

17. COMMERCIAL ACCOUNTS

- 17.1 In these instances where commercial accounts fall into arrears, the Municipality shall require:-
- a) Arrears to be paid in full before water supply is re-instated
 - b) No instalment arrangement shall be accepted for any commercial account
 - c) In such instances deposits shall be adjusted and payable either in cash or by bank guarantee
 - d) Reconnection fees and additional deposits must be paid in full before water supply is re-instated
- 17.2 The Municipality shall review consumption patterns whenever meter readings are received;
- 17.3 Should the amount of the deposit or guarantee held be deemed inadequate after such review, the Municipality shall send a letter requesting the payment of an additional deposit;
- 17.4 The value of any such increase in deposit shall be added to the next monthly account.

18. PERSONS AND BUSINESS WHO TENDER TO THE MUNICIPALITY

- 18.1 The Procurement Policy and Tender Conditions of the Municipality will include the following:
- a) When inviting tenders for the provision of services or delivery of goods, potential contractors may submit tenders subject to a condition that consideration and evaluation thereof will necessitate that the tenderer obtain from the municipality a certificate stating that all relevant municipal accounts owing by the tenderer and/or its directors, owners or partners have been paid or that suitable arrangements (which include the right to set off in the event of non-compliance) have been made for payment of any arrears.
 - b) No tender will be allocated to a person/contractor until a suitable arrangement for the repayment of arrears, has been made. No further debt may accrue during contract period.
 - c) A condition allowing the municipality to deduct any moneys owing to the municipality from contract payments.

19. DOMESTIC ACCOUNTS

- 19.1 In the event of the Municipality detecting an irregular and unacceptable payment pattern then the Municipality shall be entitled to review the deposit held in respect of residential consumers;

- 19.2 In the event of such review the relevant consumer shall be sent a request by the Municipality for the payment of an additional deposit;
- 19.3 The value of any such increase of the deposit as aforesaid shall be added to the consumer's next account.

20. FORFEITING DEPOSITS

- 20.1 A deposit shall be forfeited to the Municipality if it has not been claimed within a period of 36 months from the date of termination of a service.

21. CLEARANCE CERTIFICATES

- 21.1 Certificates are issued in terms of Section 118 of Systems Act
- 21.2 In addition to the afore going the Municipality shall require a deposit equivalent to the cost of three month's average consumption on water and sanitation charges (where applicable);In case of a vacant stand,
- 21.3 Upon payment of the amounts referred to in 1 and 2 above, the Municipality shall issue a clearance certificate within 5 (five) working days of the request for such certificate.

22. WATER AND SANITATION RATES

- 22.1 Water and sanitation rates are an availability charge which is levied against properties where there is water reticulation and waterborne sanitation system in place is charged to the registered owner of the property
- 22.2 The water rates year commences on the 1st July of each year and terminates on the 30th June of the following year. Upon the declaration of the rates tariffs, these are advertised as required in terms of existing legislation;
- 22.3 Rate payers currently have the option of paying their rates on an annual basis or by monthly instalments. Monthly rates are payable over a maximum period of 10 months commencing on the 1st September of the rates year and terminating on the 30th June of the rates year;
- 22.4 Water rates accounts are posted by ordinary mail during September of each year and the final date for annual payments is the last working day of November in that year;
- 22.5 Water rates that are not paid by the final date incur a late payment penalty calculated at 1.25% per month on outstanding rates from the 1st December each year. In the event that these rates remain unpaid after the 31st January of the following year, a once-off collection charge equivalent to 10% of the rates outstanding at the time is levied; however, penalties continue to accrue on the outstanding rates due notwithstanding the once-off charge aforesaid;

- 22.6 After the final date for payment of the water rates has expired and in the event of no payment being received by the Municipality a final notice shall be despatched by registered mail to the consumer requiring the payment of the arrear amount and any penalties and interest;
- 22.7 Upon expiry of the period reflected in the final notice the Municipality shall :-
- a) compile a schedule of all arrear rate payers;
 - b) conduct deeds offices searches in respect of ownership of property;
 - c) authorise and institute the necessary tracing action in instances where the consumer's whereabouts are unknown;
 - d) engage legal assistance for the institution of civil legal proceedings against the consumer.

23. TEMPORARY MEASURES OF ASSISTANCE:

- 23.1 The Municipality recognises that there are instances where rate payers face temporary hardships caused by personal circumstances, poor economic conditions, unemployment, temporary disablement or illness and in such instances the Municipality is willing to accommodate arrangements to settle outstanding arrears;
- 23.2 In such instances the following procedures shall apply:-
- a) consumers may approach the Municipality for arrangements to be made for a maximum period extending up to the 30th June of the current financial year, and in exceptional circumstances, up to 1 (one) month before the final date for payment of rates in respect of the next financial year;
 - b) these arrangements envisage the consumer paying in equal instalments all outstanding amounts including any interest and collection charges that may have been levied by the Municipality;
- 23.3 Once such an arrangement has been made the consumer must sign an Acknowledgement of Debt for this purpose and should the consumer renege on this arrangement then the whole outstanding arrear amount, inclusive of penalties and interest shall become immediately due and payable and shall be subject to the normal collections procedures envisaged herein;
- 23.4 In exceptional circumstances and so as to ensure payment of the capital sums of rates due and in order to avoid the accrual of further legal costs and other charges, the Municipality may, by resolution waive the payment of any interest, penalties and/or collection charges for a maximum period of 6 (six) months calculated from the date of signature of the Acknowledgement of Debt.

24. INDIGENT SUBSIDY

- 24.1 Customers may apply for an indigent subsidy on the conditions as stipulated in the Municipality's Indigent policy.

25. COMPLIANCE AND ENFORCEMENT

- a) Violation of or non-compliance with this Policy will 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.

26. EFFECTIVE DATE

The policy shall come to effect upon approval by Council.

27. POLICY ADOPTION

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

Resolution No:.....

Approval Date:.....

UGU DISTRICT MUNICIPALITY

“The Municipality”



INDIGENT SUPPORT POLICY

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1. PREAMBLE

WHEREAS section 74 of the Local Government: Municipal Systems Act, No. 32 of 2000, requires that the Council should, in formulating a Tariff Policy for the municipality, at least take into consideration the extent of subsidisation of tariffs for poor households;

WHEREAS Council therefore needs to approve an Indigent Support Policy;

WHEREAS such policy must provide procedures and guidelines for the subsidisation of basic services and tariff charges to its indigent households; and

WHEREAS the Council has committed itself to render a basic level of services necessary to ensure an acceptable and reasonable quality of life, which takes into account health and environmental considerations;

NOW THEREFORE the Council of the Ugu Municipality has adopted the Indigent Support Policy set out hereunder:

2. DEFINITIONS

For the purpose of this policy, any word or expression to which a meaning has been assigned in the Act, shall bear the same meaning in this policy, and unless the context indicates otherwise –

“**Act**” means the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), as amended from time to time;

“**Authorised Officer**” means any official of the Council who has been authorised by the Council to administer, implement and enforce the provisions of this Policy;

“**by-law**” means a by-law adopted by the Council;

“**Municipal manager**” means the Accounting Officer of the Municipality

“**Council**” means the Council of the Ugu Municipality

“**indigent person**” means a person who meets criteria on qualification for indigent support.

“**municipality**” means Ugu District Municipality

“services” means the basic services referred to in this Policy

“household” means all the people who permanently reside in the dwelling

“dwelling” means property registered in the deeds office or allocated to a family by the Traditional Authority, with an Ugu water connection

3. POLICY OBJECTIVE

The objective of this Policy is to ensure the following:

- 3.1 The provision of basic services to the community in a sustainable manner, within the financial means of Council; and
- 3.2 To provide procedures and guidelines for the subsidisation of service charges and rates to its indigent households, using a portion or the whole of the Equitable Share for this purpose.
- 3.3 Council also recognises that many of the residents can simply not afford to pay the required service charges and rates, and Council will endeavour to ensure affordability through:
- 3.4 Setting rates and tariffs which will balance the economic viability of continued service delivery; and
- 3.5 Determine appropriate service levels.

4. CRITERIA FOR QUALIFICATION FOR INDIGENT SUPORT

- 4.1 The indigent subsidy shall apply to a household per dwelling and not an individual.
- 4.2 The property must be zoned residential.
- 4.3 The total gross monthly income of all members of the household must not exceed two old age grants (excluding disability and child grant).
- 4.4 Indigent support will apply to all households whose total monthly income is less than or equal to the above-mentioned amount, irrespective of the source of income.
- 4.5 Household's dependant on social welfare grants only may also apply.
- 4.6 Child headed households dependant on foster care social grants qualifies.
- 4.7 The applicant as well as any other member of the household shall not own other fixed property other than the one on which they reside, whether within or outside of the municipal area.
- 4.8 Multi unit residential - bulk users and Non Government Organizations are excluded from this Policy.

5. APPLICATION FOR INDIGENT SUPPORT

- 5.1 The legal owner of a dwelling who is responsible for the payment of the water and sanitation services account must apply for the household to be registered as indigent.
- 5.2 Application forms are available from any of the Water Services Offices within the Ugu District Municipality and can also be posted on request and the following documents should be submitted together with the application form:
- a) Copies of identity documents for household members 18 years and above.
 - b) Copies of birth certificates of household members younger than 18 years.
 - c) Copies of proof of income or written affidavits confirming status of employment or circumstances from each household member 18 years and above
 - d) Proof of ownership or occupancy e.g. Title deed or letter from ward councillor confirming occupancy status
 - e) Where property owner or account holder is deceased, copy of the death certificate and letter from ward councillor confirming that applicant resides in the dwelling.

6. AVENUES FOR SUBMISSION OF APPLICATION FORMS

- 6.1 Submit through Ward Councillor.
- 6.2 Submit personally to any of Ugu District Municipality offices.

7. PROCESSING OF APPLICATION

- 7.1 Each application will be given a number, for reference purposes
- 7.2 Indigent Support Application register and an Indigent Support Application card will be issued to the applicant for control purposes.
- 7.3 The application will be processed within two weeks of receipt by the Municipality in a manner prescribed by the internal processes.
- 7.4 A letter informing the applicant of the status of the application will be sent to the applicant within two weeks of finalizing the application scrutiny process.
- 7.5 For the purposes of transparency, on an annual basis the following key information of the recipient's indigent support shall be displayed on all Councils and notice boards of Local Municipalities:
- a) Names of Households benefiting from the Indigent Support
 - b) Stand number where services are rendered to the recipients
- 7.6 Any resident may query the qualification of a recipient in writing within days from the date of publication of such listings.
- 7.7 A report on Indigent Support shall be done to the Budget and Finance Committee quarterly.

8. DURATION OF THE INDIGENT SUPPORT BENEFIT

- 8.1 Indigent support is only provided for a period of 12 months, from date of approval, where after the applicant must submit Form UIS 3, confirming that its circumstances has not changed since its initial application and that it still qualifies for indigent support in terms of the latest criteria.
- 8.2 The Municipality will send a written notice to the approved household, at least two months prior to expiry of the approval, but the onus still rests on the applicant or another permanent adult occupant on the property to submit Form UIS 3.

9. RESPONSIBILITY OF THE INDIGENT SUPPORT APPLICANT/ BENEFICIARY

- 9.1 Should, at the most, 21 days lapse without receiving any feedback regarding the application, the applicant should enquire as to the status of the application through the call centre.
- 9.2 The onus is on the beneficiary to inform the Municipality of any change in his/her status or personal household circumstances that might affect their Indigent status.
- 9.3 A household must immediately request de-registration if their circumstances have changed to the extent that the household no longer meets the requirements set out in this Policy. Failure to disclose will result in such a person being immediately liable to repay to the Municipality all the debt accumulated from such date of change in indigent status, and immediately removed from the indigent register of the Municipality. Such debt will be recovered in terms of the applicable Credit Control Debt Collection policy.

10. USAGE IN EXCESS OF THE BASIC SERVICE LEVELS

- 10.1 All services used in excess of the basic municipal services level shall be levied at the current scale of tariff and payable on the due date and a device will be installed to control water usage.
- 10.2 If the excess account is not paid for as and when due, the services shall be restricted to the basic level and the normal Credit Control and Debt Collection policy shall be implemented.

11. WITHDRAWAL OF INDIGENT SUPPORT BY THE MUNICIPALITY

- 11.1 The Indigent support shall be withdrawn by the Municipality in the event of the beneficiary misusing the system or providing incorrect information.
- 11.2 In this regard the Municipality shall recover from the recipient the amount of relief furnished by debiting the beneficiary's account.

- 11.3 The Municipality shall apply its credit control policy in accordance with the Credit Control and Debt Collection policy.
- 11.4 The Municipality shall institute a criminal charge of fraud against the beneficiary and may not again be considered for indigency relief for a period extending for two years beyond the financial year in which the misconduct is detected.
- 11.5 The Indigent support will cease should the form UIS 3 not be supplied to the Municipality.

12. EXTENUATING CIRCUMSTANCES

- 12.1 In the event of death of one of the member of the household, and where the flow has been limited, full flow will be reinstated from the day of death to the day of the funeral after which the flow shall be limited again.
- 12.2 In the event of a household member suffers from a sickness requiring excessive usage of water and is under a home based care programme, such a household will be eligible to apply for additional allocation of water, approval of which is subject to the Municipality's conditions.

13. WHAT DOES THE INDIGENT SUPPORT BENEFIT COVER

On approval of the application the Municipality shall provide the following

- 13.1 Basic Municipal Services which include:
- a) Access to a minimum safe water supply i.e. 6kl of water free of charge on a monthly basis or as determined by Council
 - b) Adequate sanitation as determined by Council
 - c) Once off credit equivalent to the outstanding balance on the dwelling at the date of approval.
- 13.2 Where there are leaks after the meter or in the property, they may be attended to in terms of the bylaws S58 (4) (c) and the cost may be recovered from the Indigent Support allocation.
- 13.3 Cost of restriction shall be recovered from the Indigent Support allocation.
- 13.4 Excess usage in the event of death shall be recovered from the Indigent Support allocation.

14. MISCELLANEOUS

- 14.1 Should any circumstances not covered by this policy regarding the administration of the Indigent Support policy arise, and is urgent, it shall be referred to the General Manager, Treasury.

15. COMMUNICATION

- 15.1 From time to time the Municipality will endeavour to communicate its Policy adequately, so that members of the community are apprised of the existence of such a policy or any amendments that may have been done by Council.
- 15.2 Structures, processes and or platforms that shall be used to communicate the benefits of the policy shall include:
- a) The Ward Committee
 - b) The Ward Councillors
 - c) Community meetings
 - d) Budget and IDP road shows
 - e) Special events
 - f) Local media
- 15.3 Any communication issued by the Municipality must be coordinated by the Communications Unit or the Municipal Manager or his delegated authority.

16. SANITATION REBATE

All applications will be considered on the following basis:

- 16.1 The Sanitation Rebate subsidy will apply to a household per dwelling and not to an individual.
- 16.2 Each household shall receive a rebate on the fixed sanitation basic charge as determined by Council.
- 16.3 The legal owner of a dwelling who is responsible for the payment of the water and sanitation services account must apply for the household to be registered as a sanitation rebate beneficiary.
- 16.4 The applicant as well as any other member of the household shall not own other fixed property other than the one on which they reside.
- 16.5 The sanitation rebate shall be withdrawn by the Municipality in the event of the beneficiary misusing the system or providing incorrect information.

17. EFFECTIVE DATE

The policy shall come to effect upon approval by Council.

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 6
- 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 transactions on arm's length terms or were estimated using other
 - 9.2.5.4.2. valuation techniques,
 - 9.2.5.4.3. 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
 - 9.2.5.4.4. 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”



CASH, BANKING AND INVESTMENT MANAGEMENT POLICY

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1. **DEFINITIONS**

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

“Accounting Officer” means the Municipal Manager of Ugu District Municipality.

“Act” means the Local Government: Municipal Finance Management Act No. 56 of 2003, the Local Government: Municipal Systems Act No. 32 of 2000.

“Accounting Principles” mean stipulated guidelines to be followed.

“Acquisition” means acquiring goods or services through procurement policies.

“Agents” mean professional bodies appointed to execute a specific task on behalf of the Ugu District Municipality.

“Accounts” mean statement of moneys received.

“Assignee” means a person with a delegated authority.

“Bank” means an institution recognised by the Registrar of Banks.

“Bank Account” is the recognised statement of financial holdings on behalf of the municipality.

“Cash” means money, such as bank notes and coin, or cash equivalents.

“Chief Financial Officer” means the Chief Financial Officer of Ugu District Municipality.

“Constitution of the Republic of South Africa, Act No. 108 of 1996” means the Supreme Law of the Republic of South Africa.

“Cash Management” means efficient and effective management of funds.

“Delegate” means an official/person delegated to perform tasks on behalf of another person.

“Delegated Authority” means any person/persons/committee delegated with the authority to act for on behalf of Ugu District Municipality.

“Diversification of Investments” means investing in more, or more than one type of financial instrument.

“Investment Ethics” mean ethical framework within which investments must take place.

“Liquidity” means the ease with which financial instruments can be converted to cash or cash equivalents.

“Municipal Entity” means the developmental arm of the municipality established in terms of the Local Government: Municipal Finance Management Act No. 56 of 2003, in particular.

“Municipality” means the Ugu District Municipality.

“Ownership” means that all investments must be made in the name of the Ugu District Municipality.

“Short term investment” means a financial instrument with a lifespan or maturity of less than or equal to 1 year.

“Long term investment” means financial instrument with a lifespan or maturity of greater than a year.

2. OBJECTIVE OF THE POLICY

- 2.1 In terms of the Municipal Finance Management Act, Act 56 of 2003, Section 13(2): "Each Municipal Council and Governing body shall adopt by resolution cash, banking and investment policy regarding the investment of its cash resources not immediately required.
- 2.2 An Accounting Officer has an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible. Competitive investment and effective cash management ensures both short term and long-term viability and sustainability of the Municipality. Hence, it is critical for the Municipality to have its own cash, banking and investment management policy located within the local government legislative framework. This Policy should be read and understood against this background.
- 2.3 The primary and the ultimate goal of the investing funds is to earn the safety of returns on investment principal, an amount invested whilst managing liquidity requirements and, providing the highest return on investment at minimum risk, within the parameters of authorised instruments as per the MFMA

3. BANKING ARRANGEMENTS

3.1 Opening of a Bank Account

The Chief Financial Officer will ensure that the Municipality opens and maintains the following minimum bank accounts:

- a) General Bank Account – normal municipal receipts and payments
- b) External Financing Fund – to record loan receipts and accumulations towards the repayment of such loans
- c) Capital Replacement reserve – this reserve must be cash backed at all times and therefore requires a separate bank account
- d) Unutilised Capital Receipts – this is to account for unutilised conditional grant monies and developer contributions, requires a separate bank account and must be cash backed.
- e) Consumer deposits – this is to account for consumer deposits received and must be cash backed and requires a separate bank account.
- f) A specific account will be identified as a primary bank account and all the allocations from national, provincial and other spheres of government will be deposited into this account

3.2 Management of a Bank Account

Only the Accounting Officer or his/her delegate is authorised to withdraw money from the Municipality's bank account and the delegated powers shall be in accordance with limits which will be specified by the Accounting Officer

The responsibility for the management of all the Municipal bank accounts will be allocated by the Chief Financial Officers to the officials of the Treasury department in accordance with their job descriptions. The Chief Financial Officer or his/her delegate will review reconciliations of all the Municipal bank accounts on a monthly basis.

4. CASH MANAGEMENT

4.1 All monies received by the Municipality must be deposited into the Municipal primary bank account promptly.

The Chief Financial Officer will establish an internal control procedure for the operation and maintenance of the following process with regards to cash management:

- a) Receipting, and banking of and reconciliations of daily cash and cheques
- b) Returned cheque register
- c) Unallocated receipts/deposit registers

4.2 The Chief Financial Officer, inter-alia, has to ensure financial viability and sustainability of the Municipality. In order to achieve this in a sustainable manner, the Chief Financial Officer must ensure that internal financial systems and controls are in place that will enable the Municipality to detect the mismanagement of funds.

4.3 Cash Collection:

4.3.1 All monies due to the Municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis. Cash left in the safe can pose a security risk, could necessitate additional insurance coverage and does not earn any interest. Special deposits should be arranged for larger amounts to ensure that these are banked on the next working day they are received.

4.3.2 All monies collected by the Council must be banked in the primary bank account of the Municipality.

4.3.3 The respective responsibilities of the Chief Financial Officer and other Heads of Departments in this regard are defined in a procedures manual approved by the Municipal Manager and the Chief Financial Officer.

4.3.4 It is important that all monies owing to the Council are correctly reflected in the debtors system. The following control measures are necessary:

- a) A well managed debtors and banking control system will ensure that funds owed to the Council are received and banked; and
- b) It is also important to review debt collection performance by comparing the debtors outstanding in relation to total revenue and then comparing this to previous financial years, in order to determine whether the debt collection process is deteriorating or improving.

4.3.5 The unremitant support of and commitment to the Municipality's credit control Policy, both by the Council and the Municipality's officials, is an integral part of proper cash collections, and by approving the present Policy the Council pledges itself to such support and commitment.

4.4 Petty Cash

- a) The Municipality keeps petty cash floats at two of its offices, that is Treasury office and Park Rynie office. Each petty cash float will be limited to R2 000 for the Treasury office.
- b) Each transaction of petty cash shall not exceed R2 000.-
- c) The officials who are responsible for petty cash management will be independent of all other cash functions like cashiering
- d) An imprest system of petty cash will be used.

5. CASH FLOW ESTIMATES

5.1 Before money can be invested, the Accounting Officer or his/her delegate must determine whether there will be surplus funds after meeting the necessary obligations.

5.2 To be able to make investments for any fixed terms; it is essential that cash flow estimates are prepared.

5.3 The Auditor-General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate must state that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.

6. INVESTMENT ETHICS

6.1 The Accounting Officer and his/her delegate are responsible for the investment of funds and must ensure that there is no interference in these processes.

- 6.2 Under no circumstances may the Accounting Officer and his/her delegate ~~he/she~~ accept bribes into making an investment.
- 6.3 No member of staff may accept any gift unless that gift can be deemed so small that it would not have an influence on his/her relationship with the said institution.
- 6.4 The gift must be declared to the Municipality.
- 6.5 The Accounting Officer and his/her delegate must act according to their discretion and must report any serious cases of payment in kind or gifts, to the Municipal Council. Excessive gifts and hospitality should be avoided at all costs.

7. INVESTMENT PRINCIPLES

7.1 Risk management

The preservation of principal is the foremost objective of the investment program. To attain this objective, diversification is required to ensure that the Accounting Officer or his/her nominee prudently manages risk exposure. Risk profiles should be minimised by only placing investments with institutions and instruments approved by the Public Investment Commission or the Republic of South Africa: National Minister of Finance.

7.2 Prudence

Investments shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. Investment officials are required to:

- a) Adhere to written procedures and policy guidelines.
- b) Exercise due diligence.
- c) Prepare all reports timeously.
- d) Exercise strict compliance with all legislation.

7.3 Ownership

All investments must be made in the name of the Ugu District Municipality.

7.4 Risk and Return

Although the objective of the Accounting Officer and/ Chief Financial Officer in making investments on behalf of the Municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average

risk associated with investment institutions. Deposits shall be made only with registered deposit-taking institutions (see Gazette 27431 1 April 2005).

8. INVESTMENT PROCEDURE

8.1 After determining whether there is cash available for investment and fixing the maximum term of investment, the Municipal Manager must consider the way in which the investment is to be made.

8.2 Short-term Investment

- a) The term of investment shall not be more than 12 months.
- b) Quotations must be obtained from a minimum of three financial institutions, for the term of which the funds will be invested.
- c) Should one of the institutions offer a better rate for a term, other than the term originally quoted for, the other institutions which were approached, must also be asked to quote a rate for the other term.
- d) Quotations can be obtained telephonically, as rates generally change on a regular basis and time is a determining factor when investments are made
- e) No attempts must be made to make institutions compete with each other.

8.3 Long-term investment

- a) Written quotations must be obtained for investments made for periods longer than twelve months.
- b) The prior approval of the Council must be obtained for all investments made for periods longer than twelve months after considering the cash requirement for the next three years.

8.4 Investment maturity

- a) Upon maturity of the investment the Municipality shall do one of the following:
 - i. Shall withdraw the whole amount invested.
 - ii. Shall re-invest 100% interest plus the original amount that had been invested, in terms of the investment procedure, unless if Council wishes to utilise the original money or the interest.
 - iii. Shall withdraw the interest and re-invest the original capital amount.

8.5 Early withdrawal of invested funds

- a) When investing the funds with the banking institutions the Chief Financial Officer shall ensure that such funds are not withdrawn earlier than the maturity date agreed upon,

by so doing the Municipality will not incur fruitless and wasteful expenditures in form of penalties resulting from early withdrawal of investments.

- b) The Chief Financial Officer shall only withdraw funds if :
 - i) the banking institution concerned has agreed to exempt any penalties due to early withdrawal of investment or;
 - ii) the Accounting Officer may grant approval to withdraw the invested funds after he/she has satisfied himself/herself that the urgency was unforeseeable at the time when funds were invested and that the need for funds far outweighs the penalties being paid for such early withdrawal.

8.6 Call deposits and fixed deposits:

- a) Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three registered financial institutions.
- b) Given the volatility of the money market, the Chief Financial Officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth).
- c) Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).
- d) Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 8 below) shall be paid over only to such institution itself and not to any agent or third party. Once the investment has been made, the Chief Financial Officer shall ensure that the Municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the Municipality.

9. DELEGATION OF AUTHORITY

- 9.1 The delegation to authorise investments must distinguish between short term & long-term investments. The authority to make long-term investments as provision of security, is vested with the Municipal Council in terms of Section 48 of the MFMA and with reference to section 11(1) (h) of the MFMA dealing with cash management, the responsibility to make short investments lies with the Accounting Officer or Chief Financial Officer or any other senior financial officer authorised by either the Accounting Officer or the Chief Financial Officer/ relevant assignee.

9.2 The Local Government Municipal Systems Act of 2000, Section 3, (60) (2) states that the Municipal Council may only delegate to an Accounting Officer, Executive Committee, Mayor or Chief Financial Officer decisions to make investments on behalf of the municipality within a policy framework determined by the Minister of Finance.

9.3 The Chief Financial Officer is responsible for the investment of municipality's funds that are made under section 13 of the Municipal Finance Management Act.

10. INVESTMENT ISSUE PERTAINING TO MUNICIPAL COUNCIL APPROVAL

10.1 In the event that an investment that needs to be made, quotations are required from at least three registered financial institutions. In the case of telephonic quotations, the following information is required:

- a) The name of the Institution,
- b) The name of the person, who gave the quotation,
- c) The relevant terms and rates and
- d) Other facts such as if interest is payable on a monthly basis or on a compound basis upon maturation.

10.2 All investment documents must be signed by two authorised cheque signatories.

10.3 The Chief Financial Officer must ensure that a bank, insurance company or other financial institution, which at the end of a financial year holds, or at any time during a financial year held, an investment for the Municipality must:

- a) Within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year and
- b) Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.
- c) Promptly disclose information of any possible or actual change in the investment portfolio, which could or will have a material adverse effect.

11. MUNICIPAL ENTITIES

The board of Directors of all municipal entities must adopt this cash management and investment policy. Further, the same municipal entities must submit reports, as detailed in the reporting and monitoring procedures, in the same manner as Ugu District Municipality, to the Mayor.

12. POLICY REVIEW

This Policy must be reviewed annually and be tabled to the Municipal Council for approval.

13. INTERNAL CONTROL PROCEDURES

13.1 An investment register should be kept of all investments made. The following facts must be indicated:

- a) Name of institution;
- b) Capital invested;
- c) Date invested;
- d) Interest rate; and
- e) Maturity date and
- f) Interests earned on investments.

13.2 The investment register and accounting records must be reconciled on a monthly basis.

13.3 The investment register must be examined on a fortnightly basis by the senior official under the direction of the Chief Financial Officer/ assignee as instructed, to identify investments falling due within the next two weeks. An investment plan must then be established for the next calendar month bearing in mind the cash flow requirements.

13.4 Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer or his/her assignee must check that the interest is calculated correctly, in terms of sound universally accepted financial management practices.

13.5 Investment documents and certificates must be safeguarded in a fire resistant safe, with dual custody. The following documents must be safeguarded:

- a) Fixed deposit letter or investment certificate;
- b) Receipt for capital invested;
- c) Copy of electronic transfer or cheque requisition;
- d) Schedule of comparative investment figures;
- e) Commission certificate indicating no commission was paid on the investment; and
- f) Interest rate quoted.

13.6 All investment must be denominated in South African Rand (ZAR)

13.7 The Chief Financial Officer or his/her assignee is responsible for ensuring that the invested funds have been invested with registered financial institutions approved by the Republic of

South Africa: National Minister of Finance, Public Investors Commission or with a bank rating of AA and endeavour to minimise risk exposure.

14. REPORTING AND MONITORING PROCEDURES

- 14.1 The Accounting Officer must within 10 days of the end of each month submit to the Mayor or Finance, Budget Control & Monitoring Committee a report describing in detail the investment and cash flow position of the Municipality as at the end of the month.
- 14.2 The report must contain a statement, prepared in compliance with generally recognised accounting principles/generally accepted municipal accounting principles, that states the:
- a) beginning market value for the period
 - b) additions and changes to the market value during the period
 - c) ending market value for the period
 - d) fully accrued interest/yield for the reporting period
 - e) the credit risk rating for the institutions whose securities are held by the Municipality as at beginning and end of the reporting period
 - f) investments disposed of due to adverse changes in credit ratings
 - g) diversification of investments
 - h) any investments locked into a time period with an institution that has a rating that is not acceptable according to Fitch, Naspers or CA-ratings.

15. PERMITTED INVESTMENTS

- 15.1 The Republic of South Africa: National Minister of Finance may identify by regulation in terms of Section 168 of the Municipal Finance Management Act instruments or investments other than those referred to below in which Municipality may invest:
- a) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
 - b) Securities issued by the National Government;
 - c) Investments with the Public Investment Commissioners as contemplated by the Public Investment Commissions Act, 1984 (Act No. 5 of 1984);
 - d) Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
 - e) Deposits with the corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984);
 - f) Banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
 - g) Municipal Bonds issued by a Municipality
 - h) Guaranteed endowment policies with the intention of establishing a sinking fund; and

- i) Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)

16. EXISTING INVESTMENTS

Current investments that were not permitted investments at the time of purchase do not have to be liquidated.

17. INVESTMENT DIVERSIFICATION

The Chief Financial Officer must ensure that available money is not invested with one institution. Investment will be restricted to institutions with a minimum credit rating of [AA]. The maximum term for any investment, may be 2 years, other than ceded investments.

18. PERFORMANCE EVALUATION

- 18.1 The performance of the investment portfolio must be evaluated quarterly. The time weighted yield attributable to the investment portfolio must be calculated each quarter and compared with the prevailing returns available on securities issued by the National Government.
- 18.2 A report discussing the performance of the investment portfolio must be submitted to the Chief Financial Officer within 10 days of the end of each quarter.

19. USE OF INDEPENDENT INVESTMENT MANAGERS

Should the need arise to use an investment manager at any time; one will be appointed using Supply Chain Management principles and practices.

20. UNALLOCATED RECEIPTS

All unclaimed and unidentified deposits older than three (3) years shall be publicised in a local newspaper on an annual basis and if unclaimed within the specified time frame, such monies will be transferred to sundry income.

21. PAYMENT OF CREDITORS

- 21.1 Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors to one payment per creditor per month. Should the facility be available, payments should be done by electronic transfer (subject to strict controls).
- 21.2 When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered.

- a) In cases where a cash discount is given for early settlement, the discount, if the relevant time scale is taken into account, must in most cases be more than any investment benefit that could be received from temporarily investing the funds.
- b) If discounts are offered for early settlement they must be properly considered and utilised.

21.3 Besides this, the normal conditions of credit terms of payment offered by suppliers, must also be considered and utilized to the full by paying on the due date and not earlier, provided that no worthwhile discount is available or offered.

22. BANK AND CASH IN TERMS OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT Act NO.56 of 2003, Chapter 3, Part 1.

- 22.1 All names of bank accounts must be changed to the name of the newly created municipality,
- 22.2 New bank accounts must be opened if required,
- 22.3 All cheques received from the disestablished municipalities must be banked,
- 22.4 All bank accounts currently held and transferred to the municipality must be accounted for in the new accounting system,
- 22.5 The official responsible must ensure that the name change on the accounts has been effected,
- 22.6 All bank and cash must be made in terms of the Cash Management Policy,
- 22.7 Every municipality must open and maintain at least one bank account in the name of the municipality and
- 22.8 All money received by a municipality must be paid into its bank account in the name of the municipality as per the abovementioned legislative framework.

23. MANAGEMENT OF STOCK

Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock.

24. SHORT- AND LONG-TERM DEBT

A municipality may only incur debt in terms of the Municipal Finance Management Act No. 56 of 2003. The municipality may incur two types of debt, namely short-term and long-term debt.

24.1. SHORT-TERM DEBT

24.1.1 A municipality may incur short-term debt only when necessary to bridge:

- a) Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year or

- b) Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

24.1.2 A municipality:

- a) Must pay off short-term debt within a financial year and
- b) May not renew or refinance its short-term debt.

24.2. **LONG-TERM DEBT**

A municipality may incur long-term debt for purposes of financing its long-term strategic objectives, as outlined in the Constitution of the Republic of South Africa, Act No. 108 of 1996, and Chapter 7 on Local Government.

- a) To provide democratic and accountable government for local communities,
- b) To ensure the provision of services to communities in a sustainable manner,
- c) To promote social and economic development,
- d) To promote a safe and healthy environment and
- e) To encourage the involvement of communities and community organizations in the matters of local government.

25. **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.

26. **EFFECTIVE DATE**

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

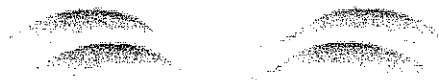
27. **POLICY ADOPTION**

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

Resolution No:.....

Approval Date:.....

UGU DISTRICT MUNICIPALITY
("the Municipality")



BORROWING POLICY

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Ugu District Municipality	Borrowing Policy
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1. Definitions

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

“Disclosure statements” means a statement issued or to be issued by:

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

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

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

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

“Municipal debt” means:

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

“Municipality” means Ugu District Municipality

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

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

2. Purpose

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

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

3. Legislative Framework

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

4. Types of Debt

- 4.1. This Policy applies to the debt incurred by the Municipality through the issue of municipal debt instruments or in any other way.
- 4.2. Without derogating from the generality of the preceding subparagraph, this policy will apply:
 - 4.2.1. To any debt, whether short -term or long term;
 - 4.2.2. To any debt incurred pursuant to any financing agreement, which includes any of the following agreements under which the Municipality undertakes to repay a long-term debt over a period of time:
 - 4.2.2.1. Loan agreements;
 - 4.2.2.2. Leases;
 - 4.2.2.3. Instalment purchase contracts;
 - 4.2.2.4. Hire purchase arrangements;
 - 4.2.3. To any debt created by the issuance of municipal debt instruments, including:
 - 4.2.3.1. Any note;
 - 4.2.3.2. Bond; or
 - 4.2.3.3. Debenture; and

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

5. Principles Guiding Borrowing Practices

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

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

6. Factors to be taken into account when borrowing

- 6.1. The Municipality shall take into account the following factors when deciding whether to incur debt:
- 6.1.1. the type and extent of benefits to be obtained from the borrowing;
 - 6.1.2. the length of time the benefits will be received;
 - 6.1.3. beneficiaries of the acquisition or development financed by the debt;
 - 6.1.4. the impact of interest and redemption payments on both current and forecast income;
 - 6.1.5. the current and future capacity of the Municipality's revenue base to pay for borrowings;

- 6.1.6. other current and projected sources of funds;
 - 6.1.7. likely movements in interest rates for variable rate borrowings;
 - 6.1.8. competing demands for funds;
 - 6.1.9. timing of money market interest rate movements and the long term rates on the interest rate curve.
- 6.2. The Municipality will, in general, seek to minimise its dependence on borrowings in order to minimise future revenue committed to debt servicing and redemption charges.

7. Sources of Borrowings

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

8. Short-term Debt

- 8.1. The Municipality may incur short –term debt only in accordance with and in the circumstances contemplated in Section 45 of the MFMA.
- 8.2. In particular, the provisions of section 45 (1) of the MFMA must be noted, these requiring that the Municipality may incur short –term debt only when necessary to bridge:
- 8.2.1. Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year;
 - or
 - 8.2.2. Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

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

9. Overdraft Facility

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

10. Long Term Debt

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

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

10.2.1. Capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government, as set out in Section 152 of the Constitution; or

10.2.2. Re-financing existing long term debt, subject to section 46(5).

11. Council approval

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

11.1. A resolution of the Council, signed by the Mayor, has approved the debt agreement;

11.2. The Accounting Officer has signed the agreement or other document which creates or acknowledges the debt.

12. Refinancing

12.1. Short-term debt may not be renewed or refinanced where that would have the effect of extending the short-term debt into a new financial year.

12.2. The Municipality may borrow in order to refinance long-term debt subject to the conditions contained in Section 46(5) of the MFMA.

13. Early repayment of loans

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

14. Debt Repayment Period

- 14.1. As far as is practical, cognisance must be taken of the useful lives of the underlying assets to be financed by the debt for purposes of determining the duration of the debt.
- 14.2. Should it be established that it is cost effective to borrow the funds for a duration shorter than that of the life of the asset, the Municipality should endeavour to negotiate terms for the loan agreement on a shorter duration.

15. Provision for Redemption of Loans

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

16. Non-Repayment or Non-Servicing of Loan

- 16.1. The Municipality must honour all its loan obligations.
- 16.2. Failure to effect prompt payment may jeopardise the Municipality's credit rating and adversely affect the ability of the Municipality to raise loans in the future loans at favourable interest rates.

16.3. In addition to ensuring the timely payment of the loans, the Municipality must adhere to the covenants stipulated in the loan agreements, including, in particular, the following where applicable:

- 16.3.1. furnishing audited annual financial statements;
- 16.3.2. maintaining long-term credit rating;
- 16.3.3. reporting of material changes in financial position of the Municipality.

17. Borrowing for Investment Prohibited

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

18. Security

- 18.1. Section 48 of the MFMA provides that the Municipality may provide security for any of its debt obligations in any of the forms referred to in Section 48(2).
- 18.2. Such security shall be given only pursuant to a resolution of the Council, which resolution must comply with the provisions of Section 48(3), (4) and (5) of the MFMA.

19. Disclosure

- 19.1. Section 49 of the MFMA requires that any person involved in the borrowing of money by a municipality must, when interfacing with a prospective lender or when preparing documentation for consideration by a prospective investor Any Official involved in the securing of loans by the Municipality must, when interacting disclose all relevant information in that persons possession or within that person's knowledge that may be material to the decision of that lender or investor, and take reasonable care to ensure the accuracy of any information disclosed.
- 19.2. In addition the Disclosure Regulations establish detailed requirements for the disclosure of information to prospective lenders and investors. Regulations 2, 3, 4, 5, 15, 16 and 17 are of particular importance to the Municipality, given the nature of the borrowings which it intends to make.

20. Guarantees

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

21. Internal Control

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

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

22. National Treasury Reporting and Monitoring Requirements

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

23. Other Reporting and Monitoring Requirements

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

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

23.2.1. Submit National Treasury Borrowings return

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

24. Related Policies

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

24.1. Budget Process Policy;

24.2. Cash Management and Investment Policy;

24.3. Virement Policy.

25. Municipal Manager to Implement Policy

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

26. Effective Date

The Policy shall come to effect upon approval by Council.

27. Policy Adoption

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

Resolution No:.....

Approval Date:.....

Appendix A

DISCLOSURE REGULATIONS

UGU DISTRICT MUNICIPALITY

“The Municipality”



FUNDING AND RESERVES POLICY

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1. DEFINITIONS

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

“Accounting Officer” means the Municipal Manager of Ugu District Municipality

“Chief Financial Officer” means the Chief Financial Officer of Ugu District Municipality

“Council” means the Council of Ugu District Municipality

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

“Municipality” means Ugu District Municipality

“GRAP” means Generally Recognised Accounting Practices standards.

2. OBJECTIVES OF THE POLICY

The objectives of this Policy are to:

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

3. SCOPE AND INTENDED AUDIENCE

- 3.1 The Funding and Reserves policy aims to ensure that the Municipality has sufficient funding in order to achieve its objectives through the implementation of its operating and capital budgets.
- 3.2 This Policy aims to set guidelines towards ensuring financial viability over both the short- and long-term which includes reserves requirements.

4. REGULATORY FRAMEWORK

The legislative framework governing funding of the Annual Budget is:

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

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

5. FUNDING OF THE ANNUAL BUDGET

5.1 An annual budget may only be funded from:

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

5.2 Realistic anticipated revenue projections must take into account:

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

6. OPERATING BUDGET

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

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

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

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

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

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

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

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

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

7. CAPITAL BUDGET

- 7.1 The capital budget provides funding for the Municipality's capital programme based on the needs and objectives as identified by the community through the Integrated Development Plan and provides for the eradication of infrastructural backlogs, renewal and upgrading of existing infrastructure, new developments and enlargement of bulk infrastructure.
- 7.2 Capital expenditure may only be incurred on a capital project if:
- The funding for the project has been appropriated in the capital budget.
 - The total cost for the project has been approved by Council.
 - The future budgetary implications and projected cost covering all financial years until the project is operational has been considered.
 - The implications of the capital budget on municipal tax and tariff increases been considered.
 - The sources of funding are available and have not been committed for other purposes.
- 7.3 Provisions on the capital budget will be limited to availability of sources of funding and affordability. The main sources of funding for capital expenditure are:
- (a) Accumulated cash backed internal reserves;
 - (b) Borrowings;
 - (c) Government grants and subsidies; and
 - (d) Public donations and contributions.
- 7.4 The following guiding principles apply when considering sources of funding for the capital budget:
- (a) Government grants and subsidies:
 - i. Only gazette allocations or transfers as reflected in the Division of Revenue Act or allocations as per provincial gazettes may be used to fund projects;
 - ii. The conditions of the specific grant must be taken into consideration when allocated to a specific project; and
 - iii. Government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.

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

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

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

8. CASH FLOW MANAGEMENT

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

9. MANAGEMENT OF DEBTORS

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

10. DONATIONS, GRANTS AND SUBSIDIES.

- 10.1 Revenue from donations or any other grants may only be included in the budget if there is acceptable documentation that guarantees the funds such as:
 - a) Signed service level agreement;
 - b) Contract or written confirmation; or
 - c) Any other legally binding document.
- 10.2 The conditions of the specific grant must be taken into consideration when allocated to a specific project. Government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent that the conditions will be met during the financial year.

11. THE CAPITAL REPLACEMENT RESERVE

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

11.2 Once the Municipality has reached its maximum gearing ability, no further borrowings can be taken up. The Municipality must invest in a capital replacement reserve. This reserve provides internal funding for the Municipality's capital replacement and renewal programme. Contributions to the capital replacement reserve through the operating budget will be:

- a) Interest received on investments;
- b) Proceeds from sale of assets.

12. THE CAPITAL CONTRIBUTIONS

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

13. PROVISIONS

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

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

The Municipality has the following provisions:

(a) *Leave provision*

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

(b) *Long services awards*

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

(c) *Post employment medical care benefits*

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

14. OTHER ITEMS TO BE CASH BACKED

14.1 Unspent conditional grant funding

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

14.2 Consumer Deposits

Consumer deposits are partial security for a future payment. Deposits are considered a liability as the deposit is utilised once the agreement is terminated. The funds are owed to consumers and can therefore not be utilised to fund the operating or capital budget. Consumer deposits should be retained in cash and be ring-fenced.

15. POLICY REVIEW

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

16. COMPLIANCE AND ENFORCEMENT

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

17. EFFECTIVE DATE

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

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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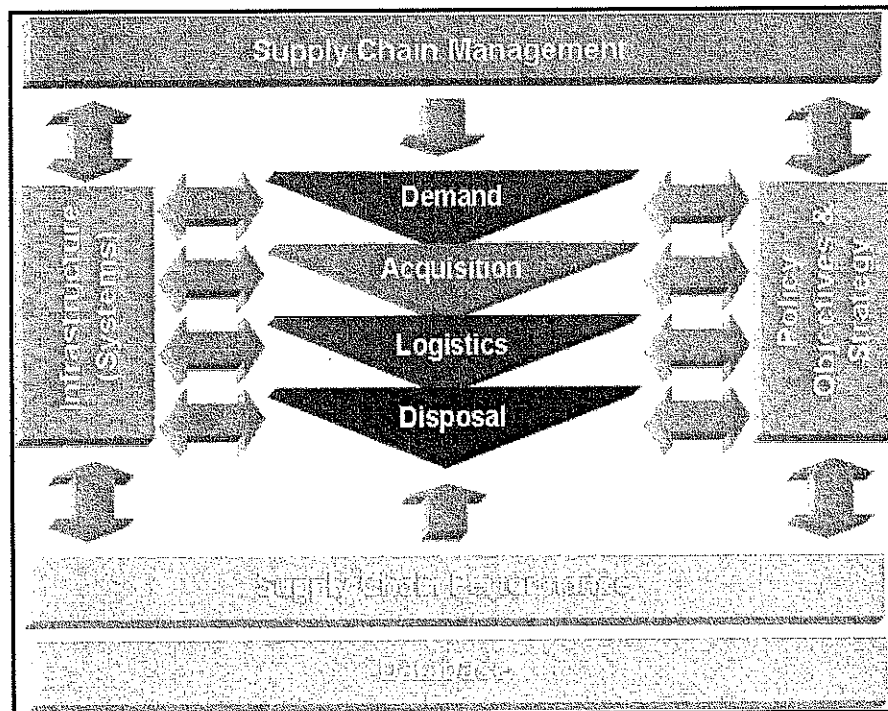
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1. Introduction

- (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)
"PPPFA"	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	✓ 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	✓ 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	✓ 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	✓ 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
				✓ 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	✓ 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	✓ 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	✓ 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
				✓ 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	✓ 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	✓ 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	✓ 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: (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	✓ 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	✓ 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
				✓ 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 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**

- (vi) A tender that fails to meet any pre-qualifying criteria stipulated in the tender documents is an unacceptable tender.

(7) **Bids Based On Functionality as a Criterion**

- (i) In general, not all bids should be invited on the basis of functionality as a criterion. The need to invite bids on the basis of functionality as a criterion depends on the nature of the required commodity or service taking into account quality, reliability, viability and durability of a service and the bidder's technical capacity and ability to execute a contract.
- (ii) When the Municipality invites a bid that will also be evaluated on the basis of functionality as a criterion, the Accounting Officer of his/her delegate must clearly specify the following aspects in the bid documents:
- ✓ Evaluation criteria for measuring functionality.
 - ✓ The evaluation criteria may include criteria such as the bidder's relevant experience for the assignment, the quality of the methodology; the qualifications of key personnel; transfer of knowledge, etc.
 - ✓ Weight of each criterion.
 - ✓ The weight that is allocated to each criterion should not be generic but should be determined separately for each bid on a case by case basis.
 - ✓ Applicable value.
 - ✓ The applicable values that will be utilised when scoring each criterion should be objective. As a guide, values ranging from 1 being poor, 2 being average, 3 being good, 4 being very good and 5 being excellent, may be utilised.
 - ✓ Minimum qualifying score for functionality.
 - ✓ The minimum qualifying score that must be obtained for functionality in order for a bid to be considered further should not be generic. It should be determined separately for each bid on a case by case basis. The minimum qualifying score must not be prescribed so low that it may jeopardize the quality of the service required nor so high that it may be restrictive to the extent that it jeopardizes the fairness of the SCM system.

(8) **Local Production and Content**

(i) **Designated Sectors**

- ✓ Bids in respect of services, works or goods that have been designated for local production and content, must contain a specific bidding condition that only locally produced goods, services or works or locally manufactured goods with a stipulated minimum threshold for local production and content will be considered.

- (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

of seven (7) days.

- ✓ Furthermore, AO may refer back in writing any recommendation of the bid Adjudication Committee to be reworked if there are any material flaws.

- d) Bid adjudication committee must ensure that:
 - (i) scoring has been fairly, consistently and correctly calculated and applied;
 - (ii) disqualifications are justified;
 - (iii) all declarations of interest have been captured;
 - (iv) all necessary bid documents have been submitted; and
 - (v) that valid and accountable reasons/ motivations were furnished for passing over of bids.
- e) The bid adjudication committee must consider and rule on all recommendations/ reports regarding the amendment, variation, extension, cancellation or transfer of contracts awarded.
- f) In order to meet their obligations, committee members must be familiar with and adhere to all relevant legislation, the SCM policy, SCM Guide to Accounting Officers and SCM Practice Notes.
- g) The highest level of professional competence must be maintained. Furthermore, courteous conduct is expected of all committee members
- h) A declaration form where all members of the committee present at the meeting as well as all officials rendering administrative support during the meeting must be signed to declare that they:
 - (i) accept the confidentiality of the contents of the meeting;
 - (ii) will not make known anything regarding the meeting, unless officially authorized; and
 - (iii) will not purposefully favour or prejudice anybody.
- i) The BAC shall submit a monthly report to the Accounting Officer on all awards made for that month as well as other issues it wishes to bring to the attention of the Accounting Officer.

(8) Role of the secretariat

- a) Executes procurement support function for the municipality and a secretariat function for the bid adjudication committee.
- b) The Head of the SCM Unit is an EX-Officio member of the committee without voting powers. He/she serves in an advisory capacity.
- c) Convenes BAC meetings and prepares an agenda for each meeting.
- d) Ensures that all submissions and reports are of good quality and well presented to the committee.
- e) Ensures that the evaluation process is done in a fair and transparent manner.
- f) Ensures that the agenda is dispatched on time.
- g) Takes minutes of all the meetings.

- h) Ensures that proceedings are recorded electronically.
- i) Keeps the attendance register.
- j) Keeps a register of all approved submissions, disapproved, deferred and withheld as well as deviations condoned.
- k) Ensures that the chairperson signs all adopted minutes.
- l) Files all the minutes / documents that served before the committee.

(9) 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 Bid 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.
- d) No press release should be made without the approval of the accounting officer.
- e) All the proceedings shall be recorded electronically and decisions must be minuted.

28. Procurement of banking services

- (1) A contract for banking services –
 - (a) must be procured through competitive bids;
 - (b) must be consistent with section 7 or 85 of the Act; and
 - (c) may not be for a period of more than five years at a time.
- (2) The process for procuring a contract for banking services must commence at least nine months before the end of an existing contract.
- (3) The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in a newspaper in terms of paragraph 22(1). Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990).

29. Procurement of IT related goods or services

- (1) The municipality shall abide by the provisions of this SCM policy and SITA provisions in the procurement of IT related goods and services.

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

- (1) The accounting officer may procure goods or services under a contract secured by another organ of state, but only if –
 - (a) the contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state;
 - (b) there is no reason to believe that such contract was not validly procured;
 - (c) there are demonstrable discounts or benefits to do so; and
 - (d) that other organ of state and the provider have consented to such procurement in writing.
- (2) Subparagraphs (1)(c) and (d) do not apply if –
 - (a) a municipality procures goods or services through a contract secured by a municipal entity of which it is the parent municipality.

31. Procurement of goods necessitating special safety arrangements

- (1) The acquisition and storage of goods in bulk (other than water), which necessitate special safety arrangements, including gasses and fuel, should be avoided where ever possible.
- (2) Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership, cost advantages and environmental impact and must be approved by the accounting officer.

32. Proudly SA Campaign

The municipality supports the Proudly SA Campaign to the extent that, all things being equal, preference is given to procuring local goods and services from-

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

33. Appointment of consultants

- (1) The accounting officer may procure consulting services provided that any Treasury guidelines in respect of consulting services are taken into account when such procurements are made.
- (2) Consultancy services must be procured through competitive bids if:
 - (a) the value of the contract exceeds R200 000 (VAT included); or
 - (b) the duration period of the contract exceeds one year.
- (3) In addition to any requirements prescribed by this policy for competitive bids, bidders must furnish particulars of –
 - (a) all consultancy services provided to an organ of state in the last five years; and
 - (b) any similar consultancy services provided to an organ of state in the last five years.
- (4) The accounting officer must ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, thing, system or process designed or devised, by a consultant in the course of the consultancy service is vested in the municipality.

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

- (1) The accounting officer may –
 - (a) dispense with the official procurement processes established by this Policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –
 - (i) in an emergency;
 - (ii) if such goods or services are produced or available from a single provider only;
 - (iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile;
 - (iv) acquisition of animals for zoos and/or nature and game reserves; or

- (v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes.
 - (b) ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature.
- (2) The accounting officer must record the reasons for any deviations in terms of subparagraphs (1)(a) and (b) of this policy and report them to the next meeting of the council and include as a note to the annual financial statements.
- (3) Subparagraph (2) does not apply to the procurement of goods and services contemplated in paragraph 13(2) of this policy.

35. Unsolicited bids

- (1) In accordance with section 113 of the Act there is no obligation to consider unsolicited bids received outside a normal bidding process.
- (2) The accounting officer may decide in terms of section 113(2) of the Act to consider an unsolicited bid, only if –
 - (a) the product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
 - (b) the product or service will be exceptionally beneficial to, or have exceptional cost advantages;
 - (c) the person who made the bid is the sole provider of the product or service; and
 - (d) the reasons for not going through the normal bidding processes are found to be sound by the accounting officer.
- (3) If the accounting officer decides to consider an unsolicited bid that complies with subparagraph (2) of this policy, the decision must be made public in accordance with section 21A of the Municipal Systems Act, together with –
 - (a) reasons as to why the bid should not be open to other competitors;
 - (b) an explanation of the potential benefits if the unsolicited bid were accepted; and
 - (c) an invitation to the public or other potential suppliers to submit their comments within 30 days of the notice.

- (4) The accounting officer must submit all written comments received pursuant to subparagraph (3), including any responses from the unsolicited bidder, to the National Treasury and the relevant provincial treasury for comment.
- (5) The adjudication committee must consider the unsolicited bid and may award the bid or make a recommendation to the accounting officer, depending on its delegations.
- (6) A meeting of the adjudication committee to consider an unsolicited bid must be open to the public.
- (7) When considering the matter, the adjudication committee must take into account –
 - (a) any comments submitted by the public; and
 - (b) any written comments and recommendations of the National Treasury or the relevant provincial treasury.
- (8) If any recommendations of the National Treasury or provincial treasury are rejected or not followed, the accounting officer must submit to the Auditor General, the relevant provincial treasury and the National Treasury the reasons for rejecting or not following those recommendations.
- (9) Such submission must be made within seven days after the decision on the award of the unsolicited bid is taken, but no contract committing the municipality to the bid may be entered into or signed within 30 days of the submission.

36. Combating of abuse of supply chain management system

- (1) The accounting officer must–
 - (a) take all reasonable steps to prevent abuse of the supply chain management system;
 - (b) investigate any allegations against an official or other role player of fraud, corruption, favoritism, unfair or irregular practices or failure to comply with this Policy, and when justified –
 - (i) take appropriate steps against such official or other role player; or
 - (ii) report any alleged criminal conduct to the South African Police Service;
 - (c) check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector;
 - (d) reject any bid from a bidder–

- (i) if any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the municipality, or to any other municipality or municipal entity, are in arrears for more than three months; or
- (ii) who during the last five years has failed to perform satisfactorily on a previous contract with the municipality or any other organ of state after written notice was given to that bidder that performance was unsatisfactory;
- (e) reject a recommendation for the award of a contract if the recommended bidder, or any of its directors, has committed a corrupt or fraudulent act in competing for the particular contract;
- (f) cancel a contract awarded to a person if –
 - (i) the person committed any corrupt or fraudulent act during the bidding process or the execution of the contract; or
 - (ii) an official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of the contract that benefited that person; and
- (g) reject the bid of any bidder if that bidder or any of its directors –
 - (i) has abused the supply chain management system of the municipality or has committed any improper conduct in relation to such system;
 - (ii) has been convicted for fraud or corruption during the past five years;
 - (iii) has willfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years; or
 - (iv) has been listed in the Register for Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004).
- (2) The accounting officer must inform the National Treasury and relevant provincial treasury in writing of any actions taken in terms of subparagraphs (1)(b)(ii), (e) or (f) of this policy.

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

The Accounting Officer must ensure that, irrespective of the procurement process followed, no award above R15 000 (VAT Included) is given to a person whose tax matters have not been declared by SARS to be in order.

Before making an award to a provider or bidder, a tax clearance certificate from SARS or Tax Compliance PIN must first be provided and be verified on the SARS website by the municipality.

37. Preferential Procurement Implementation Guidelines

The Ugu District Municipality is committed to contributing to social and economic transformation in KwaZulu-Natal and will actively pursue the following targeted procurement strategy to advance government's pledge to address poverty, unemployment and job creation.

These guidelines are to be read in conjunction with MFMA Circular number 69 and is intended to assist the Accounting Officer with the implementation of the Preferential Procurement Regulations, 2011 issued in terms of section 5 of the Preferential Procurement Policy Framework Act, Act Number 5 of 2000 (PPFA).

These guidelines should also be read and utilized in conjunction with other relevant SCM related prescripts, instructions, circulars and guidelines.

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(1) The Ugu District Municipality has committed itself to the following key priorities with respect to all procurement dealings:

- (i) Providing second economy opportunities through Black Economic Empowerment;
- (ii) Increased usage of local resources and emerging contractors;
- (iii) Promoting growth and ensuring sustainable SMME's;
- (iv) Contributing to socio-economic transformation;
- (v) Creation of opportunities for job creation and poverty alleviation;
- (vi) Commitment to skills development and transfer; and
- (vii) Fast tracking service delivery.

(2) Our objectives are as follows:

- (i) The policy is simple so that it can be understood by everyone and easy to apply;
- (ii) It meets all the legal requirements including provisions of the Constitution to avoid or minimize any possible legal challenges;
- (iii) The policy is as flexible as possible to allow creativity in the implementation of targeted procurement;
- (iv) It sets targets to be achieved so that performance can be measured through reliable monitoring mechanisms; and
- (v) The policy is all encompassing in that it covers everything that is procured and/ or disposed of by the Municipality and embraces all its citizens.

(3) The intended outcomes of these guidelines are to ensure:

- (i) Preference for employment equity and economic empowerment;
- (ii) The inclusion of priority groups that have not benefited from the implementation of the current policy;
- (iii) To have a significant contribution towards job creation, poverty alleviation and economic growth; and

- (iv) To ensure that the Ugu District Municipality impacts significantly on improving the quality of life of the majority of KwaZulu-Natal citizens/beneficiaries, by optimising employment and economic empowerment in all its dealings, resulting in the annual procurement spend reflecting KwaZulu-Natal demographics.

(4) Preference points system:

80/20 preference point system for acquisition of goods or services for Rand Value equal to or above R30 000 and up to R50 million inclusive of all applicable taxes.

- A tenderer may not be awarded points for B-BBEE status level of contributor if the tender documents indicates that the tenderer intends subcontracting more than 25% of the value of the contract to any other person not qualifying for at least the points that the tenderer qualifies for, unless the intended subcontractor is an EME that has the capability to execute the subcontract.
- If the price quoted by the tenderer scoring the highest points is not market related , the organ of the state may not award the contract to that tenderer.
- The organ of the state may negotiate a market related price with the tenderer scoring the highest points or cancel the tender;
- If the tenderer does not agree to the market related price, negotiate the market related price with the second highest points or cancel the tender;
- If the tenderer scoring the second highest points does not agree with to a market related price, negotiate a market related price with the tenderer scoring the third highest points or cancel the tender;
- If a market related price is not agreed as envisaged in the above paragraphs organ of the state must cancel the tender.

90/10 preference point system for acquisition of goods or services for Rand Value above R50 million inclusive of all applicable taxes.

- A tenderer may not be awarded points for B-BBEE status level of contributor if the tender documents indicates that the tenderer intends subcontracting more than 25% of the value of the contract to any other person not qualifying for at least the points that the tenderer qualifies for, unless the intended subcontractor is an EME that has the capability to execute the subcontract;
- If the price quoted by the tenderer scoring the highest points is not market related , the organ of the state may not award the contract to that tenderer;
- The organ of the state may negotiate a market related price with the tenderer scoring the highest points or cancel the tender;
- If the tenderer does not agree to the market related price, negotiate the market related price with the second highest points or cancel the tender;

- If the tenderer scoring the second highest points does not agree with to a market related price, negotiate a market related price with the tenderer scoring the third highest points or cancel the tender;
- If a market related price is not agreed as envisaged in the above paragraphs organ of the state must cancel the tender.

(5) Broad-Based Black Economic Empowerment (B-BBEE) Status Level Certificates

- (i) Bidders are required to submit original and valid B-BBEE Status Level Verification Certificates or certified copies thereof together with their bids, to substantiate their B-BBEE rating claims.
- (ii) Bidders who do not submit B-BBEE Status Level Verification Certificates or are non-compliant contributors to B-BBEE do not qualify for preference points for B-BBEE but should not be disqualified from the bidding process. They will score points out of 90 or 80 for price only and zero (0) points out of 10 or 20 for B-BBEE.
- (iii) A trust, consortium or joint venture must submit a consolidated B-BBEE Status Level Verification Certificate for every separate bid.
- (iv) Public entities and tertiary institutions must also submit B-BBEE Status Level Verification Certificates together with their bids.
- (v) If the Municipality is already in possession of a valid and original or certified copy of a bidder's B-BBEE Status Level Verification Certificate that was obtained for the purpose of establishing the database of possible suppliers for price quotations or that was submitted together with another bid, it is not necessary to obtain a new B-BBEE Status Level Verification Certificate each time a bid is submitted from the specific bidder. Such a certificate may be used to substantiate B-BBEE rating claims provided that the closing date of the bid falls within the expiry date of the certificate that is in the Municipality's possession.
- (vi) Each time this provision is applied, cross-reference must be made to the B-BBEE Status Level Verification Certificate already in possession for audit purposes.
- (vii) The Accounting Officer must ensure that the B-BBEE Status Level Verification Certificates submitted are issued by the following agencies:
 - ✓ Bidders other than EMEs
 - Verification agencies accredited by SANAS; or
 - Registered auditors approved by IRBA.
 - ✓ Bidders who qualify as Exempted Micro Enterprises
 - Accounting officers as contemplated in the Close Corporations Act, Act No. 69 of 1984; or
 - Verification agencies accredited by SANAS; or
 - Registered auditors. (Registered auditors do not need to meet the prerequisite for

IRBA's approval for the purpose of conducting verification and issuing EMEs with B-BBEE Status Level Certificates)

(6) Planning, Stipulation of Preference Point System to be utilised and the Determination of Designated Sectors

Prior to the invitation of bids, the Accounting Officer is required to:

- (i) Properly plan for the provision of services, works or goods in order to ensure that the resources that are required to fulfil the needs identified in the strategic plan of the Municipality are delivered at the correct time, price, place and that the quantity and quality will satisfy those needs.
- (ii) As far as possible, accurately estimate the costs for the provision of the required services, works or goods. This is in order to determine and stipulate the appropriate preference point system to be utilised in the evaluation and adjudication of the bids and to ensure that the prices paid for the services, works and goods are market related.
- (iii) Estimated costs can be determined by conducting an industry and commodity analysis whereby prospective suppliers may be approached to obtain indicative market related prices that may be utilised for benchmarking purposes. Based on the findings, the relevant preference point system (80/20 or 90/10) to be utilised for the evaluation of the bid must be stipulated in the bid documents.
- (iv) Determine whether the services, works and/or goods for which an invitation is to be made, has been designated for local production and content in terms of Regulation 9 of the Preferential Procurement Regulations. This will entail the inclusion of a specific condition in the bid documents that only locally produced services, works or goods or locally manufactured goods with a stipulated minimum threshold for local production and content will be considered. This will subsequently have a direct impact on the evaluation of the bid.

Pre-qualification Criteria For Preferential Procurement

- (i) If an organ of state decides to apply pre-qualifying criteria to advance certain designated groups, that organ of state must advertise the tender with a specific tendering condition that only one or more of the following tenderers may respond.
- (ii) A tenderer having a stipulated minimum B-BBEE status level of contributor;
- (iii) An Exempted Micro Enterprise (EME) or Qualifying Small Business (QSE)
- (iv) A tenderer subcontracting a minimum of 30% to EME or QSE which is at least 51% owned by black people who are youth or women or people with disabilities or black people who are living in rural or underdeveloped areas or townships.
- (v) A tenderer subcontracting a minimum of 30% to cooperatives which is at least 51% owned by black people who are military veterans;

the SARB at 12:00 on the date, one week (7 calendar days) prior to the date of closure of the bid.

- ✓ Only the South African Bureau of Standards approved technical specification number SATS 1286:201x as indicated above must be used to calculate local content.
- ✓ For the purpose of the paragraphs above, the SBD 6.2 (Declaration Certificate for Local Content) must form part of the bid documentation.
- ✓ The Declaration Certificate for Local Content (SBD 6.2) must be completed and duly signed. Accounting Officer or his/her delegate is required to verify the accuracy of the rate(s) of exchange quoted by the bidder in paragraph 4.1 of this Certificate.
- ✓ Any enquiries in respect of Local Production and Content may be directed to the Department

- ✓ The Accounting Officer or His/her delegate must stipulate in bid invitations that the exchange rate to be used for the calculation of local content (local content and local production are used interchangeably) must be the exchange rate published by the SARB at 12:00 on the date, one week (7 calendar days) prior to the closing date of the bid.
- ✓ Only the South African Bureau of Standards (SABS) approved technical specification number SATS 1286:201x must be used to calculate local content.

The following formula to calculate local content must be disclosed in the bid documentation:

The local content (LC) as a percentage of the bid price must be calculated in accordance with the SABS approved technical specification number SATS 1286: 201x as follows:

$$LC = 1 - \left(\frac{x}{y} \right) \times 100$$

Where

x = imported content

y = bid price excluding value added tax (VAT)

Prices referred to in the determination of x must be converted to Rand (ZAR) by using the exchange rate published by the SARB at 12:00 on the date, one week (7 calendar days) prior to the closing date of the bid.

- ✓ For the purpose of the paragraphs above, the SBD 6.2 (Declaration Certificate for Local Content) must form part of the bid documentation.
- ✓ The Declaration Certificate for Local Content (SBD 6.2) must be completed and duly signed. The Accounting Officer or his/her delegate is required to verify the accuracy of the rates of exchange quoted by the bidder in paragraph 6.4.3 of this Certificate.

Non-Designated Sectors

- ✓ Where there is no designated sector, the Accounting Officer or his/her delegate may decide to include a specific bidding condition that only locally produced goods, services or works or locally manufactured goods with a stipulated minimum threshold for local production and content, will be considered, on condition that such prescript and threshold(s) are in accordance with the specific directives issued for this purpose by the National Treasury in consultation with the DTI.
- ✓ Accounting Officer or his/her delegate must stipulate in bid invitations that the exchange rate to be used for the calculation of local content must be the exchange rate published by

✓ of Trade and Industry (DTI) as follows:

Ms Basani Baloyi

Director: Industrial Development Division (IDD) Tel: (012) 394 3851

Fax: (012) 394 2851

E-mail: BBaloyi@thedti.gov.za

Local Production and Content:

- DTI in consultation with National Treasury can designate a sector, sub-sector or industry in accordance with national development and industrial policies for local production and content, where only locally produced services or goods or locally manufactured goods meet the stipulated minimum threshold for local production and content.
- Organ of State must in the case of a designated sector, advertise the invitation to tender with a specific condition that only locally manufactured goods, only tenderers who meet the stipulated minimum threshold for local production and content will be considered.
- If there is no designated sector, an organ of state may include as a specific condition of the tender that only locally produced services or goods or locally manufactured goods with a stipulated threshold for local production and content will be considered.*+
- A tenderer that fails to meet the minimum stipulated threshold for local production and content is an unacceptable tender.

(9) Services Rendered by Tertiary Institutions and Public Entities

- (i) Based on thorough analysis of the market, institutions may invite written price quotations for services that can only be provided by tertiary institutions from the identified tertiary institutions.
- (ii) Where the required service can be provided by tertiary institutions, public entities and enterprises from the private sector, the Municipality must invite competitive bids.

(10) Discounts

- (i) When calculating comparative prices.
- (ii) Unconditional discounts must be taken into account for evaluation purposes.
- (iii) Conditional discounts must not be taken into account for evaluation purposes but should be implemented when payment is affected.

(11) Sub-Contracting



Subcontracting as the condition of tender:

- (i) If feasible to subcontract for a contract above R30 million, an organ of state must apply subcontracting to advance designated groups.
- (ii) Tenderer must subcontract a minimum of 30% of the value of the contract to the black designated group.
- (iii) The organ of state must make available the list of all suppliers registered on a database approved by National Treasury to provide the required goods or services in respect of the applicable designated groups from which the tenderer must select a supplier.

Subcontracting after an award of tender

- (i) A person awarded a contract may only enter into a subcontracting arrangement with the organ of the state.
- (ii) For local production and content a person awarded a contract in relation to the designated sector, may not subcontract in such a manner that the local production and content of overall value of the contract is reduced to below the stipulated minimum threshold.
- (iii) A person awarded a contract may not subcontract more than 25% of the value of the contract to any other enterprise that does not have an equal or higher B-BBEE status level of contributor than the person concerned, unless the contract is subcontracted to an EME (Exempted Micro Enterprise) that has the capability to execute the subcontract.

(12) Evaluation of Bids Based on Functionality as a Criterion

Bids invited on the basis of functionality as a criterion must be evaluated in two stages - first functionality must be assessed and then in accordance with the 80/20 or 90/10 preference point systems prescribed in Preferential Procurement Regulations 5 and 6. The evaluation must be done as follows:

- (i) First stage - Evaluation of functionality
 - ✓ Bids must be evaluated in terms of the evaluation criteria embodied in the bid documents. The amendment of evaluation criteria, weights, applicable values and/or the minimum qualifying score for functionality after the closure of bids is not allowed as this may jeopardise the fairness of the process.
 - ✓ A bid will be considered further if it achieves the prescribed minimum qualifying score for functionality.
 - ✓ Bids that fail to achieve the minimum qualifying score for functionality must be disqualified.
 - ✓ Score sheets should be prepared and provided to panel members to evaluate the bids.
 - ✓ The score sheet should contain all the criteria and the weight for each criterion as well as

the values to be applied for evaluation as indicated in the bid documents.

- ✓ Each panel member should after thorough evaluation independently award his /her own value to each individual criterion.
- ✓ Score sheets should be signed by panel members and if necessary, written motivation may be requested from panel members where vast discrepancies in the values awarded for each criterion exist.
- ✓ If the minimum qualifying score for functionality is indicated as a percentage in the bid documents, the percentage scored for functionality may be calculated as follows:
 - The value awarded for each criterion should be multiplied by the weight for the relevant criterion to obtain the score for the various criteria;
 - The scores for each criterion should be added to obtain the total score; and
 - The following formula should be used to convert the total score to percentage for functionality:

$$Ps = \frac{So}{Ms} \times 100$$

Ps = percentage scored for functionality by bid under consideration

So = total score of bid under consideration

Ms = maximum possible score

- ✓ The percentage of each panel member should be added and divided by the number of panel members to establish the average percentage obtained by each bidder for functionality.

(ii) Second stage - Evaluation in terms of the 80/20 or 90/10 preference point systems

- ✓ Only bids that achieve the minimum qualifying score / percentage for functionality must be evaluated further in accordance with the 80/20 or 90/10 preference point systems prescribed in Preferential Procurement Regulations 5 and 6.
- ✓ Where appropriate, prices may be negotiated only with short listed or preferred bidders. Such negotiations must not prejudice any other bidders.

(13) The Preference Point System

(i) Step 1: Calculation of points for price

- ✓ The PPPFA prescribes that the lowest acceptable bid will score 80 or 90 points for price. Bidders that quoted higher prices will score lower points for price on a pro-rata basis.
- ✓ The formulae to be utilised in calculating points scored for price are as follows:

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

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

Where

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

P_t = Comparative price of bid or offer under consideration.

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

90/10 Preference point system [(for acquisition of services, works and/or goods with a Rand value above R1million) (all applicable taxes included)].

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

Where

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

P_t = Comparative price of bid or offer under consideration.

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

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

(ii) *Step 2: Calculation of points for B-BBEE status level of contributor*

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

B-BBEE Status Level of Contributor	Number of Points (90/10 System)	Number of Points (80/20 System)
---------------------------------------	------------------------------------	------------------------------------

1	10	20
2	9	18
3	8	16
4	5	12
5	4	8
6	3	6
7	2	4
8	1	2
Non - Contributor	0	0

Figure 1: B-BBEE Status Level of Contributor

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

(iii) *Calculation of total points scored for price and B-BBEE status level of contribution*

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

(14) Evaluation of Bids that Scored Equal Points

- (i) In the event that two or more bids have scored equal total points, the successful bid must be the one that scored the highest points for B-BBEE.
- (ii) If two or more bids have equal points, including equal preference points for B-BBEE, the successful bid must be the one scoring the highest score for functionality, if functionality is part of the evaluation process.
- (iii) In the event that two or more bids are equal in all respects, the award must be decided by the drawing of lots.

(15) Cancellation and Re-Invitation of Bids

- (i) In the application of the 80/20 preference point system, if all bids received exceed R50 million, the bid must be cancelled. If one or more of the acceptable bid(s) received are within the R50 million threshold, all bids received must be evaluated on the 80/20 preference point system.
- (ii) In the application of the 90/10 preference point system, if all bids received exceed R50 million, the bid must be cancelled. If one or more of the acceptable bid(s) received are within the R50 million threshold, all bids received must be evaluated on the 90/10 preference point system.
- (iii) If a bid was cancelled in terms of the above paragraphs, the correct preference point system must be stipulated in the bid documents of the re-invited bid.
- (iv) The Accounting Officer of his/her delegate may, prior to the award of a bid, cancel the bid if:
 - ✓ Due to changed circumstances, there is no longer a need for the services, works or goods requested. [Accounting Officer must ensure that only goods, services or works that are required to fulfil the needs of the Municipality are procured]; or
 - ✓ Funds are no longer available to cover the total envisaged expenditure. [Accounting Officer must ensure that the budgetary provisions exist]; or
 - ✓ No acceptable bids are received. [If all bids received are rejected, the Municipality must review the reasons justifying the rejection and consider making revisions to the specific conditions of contract, design and specifications, scope of the contract, or a combination of these, before inviting new bids].
- ✓ An organ of state may only with the prior approval of the relevant treasury cancel a tender invitation for the second time.

(16) Award of Contracts

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

(17) Resolution of disputes, objections, complaints and queries

- (i) Once the Accounting Officer agrees with the recommendation of the BAC, the intention to award a bid must be advertised in the Government Gazette, selected news media and the Municipality's

website within 5 days, allowing for disputes, objections, complaints and queries to be lodged with the Municipality within 14 days.

- (ii) An independent and impartial person, not directly involved in the supply chain management process, must be appointed by the Accounting Officer. The independent, impartial person must :
 - ✓ advise the Accounting Officer, within 3 days, of any disputes, objections, complaints and queries lodged so that the award process can be suspended until the dispute, objection, complaint or query has been investigated;
 - ✓ assist in resolving disputes between the Municipality and other persons regarding:
 - Any decisions or actions taken in the implementation of the supply chain management system;
 - Any matter arising from a contract awarded in the course of the supply chain management system; or
 - ✓ deal with objections, complaints or queries regarding any such decisions or actions or any matters arising from such contract;
 - ✓ issue a formal report with recommendations to the Accounting Officer.
- (iii) Once the independent, impartial person has completed the investigation, s/he must issue a formal report to the Accounting Officer. The Accounting Officer must consider the recommendations of the independent, impartial person and make a determination on the way forward. The way forward could be to award the bid, refer the bid back for re-evaluation and re-adjudication or even to cancel and re-advertise the bid. Should the Accounting Officer award the bid after the appeals processes have been followed, the successful bidder can be accordingly notified.

(18) Remedies

- (i) The Accounting Officer must act against the bidder or person awarded the contract upon detecting that the B-BBEE status level of contribution has been claimed or obtained on a fraudulent basis or any of the contract conditions have not been fulfilled.
- (ii) The Municipality may, in addition to any other remedy that it may have against the bidder or person:
 - ✓ Disqualify the bidder or person from the bidding process;
 - ✓ Recover all costs, losses or damages it has incurred or suffered as a result of that person's conduct;
 - ✓ Cancel the contract and claim any damages which it has suffered as a result of having to make less favourable arrangements due to such cancellation;

- ✓ Restrict the bidder or contractor, its shareholders and directors, or only the shareholders and directors who acted on a fraudulent basis, from obtaining business from any organ of state for a period not exceeding 10 years, after applying the audi alteram partem (hear the other side) rule; and
 - ✓ Forward the matter for criminal prosecution.
- (iii) The Municipality must involve their legal services when any of the remedies are applied.
- (iv) The details of any restrictions imposed on bidders, persons or contractors must be forwarded to the National Treasury for inclusion on the central Database of Restricted Suppliers.

(19) Tax Clearance

No bid may be awarded to any bidder whose tax matters have not been declared by the SARS to be in order.

(20) Bidding Documents

- (i) The following bidding documents, which have been amended, where necessary, in accordance with the prescripts of the Preferential Procurement Regulations, 2011, and MFMA Circular No.25 must be used:

MBD Description	Document Number
✓ Invitation to Bid	MBD 1
✓ Application for Tax Clearance Certificate	MBD 2
✓ Pricing Schedules	MBD 3.1 to 3.3
✓ Declaration of Interest	MBD 4
✓ National Industrial Participation Programme	MBD 5
✓ Preference claims in terms of the Preferential Procurement Regulations, 2011	MBD 6.1 to 6.12
✓ Formal contract	MBD 7.1 to 7.3

- (ii) The Municipality must customize and utilize the bidding documents by incorporating the Municipality's name, logo and contact details.
- (iii) Other changes to the MBDs, such as variations necessary to address specific contract and project issues, should be kept to a minimum. The standard wording for the Application for Tax Clearance Certificates (MBD 2) and the National Industrial Participation Programme (MBD 5) should not be amended. The formal contract document (MBD 7.1 to 7.3) should not form part of the bidding documents issued to every prospective bidder, but should be made applicable only to the successful bidder after adjudication and award of the bid.

- (iv) The relevant MBDs must be utilized for procurement by means of written price quotations, advertised competitive bids or proposals.

(21) Sale and Letting of Assets

- (i) The preference point system prescribed in the PPPFA and the Preferential Procurement Regulations, 2011 are not applicable to the sale and letting of assets.
- ✓ In instances where assets are sold or leased by means of advertised competitive bids or written price quotations or by auctions the award must be made to the highest bidder.
 - ✓ The tax clearance requirement applies to the sale and letting of assets as well.

(22) SMME Status Table

Industrial Sector Category	Size of Class	Total Full-Time Employees	Total Turnover	Total Gross Asset Value (Fixed Property excl.)
Agriculture	✓ Medium	✓ 100	✓ R5m	✓ R5m
	✓ Small	✓ 50	✓ R3m	✓ R3m
	✓ Very small	✓ 10	✓ R0, 50m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m
Mining and Quarrying	✓ Medium	✓ 200	✓ R39m	✓ R5m
	✓ Small	✓ 50	✓ R10m	✓ R3m
	✓ Very small	✓ 20	✓ R4m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m
Manufacturing	✓ Medium	✓ 200	✓ R51m	✓ R5m
	✓ Small	✓ 50	✓ R13m	✓ R3m
	✓ Very small	✓ 10	✓ R5m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m
Electricity, Gas & Water	✓ Medium	✓ 200	✓ R51m	✓ R5m
	✓ Small	✓ 50	✓ R13m	✓ R3m
	✓ Very small	✓ 20	✓ R5m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m
Construction	✓ Medium	✓ 200	✓ R26m	✓ R5m
	✓ Small	✓ 50	✓ R6m	✓ R3m
	✓ Very small	✓ 20	✓ R3m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m
Retail, Motor Trade and Repair Services	✓ Medium	✓ 200	✓ R39m	✓ R5m
	✓ Small	✓ 50	✓ R19m	✓ R3m
	✓ Very small	✓ 20	✓ R4m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m

Industrial Sector Category	Size of Class	Total Full-Time Employees	Total Turnover	Total Gross Asset Value (Fixed Property excl.)
Wholesale Trade, Commercial Agents & Allied Services	✓ Medium	✓ 200	✓ R64m	✓ R5m
	✓ Small	✓ 50	✓ R32m	✓ R3m
	✓ Very small	✓ 20	✓ R6m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m
Catering, Accommodation and other Trade	✓ Medium	✓ 200	✓ R13m	✓ R5m
	✓ Small	✓ 50	✓ R6m	✓ R3m
	✓ Very small	✓ 20	✓ R5, 10m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m
Transport, Storage & Communication	✓ Medium	✓ 200	✓ R26m	✓ R5m
	✓ Small	✓ 50	✓ R13m	✓ R3m
	✓ Very small	✓ 20	✓ R3m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m
Finance and Business Services	✓ Medium	✓ 200	✓ R26m	✓ R5m
	✓ Small	✓ 50	✓ R13m	✓ R3m
	✓ Very small	✓ 20	✓ R3m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m
Community, Social and Personal Services	✓ Medium	✓ 200	✓ R13m	✓ R5m
	✓ Small	✓ 50	✓ R6m	✓ R3m
	✓ Very small	✓ 20	✓ R1m	✓ R0, 50m
	✓ Micro	✓ 5	✓ R0, 20m	✓ R0, 10m

(23) Payment to SMME's (Early Payment Cycles)

SMME's within the Very small and Micro categories will be paid within 30 days of receipt of approved invoice. All other payments are to be within 30 days from date of delivery or in the case of work completed, the date on which the invoice has been approved.

Part 3: Logistics, Disposal, Risk and Performance Management

38. Logistics management

The accounting officer must establish and implement an effective system of logistics management, which must include -

- (a) the monitoring of spending patterns on types or classes of goods and services incorporating, where practical, the coding of items to ensure that each item has a unique number;

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

39. Disposal management

- (1) The store manager shall on a monthly basis identify obsolete and slow moving stock that should be disposed off.
- (2) He shall motivate for their disposal, together with necessary documentation, to the SCM Manager for recommendation for disposal thereof.
- (3) All such stock disposals must be approved by both, the chief financial officer and the municipal manager.
- (4) Once approved, the stock must be physically transferred for safe keeping and disposal to the disposals unit.

40. Risk management

- (1) The SCM unit shall subscribe to the Municipal Risk Management Policy and its related risk management processes.
- (2) Risks are identified and assessed in terms of impact and likelihood.
- (3) Mitigating measures are developed, implemented and regularly monitored.
- (4) Risk management must include –
 - (a) the identification of risks on a case-by-case basis;
 - (b) the allocation of risks to the party best suited to manage such risks;

- (c) acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it;
- (d) the management of risks in a pro-active manner and the provision of adequate cover for residual risks; and
- (e) the assignment of relative risks to the contracting parties through clear and unambiguous contract documentation.

41. Performance management

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

Part 4: Other matters

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

- (1) No award above R15 000 may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service to be in order.
- (2) Before making an award to a person the accounting officer must first check with SARS whether that person's tax matters are in order.
- (3) If SARS does not respond within 7 days such person's tax matters may for purposes of subparagraph (1) be presumed to be in order.

43. Prohibition on awards to persons in the service of the state

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

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

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

The accounting officer must ensure that the notes to the annual financial statements disclose particulars of any award of more than R2000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including –

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

45. Code of conduct

- (1) The purpose of this Code of Conduct is to promote mutual trust and respect and an environment where business can be conducted with integrity and in a fair and reasonable manner.

(2) General Principles

- a) The municipality commits itself to a policy of fair dealing and integrity in the conducting of its business. Officials and other role players involved in supply chain management (SCM) are in a position of trust, implying a duty to act in the public interest. Officials and other role players should not perform their duties to unlawfully gain any form of compensation, payment or gratuities from any person, or provider/contractor for themselves, their family or their friends.
- b) Officials and other role players involved in SCM should ensure that they perform their duties efficiently, effectively and with integrity, in accordance with the relevant legislation, policies and guidelines. They should ensure that public resources are administered responsibly.
- c) Officials and other role players involved in SCM should be fair and impartial in the performance of their functions. They should at no time afford any undue preferential treatment to any group or individual or unfairly discriminate against any group or individual. They should not abuse the power and authority vested in them.

(3) Conflict of interest

An official or other role player involved with supply chain management:

- (a) must treat all providers and potential providers equitably;
- (b) may not use his or her position for private gain or to improperly benefit another person;
- (c) may not accept any reward, gift, favour, hospitality or other benefit directly or indirectly, including to any close family member, partner or associate of that person, of a value more than R350;
- (d) must declare to the accounting officer details of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person;
- (e) must declare to the accounting officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process, or in any award of a contract by the municipality.
- (f) must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of a contract in which that person, or any close family member, partner or associate, has any private or business interest;

- (g) must declare any business, commercial and financial interests or activities undertaken for financial gain that may raise a possible conflict of interest;
- (h) should not place him/herself under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties; and
- (i) Should not take improper advantage of their previous office after leaving their official position.

(4) **Accountability**

- a) Practitioners are accountable for their decisions and actions to the public.
- b) Practitioners should use public property scrupulously.
- c) Only accounting officers or their delegates have the authority to commit the municipality to any transaction for the procurement of goods and / or services.
- d) All transactions conducted by a practitioner should be recorded and accounted for in an appropriate accounting system. Practitioners should not make any false or misleading entries into such a system for any reason whatsoever.
- e) Practitioners must assist the accounting officer in combating fraud, corruption, favouritism and unfair and irregular practices in the supply chain management system.
- f) Practitioners must report to the accounting officer any alleged irregular conduct in the supply chain management system which that person may become aware of, including
 - (i) any alleged fraud, corruption, favouritism or unfair conduct;
 - (ii) any alleged contravention of the policy on inducements, rewards, gifts and favours to municipalities or municipal entities, officials or other role players; and
 - (iii) any alleged breach of this code of conduct.
- g) Any declarations made must be recorded in a register which the accounting officer must keep for this purpose. Any declarations made by the accounting officer must be made to the mayor who must ensure that such declaration is recorded in the register.

(5) **Openness**

Practitioners should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only if it is in the public interest to do so.

(6) **Confidentiality**

- a) Any information that is the property of the municipality or its providers should be protected at all times. No information regarding any bid / contract / bidder / contractor may be revealed if such an action will infringe on the relevant bidder's / contractors personal rights.

- b) Matters of confidential nature in the possession of officials and other role players involved in SCM should be kept confidential unless legislation, the performance of duty or the provisions of law requires otherwise. Such restrictions also apply to officials and other role players involved in SCM after separation from service.

(7) Bid Specification / Evaluation / Adjudication Committees

- a) Bid specification, evaluation and adjudication committees should implement supply chain management on behalf of the municipality in an honest, fair, impartial, transparent, cost-effective and accountable manner.
- b) Bid evaluation / adjudication committees should be familiar with and adhere to the prescribed legislation, directives and procedures in respect of supply chain management in order to perform effectively and efficiently.
- c) All members of bid adjudication committees should be cleared by the accounting officer at the level of "CONFIDENTIAL" and should be required to declare their financial interest annually.
- d) No person should:
 - (i) interfere with the supply chain management system of the municipality_or
 - (ii) amend or tamper with any price quotation / bid after its submission.

(8) Combative Practices

Combative practices are unethical and illegal and should be avoided at all cost. They include but are not limited to:

- a. Suggestions to fictitious lower quotations;
- b. Reference to non-existent competition;
- c. Exploiting errors in price quotations / bids;
- d. Soliciting price quotations / bids from bidders / contractors whose names appear on the Register for Tender Defaulters.

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

- (1) This policy ensures that the officials employed by the municipality do not unlawfully, for private gain, accept gifts, rewards or favours from Customers/ Public or any person who either seeks to have or has any business relations with the municipality:



- a) An official, upon possible or actual receipt of a reward or gift of whatever nature and regardless of the total value thereof from a benefactor must immediately disclose this to his or her immediate Manager/Supervisor.
- b) The prescribed discloser form to be duly completed and signed by the official and handed to the Manager/ Supervisor or in his absence to the official appointed in an Acting capacity.
- c) The General Manager/ Supervisor must acknowledge receipt of the disclosure form and hand same to the Municipal Manager for his authorisation.
- d) In the event that the General Manager/ or the Municipal Manager be of the opinion that the gift reward or favour constitutes bribery or will unduly influence the official or enrich him/ her, the General Manager or Municipal Manager will advise the official accordingly in writing.
- e) Under the circumstances prescribed in clause (d) above, the gift or reward will be returned to the benefactor and the favour refused. The circumstances will be given to the benefactor.
- f) A register of all gifts, rewards and/ or favours accepted by employees shall be maintained by each Head of Department, which shall be inspected by the Municipal Manager on a monthly basis.

(2) Exclusions:

- a) Gifts received during conferences, workshops, seminars and meetings which accrue to all participants at same conference, workshop or seminar;
- b) Gifts received as a token of appreciation for the delivery of an address/ speech at a conference, seminar or workshop;
- c) Gifts such as calendars, diaries, cufflinks, ties, scarves or articles for normal office use which display the supplier's name, trade mark or logo and which are presented for advertising purposes; and
- d) Gifts less than R350 in value.

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

47. Sponsorships

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

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

48. Objections and complaints

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

49. Resolution of objections and complaints against procurement process

- (1) The accounting officer must appoint an independent and impartial official, not directly involved in the supply chain management processes to assist in the resolution of objections and complaints between the municipality and any other person regarding:
 - a) the implementation of the procurement process in terms of the supply chain management system; or
 - b) any matter arising from the implementation of the procurement process in terms of the supply chain management system.
- (2) The accounting officer, or another official designated by the accounting officer, is responsible for assisting the appointed person to perform his or her functions effectively.
- (3) The person appointed must –
 - a) strive to resolve promptly all objections and complaints
 - b) received; and
 - c) submit monthly reports to the accounting officer on all such objections and complaints received, attended to or resolved.
- (4) If the independent and impartial person referred to in paragraph (1), is of the view that a matter should be dealt with in terms of paragraph externally, , he or she shall forthwith refer the matter to the Municipal Bid Tribunals convened at Provincial Treasury; and that Tribunal shall then hear and determine the matter.
- (5) An objection or complaint may be referred to the KwaZulu-Natal Provincial Treasury if:
 - a) the objection or complaint is not resolved within 60 days; or

b) no response is forthcoming within 60 days.

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

50. Municipal Bid Appeals Tribunal

- (1) The council shall utilize a Municipal Bid Appeals Tribunal for matters referred by the Independent & Impartial person referred to in 49 above
- (3) The powers, duties and functions of the Municipal Bid Appeals Tribunal, and matters incidental thereto, are set out in the Rules which are appended to this Supply Chain Management Policy and marked Appendix A.
- (4) The administrative and secretarial work involved in the performance of the duties and functions of the Municipal Bid Appeals Tribunal shall be performed by officers of the Provincial Treasury as set out in the Rules referred to in paragraph
- (5) There shall be no further appeal against a decision of the Municipal Bid Appeals Tribunal, except for where normal legal rights exist, such as referral to High Court for Review./PAJA.

51. Contracts providing for compensation based on turnover

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

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

52. Roles and responsibilities

The SCM unit is tasked with the effective and efficient implementation of this policy document, thereby ensuring compliance with and enforcement of the SCM policy.

53. Monitoring and evaluation

Internal Audit, as part of their annual audit plan, shall monitor and evaluate compliance with the SCM policy.

54. Annual review and amendments to the policy

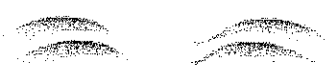
- (1) The SCM unit is tasked with the annual review of the policy, and to submit the updated policy to the Policy Task Team for review and onward submission through the relevant structures, and culminating in Council approval thereof prior to the commencement of each financial year.
- (2) The SCM unit is also tasked with effecting amendments to the policy during the year, when necessary, and to submit the updated policy to the Policy Task Team for review and onward submission through the relevant structures, and culminating in Council approval thereof.

55. Commencement of the policy

This policy shall come into effect on the date of the adoption by the Ugu District Municipality Council.

56. Council approval

TITLE	Draft Supply Chain Management Policy 2016/2017
VERSION	Version 1. 0
COMPILED BY	Supply Chain Management Unit
EFFECTIVE DATE	30 June 2016
SUMMARY	This document is the Supply Chain Management Policy applicable to the Ugu District Municipality
COUNCIL RESOLUTION NUMBER	

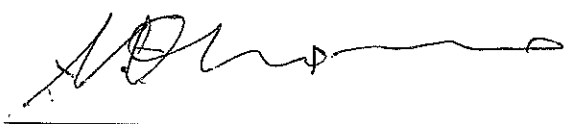


Ugu District Municipality

Quality Certificate

I, **Sibusiso Sithole**, Acting Municipal Manager of Ugu District Municipality hereby certify that the Draft Adjustments Budget 2019/2020 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 documents are consistent with the Integrated Development Plan of the municipality

Name: Sibusiso Sithole.
Acting Municipal Manager of Ugu District Municipality- DC21

Signature: 

Date: 13/03/2020