief financial officer or a senior manager is not a member.

- (5) Subparagraphs (3) and (4) of this policy do not apply to procurements out of petty cash.
- (6) This paragraph may not be interpreted as permitting an official to whom the power to make final awards has been sub delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 25 of this Policy.
- (7) No supply chain management decision-making powers may be delegated to an advisor or consultant.

8. Oversight role of council

- (1) The council reserves its right to maintain oversight over the implementation of this Policy.
- (2) For the purposes of such oversight the accounting officer must –
 - (i) within 30 days of the end of each financial year, submit a report on the implementation of this Policy and the supply chain management policy of any municipal entity under the sole or shared control of the municipality, to the council of the municipality; and
 - (ii) whenever there are serious and material problems in the implementation of this Policy, immediately submit a report to the council, who must then submit the report to the accounting officer of the parent municipality for submission to the council.
- (3) The accounting officer must, within 10 days of the end of each quarter, submit a report on the implementation of the supply chain management policy to the mayor.
- (4) The reports must be made public in accordance with section 21A of the Municipal Systems Act.

9. Supply chain management unit

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



10. Training of supply chain management officials

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

CHAPTER 2

SUPPLY CHAIN MANAGEMENT SYSTEM

11. Format of supply chain management system

This Policy provides systems for –

- (i) demand management;
- (ii) acquisition management;
- (iii) logistics management;
- (iv) disposal management;
- (v) risk management; and
- (vi) performance management.

Part 1: Demand management

12. System of demand management

- (1) The accounting officer must establish and implement an appropriate demand management system in order to ensure that the resources required by the municipality support its operational commitments and its strategic goals outlined in the Integrated Development Plan.
- (2) The demand management system must –
 - (a) include timely planning and management processes to ensure that all goods and services required by the municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost;
 - (b) take into account any benefits of economies of scale that may be derived in the case of acquisitions of a repetitive nature; and
 - (c) provide for the compilation of the required specifications to ensure that its needs are met.
 - (d) to undertake appropriate industry analysis and research to ensure that innovations and technological benefits are maximized.
- (3) Before each financial year commences end departments must submit procurement plans for the forth coming year to the SCM unit. The procurement plan must include:
 - (l) quantity of goods including monthly requirement;



- (m) estimated prices; and
- (n) expected purchase date
- (o) proposed procurement method

Part 2: Acquisition management

13. System of acquisition management

- (1) The accounting officer must implement the system of acquisition management set out in this Part in order to ensure –
 - (a) that goods and services are procured by the municipality in accordance with authorized processes only;
 - (b) that expenditure on goods and services is incurred in terms of an approved budget in terms of section 15 of the Act;
 - (c) that the threshold values for the different procurement processes are complied with;
 - (d) that bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with any applicable legislation;
 - and
 - (e) that any Treasury guidelines on acquisition management are properly taken into account.
- (2) When procuring goods or services contemplated in section 110(2) of the Act, the accounting officer must make public the fact that such goods or services are procured otherwise than through the municipality's supply chain management system, including -
 - (a) the kind of goods or services; and
 - (b) the name of the supplier.

14. Range of procurement processes

- (1) Goods and services may only be procured by way of –
 - (a) petty cash purchases, up to a transaction value of R2 000 (VAT included);
 - (b) formal written price quotations for procurements of a transaction value over R2 000 up to R200 000 (VAT included); and
 - (c) a competitive bidding process for–
 - (i) procurements above a transaction value of R200 000 (VAT included); and



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

15. General preconditions for consideration of written quotations or bids

A written quotation or bid may not be considered unless the provider who submitted the quotation or bid:

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

16. Lists of accredited prospective providers

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



- (d) disallow the listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector.
- (2) The list must be updated at least monthly to include any additional prospective providers and any new commodities or types of services. Prospective providers must be allowed to submit applications for listing at any time.
- (3) The list must be compiled per commodity and per type of service.

Registration on National Treasury Central Supplier Database (CSD)

Prospective supplier of goods and services will be required to register on the National Treasury Central Database to assist in performing validation functions of key supplier information. With effect from 01 July 2016, Municipalities and Municipal Entities must use the CSD supplier number starting with MAAA which is auto generated by the Central Supplier Database System after successful registration and validation of prospective provider as mandatory requirement as part of listing criteria for accrediting prospective provider in line with Section 14(1) (b) of the Municipal Supply Chain Management Regulations.

The CSD will automatically validate the following registration documents for Municipalities:

- Confirmation and status of Business Registration Documents ;
- Proof of bank account registration;
- Tax compliance status;
- Employee in the service of the state as defined in the Municipal SCM Regulations with information only available in the CAAT system at this time;
- Identity documentation; and
- Tender defaulters and restrictions status;

The following aspects are work-in-progress and further information will be provided once systems have been upgraded after consultation with relevant stakeholders, they are not yet available, the municipality is required to continue with their existing process :

- BBBEE Status
- CIDB
- Municipal Account status.

The municipality will continue with verification of other listing criteria which are not currently validated by CSD.



17. Petty cash purchases

Refer to Table 2: Specific Procurement Threshold Values under paragraph 5, Sub delegations, for provisions relating to petty cash purchases.

18. Formal written price quotations

- (1) The conditions for the procurement of goods or services through formal written price quotations are as follows:
 - (a) quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality;
 - (b) quotations may be obtained from providers who are not listed, provided that such providers meet the listing criteria set out in paragraph 15 of this Policy;
 - (c) if it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the Chief financial Officer if the transaction value exceeds R2000, and
 - (d) the procurement system must make provision for recording the names of the potential providers and their written quotations.
- (2) A designated official referred to in subparagraph (1) (c) must within three days of the end of each month report to the chief financial officer on any approvals given during that month by that official in terms of that subparagraph.

19. Procedures for procuring goods or services through formal written price quotations

- (1) The accounting officer should appoint quotation committees as indicated below:
 - a) Mini Tender Evaluation Committee; and

(2) Appointment of Mini Tender Evaluation Committee

The Accounting Officer must appoint members of the Mini Tender Evaluation Committee in writing. The term of office of the Mini Tender Evaluation Committee should be for the financial year.



(3) **Composition of Mini Tender Evaluation Committee**

- a) The committee shall comprise of at least 4 officials from the Municipality and the procurement clerk responsible must be invited.
- b) The composition should be as follows:
 - (i) Chairperson – SCM Manager
 - (ii) Member – Grants and Expenditure Manager
 - (iii) Member – Budget Manager
 - (iv) Member - Procurement Coordinator

(4) **Functions of the Mini Tender Evaluation Committee**

This committee is responsible for the award of quotations received, which includes:

- a) Verification of administrative compliance of the quotation documents.
- b) If less than three quotations were obtained that would require the CFO to pre approve before the process continues.
- c) Evaluation of quotations in accordance with the criteria specified in the invitation to quote documents (specification) and the PPPFA Regulations. Ensures that the evaluation was done in a fair and transparent manner;
- d) Detect and manage the splitting of orders; and
- e) Recording of minutes of the award and sign-off thereof by each member.

(5) **Decisions**

- a) Members are obliged to reveal to the Committee any information that may affect the decision made or to be made by the Committee.
- b) Decisions will be determined by the adjudication criteria. In the event where two or more quotations have scored equal total points, the successful quotation must be the one scoring the highest number of preference points for specified goals. Should two or more quotations still be equal in all respect, the award shall be decided by the drawing of lots.

Criteria for breaking deadlock in scoring

- (i) If two or more tenderers score an equal total number of points, the contract must be awarded to the tenderer that scored the highest points for B-BBEE.
- (ii) If functionality is part of the evaluation process and two or more tenderers score equal total points and equal preference points for B-BBEE, the contract must be awarded to the tenderer that scored the highest points for functionality.
- (iii) If two or more tenderers score equal total points in all respect, the award must be decided by



th++++9drawing of lot

Confidentiality of information and documentation must be maintained. All documents/memoranda must remain on the table during the Mini Tender Evaluation Committee meetings, unless the Chairperson grants permission to members to keep certain documents.

(10) Participation of advisors

The accounting officer may procure the services of advisors to assist in the execution of the supply chain management function. These services should be obtained through competitive bidding process. No advisor may, however, form part of the final decision making process regarding the award of quotations, as this will counter the principle of vesting accountability with the accounting officer. The accounting officer cannot delegate decision-making authority to a person other than a public service official.

(11) General

- a) In performing their functions, the Committee should be guided by all the applicable SCM, Procurement Legislations, Policies and Directives
- b) No lobbying in Mini Tender Evaluation Committees or from interested outside parties is allowed.
- c) Any allegations against members must be in writing, substantiated and channeled through the procedure as determined by the accounting officer as prescribed in the Municipality SCM System.
- d) No press release should be made without the approval of the accounting officer.
- e) All the proceedings shall be recorded manually and decisions must be minuted.

20. Competitive bids

- (1) Goods or services above a transaction value of R200 000 (VAT included) and long term contracts may only be procured through a competitive bidding process, subject to paragraph 11(2) of this Policy.
- (2) No requirement for goods or services above an estimated transaction value of R200 000 (VAT included), may deliberately be split into parts or items of lesser value merely for the sake of procuring the goods or services otherwise than through a competitive bidding process.

21. Process for competitive bidding



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

- (a) Compilation of bidding documentation as detailed in paragraph 20;
- (b) Public invitation of bids as detailed in paragraph 21;
- (c) Site meetings or briefing sessions as detailed in paragraph 21;
- (d) Handling of bids submitted in response to public invitation as detailed in paragraph 22;
- (e) Evaluation of bids as detailed in paragraph 27;
- (f) Award of contracts as detailed in paragraph 28;
- (g) Administration of contracts
- (i) After approval of a bid, the accounting officer and the bidder must enter into a written agreement.
- (h) Proper record keeping
- (i) Original / legal copies of written contracts agreements should be kept in a secure place for reference purposes.

22. Bid documentation for competitive bids

The criteria to which bid documentation for a competitive bidding process must comply, must:

- (a) take into account –
 - (i) the general conditions of contract and any special conditions of contract, if specified;
 - (ii) any Treasury guidelines on bid documentation; and
 - (iii) the requirements of the Construction Industry Development Board, in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure;
- (b) include the preference points system to be used , goals as contemplated in the Preferential Procurement Regulations and evaluation and adjudication criteria, including any criteria required by other applicable legislation;
- (c) compel bidders to declare any conflict of interest they may have in the transaction for which the bid is submitted;
- (d) if the value of the transaction is expected to exceed R10 million (VAT included), require bidders to furnish–
 - (i) if the bidder is required by law to prepare annual financial statements for auditing, their audited annual financial statements –
 - for the past three years; or
 - since their establishment if established during the past three years;
 - (ii) a certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 days;



- (iii) particulars of any contracts awarded to the bidder by an organ of state during the past five years, including particulars of any material non-compliance or dispute concerning the execution of such contract;
- (iv) a statement indicating whether any portion of the goods or services are expected to be sourced from outside the Republic, and, if so, what portion and whether any portion of payment from the municipality or municipal entity is expected to be transferred out of the Republic; and
- (e) stipulate that disputes must be settled by means of mutual consultation, mediation (with or without legal representation), or, when unsuccessful, in a South African court of law.

23. Public invitation for competitive bids

- (1) The procedure for the invitation of competitive bids, is as follows:
 - (a) Any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the municipality or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin); and
 - (b) the information contained in a public advertisement, must include –
 - (i) the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to subparagraph (2) of this policy;
 - (ii) a statement that bids may only be submitted on the bid documentation provided by the municipality; and
 - (iii) a date, time and venue of any proposed site meetings or briefing sessions.
 - (iv) Here bids will be evaluated on Functionality, the criteria and individual weightings per criterion should be advertised as well as the minimum qualifying score.
- (2) The accounting officer may determine a closure date for the submission of bids which is less than the 30 or 14 days requirement, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.
- (3) Bids submitted must be sealed.



24. Procedure for handling, opening and recording of bids

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

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

25. Negotiations with preferred bidders

- (1) The accounting officer may negotiate the final terms of a contract with bidders identified through a competitive bidding process as preferred bidders, provided that such negotiation –
 - (a) does not allow any preferred bidder a second or unfair opportunity;
 - (b) is not to the detriment of any other bidder; and
 - (c) does not lead to a higher price than the bid as submitted.
- (2) Minutes of such negotiations must be kept for record purposes.

26. Two-stage bidding process

- (1) A two-stage bidding process is allowed for –
 - (a) large complex projects;
 - (b) projects where it may be undesirable to prepare complete detailed technical specifications; or

- (c) long term projects with a duration period exceeding three years.
- (2) In the first stage technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments.
- (3) In the second stage final technical proposals and priced bids should be invited.

27. Committee system for competitive bids

- (1) A committee system for competitive bids is hereby established, consisting of the following committees for each procurement or cluster of procurements as the accounting officer may determine:
 - (a) a bid specification committee;
 - (b) a bid evaluation committee; and
 - (c) a bid adjudication committee.
- (2) The Accounting Officer appoints the members of each committee, taking into account section 117 of the Act. A neutral or independent observer may be appointed by the Accounting Officer and must attend or oversee a committee when this is appropriate for ensuring fairness and promoting transparency.
- (3) The committee must be consistent with:
 - a) Paragraphs 27 (5), 27 (6) and 27 (7) of this policy; and
 - b) Any other applicable legislation.
- (4) The Accounting Officer may apply the committee system to formal written price quotations.
- (5) **Bid Specification Committee**
 - a) **Appointment of bid specification committee**
 - (i) The accounting officer must appoint members of the bid specification committee in line with the financial year of the Municipality, in writing.
 - b) **Composition of bid specification committee**



- (ii) The committee shall comprise of at least 5 officials from the municipality and may when appropriate, invite an external technical expert.
- (iii) The composition should be as follows:
 - ✓ Chairperson – equivalent grading to Manager and above from the Water Services Directorate - (Permanent member);
 - ✓ Vice Chairperson - equivalent grading to Manager and above - (Permanent member);
 - ✓ Member - equivalent grading to Manager (Permanent member);
 - ✓ Member - Municipal Official (Permanent member); and
 - ✓ An official responsible for demand management (Permanent member).
- c) Functions of the Specification Committee:
 - (i) It is the responsibility of the committee to compile specifications/ terms of reference for each bid/ quotation for the procurement of goods or services by the municipality and to ensure:
 - ✓ that a proper and unbiased specification is compiled for the specific requirement;
 - ✓ that proper terms of reference is drawn up for the service required clearly indicating the scope of the requirement, the ratio between price and functionality, the evaluation criteria as well as their weights and values;
 - ✓ that strategic sourcing is applied and that the market is properly researched and analyzed;
 - ✓ that the necessary funds are available;
 - ✓ that, in addition to the general conditions of contract, appropriate special conditions of contract are specified, if applicable;
 - ✓ that in terms of the PPPFA, the correct preference point system is prescribed and that appropriate goals are identified and points allocated for these goals.

(6) Bid evaluation committee

a) Appointment of bid evaluation committee

- (i) The accounting officer must appoint members of the bid evaluation committee in line with the financial year of the Municipality, in writing.
- (ii) Members should declare interest in the bid under consideration up front and such member must automatically recuse himself / herself from participating in the evaluation process.
- (ii) Members should sign oath of secrecy forms up-front.

b) Composition of Bid Evaluation Committee

- (i) The committee must in so far as it may be possible, be cross functional.
- (ii) The committee should comprise of at least 5 (five) officials from the Municipality.
- (iii) The following officials should serve in the Bid Evaluation Committee;
 - ✓ Chairperson – equivalent grading to GM and above - (Permanent member);



- ✓ Vice Chairperson - equivalent grading to GM and above - (Permanent member);
- ✓ Legal Services Practitioner (advisory capacity);
- ✓ Two other Municipal Officials (Permanent members);
- ✓ SCM Practitioner (Permanent Member); and
- ✓ The Accounting Officer may appoint an external technical expert to serve in the committee for that specific bid in an advisory capacity only and not as a member.

c) Functions of the Bid Evaluation Committee

- (i) This committee is responsible for the evaluation of bids received, which includes:
- ✓ Verification of administrative compliance of the bid documents.
 - ✓ Evaluation of bids in accordance with the criteria specified in the bid documents (specification) and the PPPFA Regulations.
 - ✓ Evaluation of each bidder's technical and functional ability to execute the contract.
 - ✓ Verification of NIPP requirements if the contract is in excess of ten million rand (R10m); and
 - ✓ Submission of evaluation report and recommendation(s) regarding the award of the bid to the Adjudication Committee.

(7) Bid Adjudication Committee

a) Appointment of Bid Adjudication Committee

- (i) The Accounting Officer must constitute one Municipality bid adjudication committee.
- (ii) The bid adjudication committee is appointed in writing by the Accounting Officer.
- (iii) Members of the adjudication committee cannot be appointed as members of an evaluation committee.
- (iv) The Accounting Officer shall determine the term of office for members although the tenure may not exceed two (2) years.
- (v) The period of tenure may be renewed if the Accounting Officer deems it necessary.
- (vi) All members as well as the secretary of bid adjudication committee should be cleared at the level of "Confidential" by the accounting officer and should be required to declare their financial interest annually.
- (vii) Committee members should be required to sign the code of conduct upon their appointment.
- (viii) Members may be removed by the Accounting Officer/Accounting Authority if a member's conduct violates the principles of the committee's purpose/mandate or code of conduct.



(ix) The Accounting Officer/Authority may at any given time replace person for management reasons.

(x) The functions of BAC should form part of member's performance agreements.

b) Composition of the Bid Adjudication Committee

(i) The committee must consist of at least five (5) senior officials constituted as follows:

- ✓ CFO, as the chairperson of the committee (where possible);
- ✓ Deputy Chairperson: an official at least at a general management level;
- ✓ Two other Municipal Officials (Permanent members); and
- ✓ Head of the SCM Unit is (Permanent member);

(ii) For the purposes of continuity and not to delay meetings, the AO may also appoint a "secundus" to temporarily replace a member who is absent from meetings due to illness or leave. The AO shall also decide whether or not such "secundus" will have the same powers as members.

(iii) No external people should serve permanently on the adjudication Committee.

c) Functions of the Bid Adjudication Committee

(i) Consider the reports and recommendations made by the bid evaluation committee.

(ii) Depending on the delegations granted by the accounting officer/authority the adjudication committee could make the final award of the bid, or make a recommendation to the accounting officer to make the final award.

(iii) Recommend to the Accounting Officer/Authority the extensions of contracts and deviations if reasonable and justifiable grounds exist.

(iv) In performing their functions: -

- ✓ Committee members should be guided by all the applicable SCM, procurement legislations, policies and directives.
- ✓ Members must declare interest in any specific bid/point on the agenda up front and such member must automatically recuse him/herself from participating in discussions unless the committee decides otherwise.
- ✓ If a bid adjudication committee decides to award a bid to a bidder other than the one recommended by the Evaluation Committee, the Bid adjudication committee must consult with the Accounting Officer before a final decision is taken.
- ✓ Accounting Officer /Authority may confirm or vary a recommendation by an Adjudication Committee. In cases where he/she varies with the BAC recommendations reasons should be furnished in writing and reported to the Provincial Treasury within a prescribed period

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 physically 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 expect 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 dispose 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:
 - 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)
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. OTHER

4.1.5.1. Aircraft	(15)
4.1.5.2. Watercraft	(15)

UGU DISTRICT MUNICIPALITY

“The Municipality”



VIREMENT POLICY

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Annexure: Virement Request Form (PLEASE ATTACH THE VIREMENT FORM)

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

“Financial year” means a twelve months period commencing on 1 July and ending on 30 June each year;

“Identified Savings”, the original budget less all the expenditure incurred and committed orders on that account.

“Virement”, means “a regulated transfer or re-allocation of money from one line item account to another, within the same vote especially public funds.”

“Vote” means

- a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

2. OBJECTIVES OF THE POLICY

To introduce a Framework by which departmental budgets can be managed by Heads Of Department's to ensure effective financial management.

A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

3. LEGISLATIVE FRAMEWORK

- a. Chapter 4 of the Municipal Finance Management Act.
- b. The Municipal Budget and Reporting Regulations published in terms of Section 168 of the MFMA.
- c. All relevant budget related Circulars and notices issued by the National Treasury.

4. DETERMINATION OF VOTE

Chief Financial Officer shall determine the number and type of votes to be used and line items to be shown under each vote. In so doing, the Chief Financial Officer shall consider and properly reflect the organisational structure and shall comply with the prescribed budget format of National Treasury. The operating expenditure shall be classified as per the Government Financial Statistics classifications used in the prescribed National Treasury format.

5. AUTHORISATION OF VIREMENTS

- 5.1 A transfer of funds from one line item to another under this Policy may, subject to the provisions of this Policy, be authorised as follows:
 - a) If the amount does not exceed R1 000 000.00 the transfer may be authorised by the Chief Financial Officer of the Municipality or the Accounting Officer of the Municipality after consultation with the Chief Financial Officer;
 - b) If the amount exceeds R1 000 000.00 but does not exceed R5 000 000.00 the transfer may be authorised by the Accounting Officer after consultation with the Chief Financial Officer;
 - c) The Mayor may authorise expenses in an emergency or other exceptional circumstances and the adjustment budget must be passed during the adjustment period after the expenses were incurred.

- d) Notwithstanding the provisions of 5.1.a, a transfer of funds between cost or functional centres within a particular Vote/Department may not be authorised by the Chief Financial Officer but may only be authorised by:

- a) The Accounting Officer, if the amount does not exceed the amount of
R5 000 000.00

6. RESTRICTIONS ON AMOUNT OF VIREMENTS

- 6.1 Notwithstanding the provisions of section 5:

- 6.1.1 The total amount transferred from and to line items within a particular vote in any financial year may not exceed 40 % of the amount allocated to that vote;

- 6.1.2 The total amount transferred from and to line items in the entire budget in any financial year may not exceed 25 % of the total operating budget for that year;

- 6.2 A transfer which exceeds, or which would result in the exceeding of any of the limits referred to in 6.1 above may, however, be performed if the Council by resolution approves thereof.

- 6.3 No transfer of funds shall be made if such transfer would constitute a transgression or contravention of any statute, regulation or other law, any policy, directive or guideline binding upon the Municipality, or the avoidance by the Municipality of any obligation imposed upon it by contract or any other cause.

7. MANAGEABLE GROUPS OF REVENUE

All manageable revenue which is budgeted for under a department is the responsibility of each Head Of Department to ensure that it is collected.

Must report to the Chief Financial Officer and budget office any deviations that they become aware of which might affect the budgeted estimates.

Head Of Department's are responsible for all grants and donations which are budgeted for under their departments. They must report any deviations to the Chief Financial Officer or the budget office in writing. They must seek reasons for deviations from the responsible donor or the transferring sector departments.

If Head Of Department's become aware that budgeted revenue will not materialise or will not be collected, they must inform the Chief Financial Officer or the Budget Office to ensure that revenue will be adjusted downwards in the Adjustments Budget.

8. NON-MANAGEABLE GROUPS OF REVENUE AND EXPENDITURE

No funds Transfers can be made on these groups:-

- a) Depreciation,
- b) Finance Charges,
- c) Departmental Charges,
- d) Investment Income and
- e) Employee Related Costs

9. OPERATING BUDGET VIREMENTS

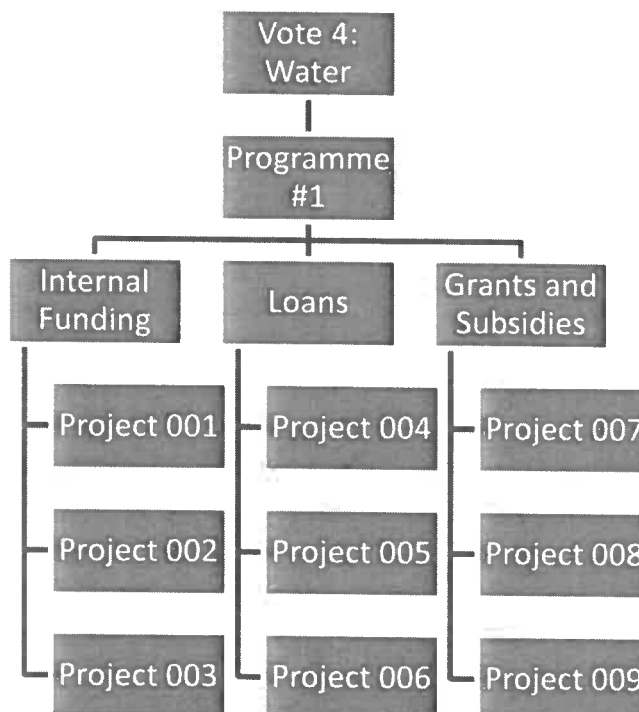
- 9.1 Operating budget virements can only be done on General Expenses, Contracted Services and Repairs and Maintenance items.

Funds transfer can take place within these groups provided the total approved budget allocation per vote is not exceeded. In order for an account to transfer funds from one item to another, there must be identified savings within the limitations of the approved budget for that group. These must be clearly stated in the formal funding requests submitted to the Chief Financial Officer and the Budget Office. Funds may not be transferred to new line items of the operating budget.

- 9.2 All requests for the transfer of funds must be in writing using the prescribed request forms in Appendix A and B, and must be properly authorised by the Manager and General Manager responsible for that vote and the Chief Financial Officer as per the set limits.
- 9.3 The prescribed request form shall include, but not limited to, provisions for the following:
- a) The name of the department concerned;
 - b) Descriptions of the line items from and to which the transfer is to be made;
 - c) The amount of the proposed transfer;
 - d) The cause of the saving in the line item from which the transfer is to be made;
 - e) The justification for the transfer;
 - f) A description of any consequences that such transfer may have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan.
- 9.4 Each Head Of Department is responsible for his/her own operational budget and must ensure that all expenditure is contained to the approved allocations by Council.

- 9.5 Movement of funds from different sectors and categories will be attended to in the normal Adjustments Budget process annually in February.

10. **CAPITAL BUDGET VIREMENTS**



- 10.1 Virements on the Capital budget allocations can be done from one project to another within the same vote and source of funding, i.e. from Water, CRR to Water CRR. Virements cannot be done to a new project which was not part of the approved capital budget. Any other transfer of funds or requests for new allocations must be done through an adjustments budget and approved by Council.
- 10.2 Virements can be done on conditional grant funded projects; provided that there is a written agreement by the said funder.
- 10.3 All requests must be in writing on the prescribed form in Appendix B and must be properly authorised by the responsible Manager, General Manager and the Chief Financial Officer.

11. **REVIEW OF POLICY**

This Policy will be reviewed once annually during the Annual Budget Process.

12. **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.

13. EFFECTIVE DATE

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

14. POLICY ADOPTION

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

Resolution No:.....

Approval Date:.....



Ugu District Municipality

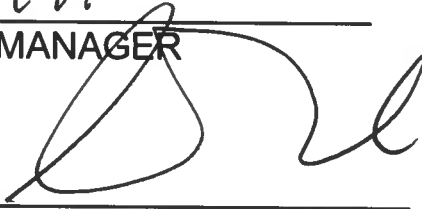
Quality Certificate

I **Sibusiso Sithole, Acting Municipal Manager of Ugu District Municipality** hereby certify that the Annual Budget 2021/2022 and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act, and that the Annual Budget and supporting documentation are consistent with the Integrated Development Plan of the municipality.

Name:

S SITHOLE
MUNICIPAL MANAGER

Signature:



Date:

27 May 2021