

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 physical management of their assets.
- 7.5.2. The Asset Manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, location and condition all assets in the registers.

7.6. Contents of the Financial Asset Register

- 7.6.1. The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of Generally Recognised Accounting Practice (GRAP) and any other accounting requirements which may be prescribed.
- 7.6.2. The fixed asset register shall reflect at least the following information:
 - 7.6.2.1. A brief but identifiable description of each asset
 - 7.6.2.2. classification of each asset
 - 7.6.2.3. the date on which the asset was acquired for use
 - 7.6.2.4. the location of the asset
 - 7.6.2.5. the departments within which the assets will be utilized
 - 7.6.2.6. the responsible person for this asset
 - 7.6.2.7. the title deed number, in the case of fixed property
 - 7.6.2.8. the stand number, in the case of fixed property
 - 7.6.2.9. a unique identification number
 - 7.6.2.10. the original cost or fair value if no costs are available

- 7.6.2.11.** the (last) effective date of revaluation of the fixed assets subject to revaluation
 - 7.6.2.12.** the revalued value of such fixed assets
 - 7.6.2.13.** the valuer who did the (last) revaluation
 - 7.6.2.14.** accumulated depreciation to date
 - 7.6.2.15.** the carrying value of the asset
 - 7.6.2.16.** whether this is a cash or non-cash generating asset
 - 7.6.2.17.** the method and, where applicable, the rate of depreciation
 - 7.6.2.18.** impairment losses
 - 7.6.2.19.** impairment recovery
 - 7.6.2.20.** the source of financing
 - 7.6.2.21.** whether the asset is required to perform basic municipal services;
 - 7.6.2.22.** the date on which the asset is disposed of
 - 7.6.2.23.** the disposal proceeds
 - 7.6.2.24.** the date on which the asset is retired from active use, and held for disposal
 - 7.6.2.25.** the residual value of each asset
 - 7.6.2.26.** measurement model
- 7.6.3.** An asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as Work-In-Progress until it is available for use, where after it shall be appropriately capitalised as an asset.
- 7.6.4.** An asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing off such an asset.

7.7. Physical Verification of all assets

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

7.8. Classification, aggregations & components

7.8.1. Classification of Assets

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

7.8.2. Major Component

- 7.8.2.1.** The Asset Manager may, with agreement of the Chief Financial Officer, treat specified major Components of an item of property plant or equipment as a separate asset for the purposes of this Policy.
- 7.8.2.2.** These major components may be defined by its physical parameters or its financial parameters.
- 7.8.2.3.** In agreeing to these treatments, the CFO must be satisfied that these components:
 - 7.8.2.3.1.** *Have significantly a different useful life or usage pattern to the main asset,*
 - 7.8.2.3.2.** *Align with the asset management plans,*
 - 7.8.2.3.3.** *The benefits justify the costs of separate identification,*
 - 7.8.2.3.4.** *It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,*
 - 7.8.2.3.5.** *The cost of the asset to the municipality can be measured reliably,*
 - 7.8.2.3.6.** *The municipality has gained control over the asset,*
 - 7.8.2.3.7.** *The asset is expected to be used during more than one financial year.*
- 7.8.2.4.** Once a major component is recognized as a separate asset, it may be acquired, depreciated, and disposed of as if it were a separate asset.
- 7.8.2.5.** All other replacements, renewals of refurbishments of components will be expensed.

8. POLICY PRINCIPLES: ACCOUNTING POLICY PART:

8.1. Recognition of Assets

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

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

8.2. Measurement at recognition.

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

8.3. Elements of cost

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

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

8.4. Measurement after recognition

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

- 8.4.1.** Each part of an item of property, plant, and equipment with a cost that insignificant in relation to the total cost of the item shall be depreciated separately
- 8.4.2.** The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.
- 8.4.3.** Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- 8.4.4.** Depreciation of an asset ceases when the asset is derecognised.
- 8.4.5.** Therefore, depreciation does not cease when the asset become idle or is retired from active use held for disposal unless the asset is fully depreciated.
- 8.4.6.** The depreciable amount of an asset is determined after deducting its residual value.
- 8.4.7.** The residual value for infrastructure assets, Heritage assets, community assets and intangible assets shall be zero at initial measurement.

8.5. Initial determination useful life

- 8.5.1.** The asset management unit needs to determine the useful life of a particular item or class property, plant and equipment through the development of a strategic asset management plan that forecasts the expected useful life that

asset. This should be developed as part of the Pre-Acquisition Planning that would consider the following factors.

- 8.5.1.1.1. The operational, maintenance, renewal and disposal program that will optimize the 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) | |
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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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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:
- Cash backed accumulated funds from previous years' surpluses and reserves not committed for any other purpose;
 - Realistically anticipated revenues to be collected;
 - Borrowed funds only for capital expenditure, and
 - Grants and subsidies.
- 5.2 Realistic anticipated revenue projections must take into account:
- Projected revenue for the current year based on the previous year's billing information.
 - 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
- Trading services – services that generate surpluses that can be used for cross subsidisation to fund other services.
 - Economic services – services that break even with no surpluses.
 - 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:
- Surpluses generated from service charges.
 - Government grants and subsidies.
 - Other revenue, interest received etc.
 - 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:
- The annual budget must be balanced and funded.

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

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

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

7. CAPITAL BUDGET

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

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

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

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

8. CASH FLOW MANAGEMENT

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

9. MANAGEMENT OF DEBTORS

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

10. DONATIONS, GRANTS AND SUBSIDIES.

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

11. THE CAPITAL REPLACEMENT RESERVE

- 11.1 All reserves must be “ring fenced” and “cash backed” as internal reserves within the accumulated surplus, except for provisions as allowed by GRAP.
- 11.2 Once the Municipality has reached its maximum gearing ability, no further borrowings can be taken up. The Municipality must invest in a capital replacement reserve. This reserve provides internal funding for the Municipality’s capital replacement and renewal programme. Contributions to the capital replacement reserve through the operating budget will be:
- a) Interest received on investments;
 - b) Proceeds from sale of assets.

12. THE CAPITAL CONTRIBUTIONS

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

13. PROVISIONS

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

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

The Municipality has the following provisions:

(a) *Leave provision*

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

(b) *Long services awards*

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

~~(c) *Post employment medical care benefits*~~

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

14. OTHER ITEMS TO BE CASH BACKED**14.1 Unspent conditional grant funding**

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

14.2 Consumer Deposits

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

15. POLICY REVIEW

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

16. COMPLIANCE AND ENFORCEMENT

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

17. EFFECTIVE DATE

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