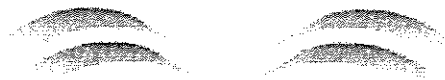

UGU DISTRICT MUNICIPALITY
(“the Municipality”)



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:.....

7. Sub delegations

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

Table 1: Specific Procurement Delegations

No	Scope	Delegated Authority	Threshold Value	Conditions Applicable To Delegation
1.	Obtain Council Resolution for the approval of SCM Policy, SCM Delegations, Procedure Manual and Standard Operating Procedures for End Users.	AO	N/A	✓ Annual reviews of the SCM Policy, SCM Delegations, Procedure Manual and Standard Operating Procedures for End Users.
2.	Appointment of BSC, BEC and BAC members.	AO	N/A	✓ Members of the BSC, BEC and BAC must be appointed annually. ✓ At least five (5) members must be appointed to each Bid Committee. ✓ The Bid Committees must comprise suitably qualified and experienced members at least at middle management level. ✓ Members with specialist expertise may be co-opted onto these Bid Committees. ✓ No member may serve on both the BEC and the BAC.
3.	Deviations from this delegated authority.	AO	Unlimited	✓ Any deviation from these delegations MUST be approved by the AO in writing.

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

Table 2: Specific Procurement Threshold Values

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
1.	Level 1: Procurement for an estimated value up to R2 000 (Including VAT) per case	Manager, subject to condition regarding Petty Cash funded purchases	R2 000	✓ PPPFA does not apply. ✓ Authority to procure by means of petty cash vests with the Accounting Officer. ✓ Re-imbursement of expenditure must be supported by actual invoice/ receipt/ cash sale slip from supplier up to R2 000. ✓ For petty cash procurement between R501 and R2 000, 1 written quotations must be obtained and awarded to the cheapest supplier. ✓ The total monetary value of petty cash purchases per month, per General Manager may not exceed R8000. ✓ Suppliers not registered on the Institution's Suppliers Database may be considered. ✓ Records and appropriate documents for each purchase must be submitted to the relevant General Manager with 48 hours of purchase.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
				✓ Submission of monthly Petty Cash reconciliation reports to BTO from each General Manager must contain the total number and total value of petty cash purchases for that month.
2.	Level 2 Procurement for an estimated value of more than R2 000 up to R10 000 (including VAT) per case.	Manager	R10 000	✓ Authority to procure may not be delegated to an official lower than a Manager. ✓ At least three (3) written quotations must be obtained from suppliers registered on the Institution's Suppliers Database. ✓ If only one or two suppliers are available, Preapproval by CFO must be obtained prior to the purchase order. Operations to ascertain that all suppliers on the Database has been invited to quote. ✓ Awarded to the lowest acceptable quote.
3.	Level 3: Procurement for an estimated value of more than R10 000 up to R30 000 (including VAT) per case.	General Manager	R30 000	✓ Authority to procure may not be delegated to an official lower than a General Manager. ✓ At least three (3) written quotations must be obtained from suppliers registered on the Institution's Suppliers Database. ✓ Where there is less than (3) quotations the CFO must pre approve. ✓ Awarded to the lowest acceptable quote. ✓ PPPFA does not apply.
4.	Level 4: Procurement for an estimated value of more than R30 000 up to R200 000 (including VAT) per case.	General Manager	R200 000	✓ Authority to procure from R30 001 up to R200 000 may not be delegated to an official lower than a General Manager.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
				✓ Procurement above R30 000 must be advertised for a period of seven (7) days on the Municipal Notice Board and Website. ✓ The successful Supplier/Service Provider is the one that scores the highest points for Price (80) and Preference Points (20) in terms of the PPPFA, provided that all minimum and functionality criteria have been met in terms of the approved specification. ✓ PPPFA shall apply.
5.	Level 5: Procurement for an estimated value of more than R200 000 (including VAT) per case.	AO	Above R200 000.00	✓ The Competitive Bidding process must be used for ALL bids. ✓ Public Invitation of the Bid for 14 days, or 30 days if transaction value exceeds R10m. ✗ Bids must be invited publicly in at least one local newspaper . ✓ Bid Specifications must be approved by the BSC prior to advertising. ✓ All bids are evaluated by the BEC and a report is submitted to the BAC recommending the successful bidder. ✓ All bids are adjudicated by the BAC and a recommended award is submitted to the AO or his delegate for approval and award.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
6.	Exceptional And Emergency Cases (in terms of section 34 of this policy)	AO	Unlimited	✓ Goods and/or services may be procured, by making use of suppliers registered on the Institution's Suppliers Database. ✓ In these cases it is permissible to invite at least three verbal or written quotations (where practical). The relevant suppliers must confirm their offers in writing within 2 days of verbal quotations. ✓ Where only one quotation is received and accepted, and taking the circumstances into account, all reasonable steps must be taken to ensure that a fair (market related) price is obtained. ✓ The conditions contained in the General Conditions of Contract must be made applicable to the purchase. ✓ The reasons for the urgency or emergency and the losses or consequences that will follow if action was not taken must be recorded and must serve as the basis for a written motivation as to why it is impractical to invite competitive bids. ✓ Such written motivation must be approved by the Accounting Officer or his/her delegate. ✓ The standard deviation form must be completed and approved by the AO or his delegate.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
7.	Sole Supplier	AO	Unlimited	✓ Where a bid is invited from a sole agent or supplier, provision must be made in the bid documents for the inclusion of particulars in order to determine the reasonableness of the price(s). ✓ All sole supplier bids shall be approved in writing by the Supply Chain Manager, or the Chief Financial Officer if the transaction value exceeds R100 000. ✓ Original tax clearance certificates should be a pre-requisite for award. ✓ Sole supplier bids may be accepted; provided it complies with the specification and that the prices are proved to be and are certified as fair and reasonable. Proof of reasonableness must be determined in the following sequence: (i) Comparison with prices, after discounts, to other clients and the relative discount that the Municipality enjoys. (ii) Where this is not possible, profit before tax, based on a full statement of relevant costs. (iii) In all cases, comparison with previous bid prices where these are available. (iv) Proof of reasonableness of prices where only one bid is received, must be available for audit purposes.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
8.	Variation Orders/ Contingencies/ Extensions to Contracts	AO	R20 Million	✓ Contracts may be expanded or varied by not more than 20% or R20 million (including all applicable taxes) for construction related goods, works and/or services and 15% or R15 million (including all applicable taxes) for all other goods and/or services of the original value of the contract, whichever is the lower amount. ✓ All variations must be recommended by the relevant management prior to seeking the approval of the AO. ✓ Extensions to any contracts on a month to month basis must not exceed a period of 6 months. ✓ All variations must be reported to Council.
10.	Negotiations	AO	Unlimited	✓ The AO may delegate a Negotiating Team as in when negotiating is required. ✓ The negotiation in terms of price quotations must be conducted in a formal sitting with all nominated Suppliers/ Service Providers that have been invited for purposes of fairness and equality. ✓ The Accounting Officer may ✓ Where a bid is invited from a sole agent or supplier, negotiation may take place so as to obtain the best possible price and quality for the required goods and/or services.

No	Scope	Responsible Official	Threshold Value	Conditions Applicable To Delegation
				✓ Any discounts received conditionally as a result of negotiations must adhere to Regulation 11 of the Preferential Procurement Regulations. ✓ Other acceptable means of negotiations with Suppliers/ Service Providers will include confirmation of specifications, deliverables, scope of work, implementation plans, project charters, catalogues, performance standards, packaging, delivery, warranties, guarantees, payment terms and milestones, penalties, responsibilities of the Institution and vendor, monitoring mechanisms, etc.

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

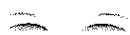
- (5) Subparagraphs (3) and (4) of this policy do not apply to procurements out of petty cash.
- (6) This paragraph may not be interpreted as permitting an official to whom the power to make final awards has been sub delegated, to make a final award in a competitive bidding process otherwise than through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

8. Oversight role of council

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

9. Supply chain management unit

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



10. Training of supply chain management officials

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

CHAPTER 2

SUPPLY CHAIN MANAGEMENT SYSTEM

11. Format of supply chain management system

This Policy provides systems for –

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

Part 1: Demand management

12. System of demand management

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

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

Part 2: Acquisition management

13. System of acquisition management

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

14. Range of procurement processes

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

(ii) the procurement of long term contracts.

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

15. General preconditions for consideration of written quotations or bids

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

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

16. Lists of accredited prospective providers

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

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

Registration on National Treasury Central Supplier Database (CSD)

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

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

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

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

- BBBEE Status
- CIDB
- Municipal Account status.

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



17. Petty cash purchases

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

18. Formal written price quotations

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

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

- (1) The accounting officer should appoint quotation committees as indicated below:
 - a) Mini Tender Evaluation Committee; and
- (2) **Appointment of Mini Tender Evaluation Committee**
 The Accounting Officer must appoint members of the Mini Tender Evaluation Committee in writing. The term of office of the Mini Tender Evaluation Committee should be for the financial year.

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

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

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

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

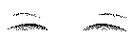
- a) Verification of administrative compliance of the quotation documents.
- b) If less than three quotations were obtained that would require the CFO to pre approve before the process continues.
- c) Evaluation of quotations in accordance with the criteria specified in the invitation to quote documents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

(5) **Decisions**

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

Criteria for breaking deadlock in scoring

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



th+++9drawing of lot

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

(10) Participation of advisors

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

(11) General

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

20. Competitive bids

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

21. Process for competitive bidding



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

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

22. Bid documentation for competitive bids

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

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

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

23. Public invitation for competitive bids

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

24. Procedure for handling, opening and recording of bids

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

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

25. Negotiations with preferred bidders

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

26. Two-stage bidding process

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

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

27. Committee system for competitive bids

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

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

(6) Bid evaluation committee

a) Appointment of bid evaluation committee

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

b) Composition of Bid Evaluation Committee

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



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

c) Functions of the Bid Evaluation Committee

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

(7) Bid Adjudication Committee

a) Appointment of Bid Adjudication Committee

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

- (ix) The Accounting Officer/Authority may at any given time replace person for management reasons.
- (x) The functions of BAC should form part of member's performance agreements.

b) Composition of the Bid Adjudication Committee

- (i) The committee must consist of at least five (5) senior officials constituted as follows:
 - ✓ CFO, as the chairperson of the committee (where possible);
 - ✓ Deputy Chairperson: an official at least at a general management level;
 - ✓ Two other Municipal Officials (Permanent members); and
 - ✓ Head of the SCM Unit is (Permanent member);
- (ii) For the purposes of continuity and not to delay meetings, the AO may also appoint a "secundus" to temporarily replace a member who is absent from meetings due to illness or leave. The AO shall also decide whether or not such "secundus" will have the same powers as members.
- (iii) No external people should serve permanently on the adjudication Committee.

c) Functions of the Bid Adjudication Committee

- (i) Consider the reports and recommendations made by the bid evaluation committee.
- (ii) Depending on the delegations granted by the accounting officer/authority the adjudication committee could make the final award of the bid, or make a recommendation to the accounting officer to make the final award.
- (iii) Recommend to the Accounting Officer/Authority the extensions of contracts and deviations if reasonable and justifiable grounds exist.
- (iv) In performing their functions: -
 - ✓ Committee members should be guided by all the applicable SCM, procurement legislations, policies and directives.
 - ✓ Members must declare interest in any specific bid/point on the agenda up front and such member must automatically recuse him/herself from participating in discussions unless the committee decides otherwise.
 - ✓ If a bid adjudication committee decides to award a bid to a bidder other than the one recommended by the Evaluation Committee, the Bid adjudication committee must consult with the Accounting Officer before a final decision is taken.
 - ✓ Accounting Officer /Authority may confirm or vary a recommendation by an Adjudication Committee. In cases where he/she varies with the BAC recommendations reasons should be furnished in writing and reported to the Provincial Treasury within a prescribed period

of seven (7) days.

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

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

(8) Role of the secretariat

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



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

(9) General

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

28. Procurement of banking services

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

29. Procurement of IT related goods or services

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

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

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

31. Procurement of goods necessitating special safety arrangements

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

32. Proudly SA Campaign

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



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

33. Appointment of consultants

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

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

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

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

35. Unsolicited bids

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

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

36. Combating of abuse of supply chain management system

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

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

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

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

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

37. Preferential Procurement Implementation Guidelines

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



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

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

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- (1) The Ugu District Municipality has committed itself to the following key priorities with respect to all procurement dealings:
 - (i) Providing second economy opportunities through Black Economic Empowerment;
 - (ii) Increased usage of local resources and emerging contractors;
 - (iii) Promoting growth and ensuring sustainable SMME's;
 - (iv) Contributing to socio-economic transformation;
 - (v) Creation of opportunities for job creation and poverty alleviation;
 - (vi) Commitment to skills development and transfer; and
 - (vii) Fast tracking service delivery.

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

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

and

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

(4) Preference points system:

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

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

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

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

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

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

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

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

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

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

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

Pre-qualification Criteria For Preferential Procurement

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

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

(7) Bids Based On Functionality as a Criterion

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

(8) Local Production and Content

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

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

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

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

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

Where

x = imported content

y = bid price excluding value added tax (VAT)

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

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

Non-Designated Sectors

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

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

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

✓ of Trade and Industry (DTI) as follows:

Ms Basani Baloyi

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

Fax: (012) 394 2851

E-mail: BBaloyi@thedti.gov.za

Local Production and Content:

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

(9) Services Rendered by Tertiary Institutions and Public Entities

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

(10) Discounts

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

(11) Sub-Contracting



Subcontracting as the condition of tender:

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

Subcontracting after an award of tender

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

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

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

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

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

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

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

Ps = percentage scored for functionality by bid under consideration
 So = total score of bid under consideration
 Ms = maximum possible score

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

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

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

(13) The Preference Point System

(i) Step 1: Calculation of points for price

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

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

Figure 1: B-BBEE Status Level of Contributor

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

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

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

(14) Evaluation of Bids that Scored Equal Points

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

(15) Cancellation and Re-Invitation of Bids

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

(21) Sale and Letting of Assets

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

(22) SMME Status Table

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

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

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

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

Part 3: Logistics, Disposal, Risk and Performance Management

38. Logistics management

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

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

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

39. Disposal management

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

40. Risk management

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

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

41. Performance management

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

Part 4: Other matters

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

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

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

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

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

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

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

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

45. Code of conduct

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

(2) **General Principles**

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

(3) **Conflict of interest**

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

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

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

(4) Accountability

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

(5) Openness

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

(6) Confidentiality

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

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

(7) Bid Specification / Evaluation / Adjudication Committees

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

(8) Combative Practices

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

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

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

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

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

(2) Exclusions:

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

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

47. Sponsorships

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

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

48. Objections and complaints

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

49. Resolution of objections and complaints against procurement process

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

b) no response is forthcoming within 60 days.

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

50. Municipal Bid Appeals Tribunal

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

51. Contracts providing for compensation based on turnover

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

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

52. Roles and responsibilities

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



53. Monitoring and evaluation

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

54. Annual review and amendments to the policy

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

55. Commencement of the policy

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

56. Council approval

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

UGU DISTRICT MUNICIPALITY

ASSETS MANAGEMENT POLICY

1. INTRODUCTION

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

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

2. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

2.12. Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

2.13. Depreciable amount is the cost of an asset, or other amount of an asset, or other amount substituted for cost in the financial statements, less its residual value.

2.14. Economic Life is either:

2.14.1. the period over which an asset is expected to yield economic benefits or service potential to one or more users, or

2.14.2. the number of production or similar units expected to be obtained from the

2.14.3. asset by one or more users

2.15. Enhancement/Rehabilitation is an improvement or augmentation of an existing asset (including Separately depreciable parts) beyond its originally recognised service potential for example, remaining useful life, capacity, quality, and functionality

2.16. Fair value is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

2.17. Financial asset register is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy. is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.

2.18. Financially Sustainable, in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of—the initial capital expenditure required for the service; operating the service; and maintaining, repairing and replacing the physical assets used in the provision of the service

2.19. Property, plant, and equipment are tangible assets that: *Are held by a municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purpose, and are expected to be used during more than one period.*

2.20. Recoverable amount is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal. is the higher of a cash-generating asset's or units net selling price and its value in use.

2.21. Recognition is the process by which expenditure is included in the Financial Asset Register as an asset.

- 2.22. Recognition** is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely:
- 2.22.1.** It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and
 - 2.22.2.** The item has a cost or value that can be measured reliably
- 2.23. Refurbishment/Maintenance** to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved
- 2.24. Residual value** is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal. is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life
- 2.25. Remaining Useful Life** is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness
- 2.26. Service Potential** is a tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life
- 2.27. Stewardship** is the act of taking care of and managing property, plant or equipment on behalf of another.
- 2.28. Useful life** is either:
- 2.28.1.** *The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality, or*
 - 2.28.2.** *The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality.*

3. POLICY OBJECTIVES

- 3.1.** To ensure the effective and efficient control, utilization, safeguarding and management of Ugu District Municipality's property, plant, and equipment.
- 3.2.** To ensure Senior managers are aware of their responsibilities in regards of infrastructure assets.
- 3.3.** To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilisation.
- 3.4.** To specify the process required before expenditure on property, plant and equipment occurs.
- 3.5.** To prescribe the accounting treatment for property, plant and equipment in Ugu District Municipality including:
 - 3.5.1.** The criteria to be met before expenditure can be capitalised as an item of property, plant, and equipment,
 - 3.5.2.** The criteria for determining the initial cost of the different items of property, plant, and equipment,

- 3.5.3. The method of calculating depreciation for different items of property, plant, and equipment,
- 3.5.4. The criteria for capitalising subsequent expenditure on property, plant, and equipment,
- 3.5.5. The policy for scrapping and disposal of property, plant, and equipment,
- 3.5.6. The classification of property, plant, and equipment

4. PRESCRIPTIVE/LEGAL FRAMEWORK

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

- 4.1.1. The constitution of the republic of south Africa, 1996
- 4.1.2. Municipal systems act, 2000
- 4.1.3. Municipal Finance Management Act

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

- 4.2.1. Supply Chain Management Policy
- 4.2.2. Asset Management Policy
- 4.2.3. Disposal Policy
- 4.2.4. Fleet Management Policy
- 4.2.5. Insurance Policy
- 4.2.6. Security Policy
- 4.2.7. Facilities Management Policy

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

- 4.3.1. Property, Plant and Equipment, GRAP 17
- 4.3.2. Inventories, GRAP 12
- 4.3.3. Investment Property, GRAP 16 and
- 4.3.4. Impairment of Non-cash generating assets, GRAP 21

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

5. POLICY APPLICATION

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

6. ROLES AND RESPONSIBILITIES

6.1. **The Municipal Manager**

- 6.1.1. is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.
- 6.1.2. Shall ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- 6.1.3. Shall ensure that the municipality's assets are valued in accordance with standards of generally recognized accounting practice
- 6.1.4. Shall ensure that the municipality has and maintains a system of internal control of assets, including an asset register; and

- 6.1.5. Shall ensure that the General Managers and their departments comply with this policy
- 6.1.6. Shall ensure that all items of property plant and equipment are insured immediately at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.
- 6.1.7. Shall recommend to the Council of the Municipality, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of asset: either the carrying value or the replacement value of the assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.

6.2. The Chief Financial Officer.

- 6.2.1. The CFO shall be the custodian of the fixed asset register of the Municipality;
- 6.2.2. No amendments, deletions or additions to the fixed asset register shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer.
- 6.2.3. Appropriate systems system of financial management and internal control are established and carried out diligently around asset management;
- 6.2.4. Shall ensure that the financial and other resources of the municipality are utilized effectively, efficiently, economically, and transparently;
- 6.2.5. Shall ensure that any unauthorized, irregular, or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- 6.2.6. Shall provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Fixed Asset Register.
- 6.2.7. Shall ensure that financial processes are established and maintained ensure the municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- 6.2.8. Shall ensure that the municipal manager is appropriated advised on the exercise of powers and duties pertaining to the financial administration of assets;
- 6.2.9. Shall ensure that this policy and any supporting procedures or guidelines are established, maintained, and effectively communicated

6.3. Asset Manager:

- 6.3.1. Shall ensure that complete asset registers kept, verified, and balanced regularly.
- 6.3.2. Shall ensure that all movable and immovable assets are properly bar coded and accounted for.
- 6.3.3. Shall ensure that quarterly physical verification for movable assets are conducted
- 6.3.4. Shall ensure that annual physical verification for immovable assets are conducted.
- 6.3.5. Shall ensure that adequate bar codes and equipment to exercise the function relating to asset management is available at all times.
- 6.3.6. Shall ensure that all assets are insured in accordance with the Insurance Policy.
- 6.3.7. Shall ensure that the Fixed Asset Register is balanced quarterly and annually with the general ledger and the Trial balance/financial statements.
- 6.3.8. Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the Budget Treasury Office department in the prescribed format.
- 6.3.9. Shall ensure that asset acquisitions are allocated to the correct asset code.

- 6.3.10. Shall ensure that, before accepting an obsolete or damaged asset, a completed asset disposal form, counter signed by the Asset Management Section, is presented.
- 6.3.11. Shall ensure that a verifiable record is kept of all obsolete, damaged, and unused asset or asset inventory items received from all the departments.
- 6.3.12. shall issue an asset control sheet which shall serve as a control register for all moveable assets of the Municipality. The responsible official shall sign the asset control sheet to confirm the receipt and custody of the list of assets in their offices.
- 6.3.13. Shall compile a list of the items to be auctioned in accordance with the Supply Chain Management (SCM) Policy.
- 6.3.14. Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- 6.3.15. Shall ensure that the SCM unit is notified of any auctioning or disposing of written-off asset.

6.4. General Managers

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

6.5. General Manager responsible for Infrastructure Assets.

- 6.5.1. Shall ensure that a maintenance policy is approved and properly implemented.
- 6.5.2. Shall develop a maintenance plan for the infrastructure assets for their section.
- 6.5.3. Shall ensure that their departments had implemented operational procedures.
- 6.5.4. Shall ensure that assets are properly maintained in accordance with the maintenance policy.
- 6.5.5. Shall ensure that the assets of the council are not used for private gain.
- 6.5.6. Shall ensure that all their movable assets as reflected on the Fixed Asset Register and are bar coded where possible.
- 6.5.7. Shall ensure that the Asset Management Section is notified of any changes in the status of the assets under the department's control.
- 6.5.8. Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
- 6.5.9. Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Section without delay.

- 6.5.10. Shall ensure that the correct cost element and description are being used before authorizing any requisitions.
- 6.5.11. Shall assist during the annual physical verification of infrastructure assets including the land and building.
- 6.5.12. Shall develop an infrastructure assets management plan for their department such as Water supply, Sanitation, Solid waste, and other Properties.
- 6.5.13. Shall unbundled or componentized and assign estimated useful life to each component of all completed projects during the financial year and submit the componentized list to the Asset Management Unit for updating the asset register.
- 6.5.14. Shall sign and date declarations stating that the list of componentized assets for their departments is complete & accurate except for the discrepancies as reported to Asset Management Unit.

6.6. All Municipal Personnel

- 6.6.1. Shall ensure that assets assigned to them are utilized effectively, efficiently, economically, and transparently
- 6.6.2. Shall ensure that the assets of the municipal are not used for private gain
- 6.6.3. Shall notify the assets coordinators and assets management section of all obsolete, damaged, and stolen assets, without delay.
- 6.6.4. Shall make available the assets under their possession for verification by the assets management unit quarterly and annually.
- 6.6.5. Shall ensure that all assets under their possession are properly bar-coded.
- 6.6.6. Shall ensure that on termination of service they returned the assets to their supervisors and complete a termination assets clearance form.
- 6.6.7. Shall notify the asset coordinators and assets management unit of the movement and transfer of assets assigned to them by completing an assets transfer form.
- 6.6.8. Shall ensure that they comply with the operational procedures.

7. POLICY PRINCIPLES: ASSET MANAGEMENT PART

7.1. Pre-Acquisition Planning:

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

7.2. Approval to Acquire Property Plant and Equipment:

7.2.1. Money can only be spent on a capital project if:

- 7.2.1.1.** The money has been appropriated in the capital budget,
- 7.2.1.2.** The project, including the total cost, has been approved by the council,
- 7.2.1.3.** The CFO confirms that funding is available for that specific project, and
- 7.2.1.4.** Any contract that will impose financial obligations beyond two years after the budget year must be appropriately disclosed.
- 7.2.1.5.** Acquisition of the Assets will then follow the normal process of the Supply Chain
- 7.2.1.6.** Management Policy and Procedures

7.3. Funding of capital projects

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

7.4. Disposal of property plant and equipment

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

7.5. Establishment and Management of the Financial Asset Register

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

7.6. Contents of the Financial Asset Register

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

7.6.2.11. the (last) effective date of revaluation of the fixed assets subject to revaluation

7.6.2.12. the revalued value of such fixed assets

7.6.2.13. the valuer who did the (last) revaluation

7.6.2.14. accumulated depreciation to date

7.6.2.15. the carrying value of the asset

7.6.2.16. whether this is a cash or non-cash generating asset

7.6.2.17. the method and, where applicable, the rate of depreciation

7.6.2.18. impairment losses

7.6.2.19. impairment recovery

7.6.2.20. the source of financing

7.6.2.21. whether the asset is required to perform basic municipal services;

7.6.2.22. the date on which the asset is disposed of

7.6.2.23. the disposal proceeds

7.6.2.24. the date on which the asset is retired from active use, and held for disposal

7.6.2.25. the residual value of each asset

7.6.2.26. measurement model

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

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

7.7. Physical Verification of all assets

7.7.1. The Asset Management Section shall conduct a physical verification quarterly for movable assets and annually for immovable assets.

7.7.2. The cooperation of all Municipal personnel shall be required in accomplishing the physical Verification task in attempt to minimize the time demanded of them.

7.7.3. The designated officials in the different Departments within municipality must execute the functions listed below:

7.7.3.1. Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included

7.7.3.2. Complete the asset movement form when transfers occur and forward the completed original form to Asset Management Section.

7.7.3.3. Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.

7.8. Classification, aggregations & components

7.8.1. Classification of Assets

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

7.8.2. Major Component

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

8. POLICY PRINCIPLES: ACCOUNTING POLICY PART:

8.1. Recognition of Assets

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

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

8.2. Measurement at recognition.

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

8.3. *Elements of cost*

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

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

8.4. *Measurement after recognition*

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

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

8.5. *Initial determination useful life*

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

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

- 8.5.1.1.1. The operational, maintenance, renewal and disposal program that will optimize the expect long term costs of owning that asset,
- 8.5.1.1.2. economic obsolescence because it is too expensive to maintain,
- 8.5.1.1.3. functional obsolescence because it no longer meets the municipalities needs,
- 8.5.1.1.4. technological obsolescence,
- 8.5.1.1.5. social obsolescence due to changing demographics, and
- 8.5.1.1.6. Legal obsolescence due to statutory constraints

8.6. Rate of depreciation

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

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

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

8.8. Review of depreciation method

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

8.9. Alternative methods of depreciation in specific instances

- 8.9.1. The Chief Financial Officer may employ the sum-of-units method of depreciation in the case of assets which are physically wasted in providing economic benefits or delivering services.
- 8.9.2. The Chief Financial Officer shall only employ this method of depreciation if the Head of Department controlling or using the asset in question gives a written undertaking to the Municipal Manager to provide:

8.9.2.1. estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation expenses for each financial year; and

8.9.2.2. actual statistical information, for each financial year.

8.9.3. The Head of Department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.

8.9.4. Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the Chief Financial Officer shall inform the Council of the Municipality of the decision in question.

8.10. *Subsequent expenditure on property plant and equipment*

8.10.1. Assets are often modified during their life. There are two main types of modification:

8.10.1.1. Enhancements / Rehabilitation:

8.10.1.1.1. This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset, and or may extend an asset's useful life and result in an increase in value.

8.10.1.1.2. These expenses are not part of the life cycle of the asset. These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances.

8.10.1.1.3. Disbursements of this nature relating to an asset, which has already been recognized in the financial statements, should be added to the carrying amount of that asset. The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the Council over the remaining life of the asset.

8.10.1.1.4. To be classified as capital spending, the expenditure must lead to at least one of the following economic effects:

8.10.1.1.4.1. Modification of an item or plant to extend its useful life, including an increase in its capacity;

8.10.1.1.4.2. Upgrading machine parts to achieve a substantial improvement in the quality of output;

8.10.1.1.4.2.1. Adoption of new production processes enabling a substantial reduction in previously assessed operating costs;

8.10.1.1.4.2.2. Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift;

8.10.1.1.4.3. Improve the performance of the asset

8.10.1.1.5. Expenditure related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future

economic benefits or service potential that a municipality can expect from the asset.

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

8.10.1.2. *Maintenance / Refurbishments*

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

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

8.11. IMPAIRMENT OF ASSETS

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

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

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

8.11.4. External indicators

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

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

8.11.5. Internal indicators

8.11.5.1. Evidence is available of physical damage of an asset

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

belongs or plans to dispose of an asset before the previously expected date

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

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

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

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

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

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

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

8.12. Derecognition Of Assets

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

8.12.1.1. a) On disposal, or

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

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

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

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

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

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

8.13. Other write-offs of assets

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

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

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

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

9. Financial Disclosure

9.1. The financial statements shall disclose, for each class of property, plant, and equipment recognised in the financial statements:

- 9.1.1.** the measurement bases used for determining the gross carrying amount,
- 9.1.2.** the depreciation methods used,
- 9.1.3.** the useful lives or the depreciation rates used,
- 9.1.4.** the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and
- 9.1.5.** a reconciliation of the carrying amount at the beginning and end of the period showing:

- 9.1.5.1.** additions,
- 9.1.5.2.** disposals,
- 9.1.5.3.** acquisitions through business combinations,
- 9.1.5.4.** increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in net assets under the Standard of GRAP on Impairment of Assets, impairment losses recognised in surplus or deficit in accordance with the Standard of GRAP on Impairment of Assets,
- 9.1.5.5.** impairment losses reversed in surplus or deficit in accordance with the Standard of GRAP on Impairment of Assets,
- 9.1.5.6.** depreciation,

9.2. The financial statements shall also disclose for each class of property, plant, and equipment recognised in the financial statements:

- 9.2.1. the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities,
- 9.2.2. the amount of expenditures recognised in the carrying amount of an item of property, plant, and equipment in the course of its construction,
- 9.2.3. the amount of contractual commitments for the acquisition of property, plant, and equipment, and
- 9.2.4. If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.
- 9.2.5. If items of property, plant and equipment are stated at revalue amounts, the following shall be disclosed:
 - 9.2.5.1. the effective date of the revaluation,
 - 9.2.5.2. whether an independent valour was involved,
 - 9.2.5.3. the methods and significant assumptions applied in estimating the items' fair values,
 - 9.2.5.4. the extent to which the items' fair values were determined directly by
 - 9.2.5.4.1. reference to observable prices in an active market or recent market
 - 9.2.5.4.2. transactions on arm's length terms or were estimated using other
 - 9.2.5.4.3. valuation techniques,
 - 9.2.5.4.4. for each revalue class of property, plant, and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model, and
 - 9.2.5.4.5. The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.
- 9.2.6. Financial statements shall also disclose the following for each class of property, plant, and equipment:
 - 9.2.6.1. The carrying amount of temporarily idle property, plant, and equipment,
 - 9.2.6.2. The gross carrying amount of any fully depreciated property, plant and equipment that is still in use, and
 - 9.2.6.3. The carrying amount of property, plant and equipment retired from active use and held for disposal.
- 9.2.7. The financial statement shall disclose the following for each class of intangible assets, distinguishing between the internally generated intangible assets and other intangibles assets:
 - 9.2.7.1. Whether the useful lives are indefinite or finite and, if finite, the useful
 - 9.2.7.2. Lives or the amortisation rates used.
 - 9.2.7.3. The amortisation methods used for intangible assets with finite useful lives.
 - 9.2.7.4. The gross carrying amount and any accumulated amortisation
 - 9.2.7.5. (Aggregated with accumulated impairment losses) at the beginning and end of the period.
 - 9.2.7.6. The line item(s) of the statement of financial performance in which any amortisation of intangible assets is included.
 - 9.2.7.7. A reconciliation of the carrying amount at the beginning and end of the period showing:
 - 9.2.7.7.1. additions, indicating separately those from internal development and those acquired separately;

- 9.2.7.7.2. disposals;
- 9.2.7.7.3. assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the Standard of GRAP on Non-Current Assets Held for Sale and Discontinued Operations;
- 9.2.7.7.4. increases or decreases during the period resulting from revaluations under paragraphs .78, .88 and .89 and from impairment losses recognised or reversed directly in net assets in accordance (if any) with the Standards of GRAP on Impairment of Assets;
- 9.2.7.7.5. impairment losses recognised in surplus or deficit during the period in accordance (if any) with the Standards of GRAP on Impairment of Assets;
- 9.2.7.7.6. impairment losses reversed in surplus or deficit during the period in accordance (if any) with the Standards of GRAP on Impairment of Assets);
- 9.2.7.7.7. any amortisation recognised during the period; net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and
- 9.2.7.7.8. Other changes in the carrying amount during the period.

10. MONITORING AND EVALUATION

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

11. COMMENCEMENT OF THE POLICY

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

12. AMENDMENT AND/OR ABOLITION

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

13. COMPLIANCE AND ENFORCEMENT

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

14. POLICY REVIEW

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

15. APPEAL PROCESS/ GRIEVANCE PROCEDURE

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

16. RECORDS OF APPROVAL

ANNEXURE A: ASSET USEFUL LIVES

1. INFRASTRUCTURE ASSETS

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

- | | |
|--|------|
| 1.1. WATER | |
| 1.1.1. Mains | (20) |
| 1.1.2. Supply and reticulation networks | (20) |
| 1.1.3. Reservoirs and storage tanks | (20) |
| 1.1.4. Meters | (15) |
| 1.1.5. Rights (that is, the right to draw water from a particular source belonging to another party) | (20) |
| 1.2. SEWERAGE | |
| 1.2.1. Sewer mains | (20) |
| 1.2.2. Outfall sewers | (20) |
| 1.2.3. Sewage purification works | (20) |
| 1.2.4. Sewerage pumps | (15) |
| 1.2.5. Sludge machines | (15) |
| 1.3. PEDESTRIAN MALLS | |
| 1.3.1. Footways | (20) |
| 1.3.2. Kerbing | (20) |
| 1.3.3. Paving | (20) |
| 1.4. SECURITY MEASURES | |
| 1.4.1. Access control systems | (5) |
| 1.4.2. Security systems | (5) |
| 1.4.3. Security fencing | (3) |

2. INVESTMENT ASSETS

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

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

3. **BUILDINGS**

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

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

4. **OTHER ASSETS**

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

4.1.1. **OFFICE EQUIPMENT**

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

4.1.2. **FURNITURE AND FITTINGS**

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

4.1.3. MOTOR VEHICLES

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

4.1.4. PLANT AND EQUIPMENT

4.1.4.1. Graders	(10-15)
4.1.4.2. Tractors	(10-15)
4.1.4.3. Mechanical horses	(10-15)
4.1.4.4. Farm equipment	(5)
4.1.4.5. Lawn mowers	(2)
4.1.4.6. Compressors	(5)
4.1.4.7. Laboratory equipment	(5)
4.1.4.8. Radio equipment	(5)
4.1.4.9. Firearms	(5)
4.1.4.10. Telecommunication equipment	(5)
4.1.4.11. Cable cars	(15)
4.1.4.12. Irrigation systems	(15)
4.1.4.13. Cremators	(15)
4.1.4.14. Lathes	(15)
4.1.4.15. Filling equipment	(15)
4.1.4.16. Conveyors	(15)
4.1.4.17. Feeders	(15)
4.1.4.18. Tippers	(15)
4.1.4.19. Pulverising mills	(15)

4.1.5. OTHER

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

UGU DISTRICT MUNICIPALITY

“The Municipality”



VIREMENT POLICY

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

1. **DEFINITIONS**

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

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

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

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

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

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

“Vote” means

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

2. **OBJECTIVES OF THE POLICY**

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

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

3. **LEGISLATIVE FRAMEWORK**

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

4. **DETERMINATION OF VOTE**

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

5. **AUTHORISATION OF VIREMENTS**

- 5.1 A transfer of funds from one line item to another under this Policy may, subject to the provisions of this Policy, be authorised as follows:
 - a) If the amount does not exceed R1 000 000.00 the transfer may be authorised by the Chief Financial Officer of the Municipality or the Accounting Officer of the Municipality after consultation with the Chief Financial Officer;
 - b) If the amount exceeds R1 000 000.00 but does not exceed R5 000 000.00 the transfer may be authorised by the Accounting Officer after consultation with the Chief Financial Officer;

- c) The Mayor may authorise expenses in an emergency, or other exceptional circumstances and the adjustment budget must be passed during the adjustment period after the expenses were incurred.
- d) Notwithstanding the provisions of 5.1.a, a transfer of funds between cost or functional centres within a particular Vote/Department may not be authorised by the Chief Financial Officer but may only be authorised by:
 - a) The Accounting Officer, if the amount does not exceed the amount of R5 000 000.00

6. **RESTRICTIONS ON AMOUNT OF VIREMENTS**

- 6.1 Notwithstanding the provisions of section 5:
 - 6.1.1 The total amount transferred from and to line items within a particular vote in any financial year may not exceed 40 % of the amount allocated to that vote;
 - 6.1.2 The total amount transferred from and to line items in the entire budget in any financial year may not exceed 25 % of the total operating budget for that year;
- 6.2 A transfer which exceeds, or which would result in the exceeding of any of the limits referred to in 6.1 above may, however, be performed if the Council by resolution approves thereof.
- 6.3 No transfer of funds shall be made if such transfer would constitute a transgression or contravention of any statute, regulation or other law, any policy, directive or guideline binding upon the Municipality, or the avoidance by the Municipality of any obligation imposed upon it by contract or any other cause.

7. **MANAGEABLE GROUPS OF REVENUE**

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

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

Head Of Department's are responsible for all grants and donations which are budgeted for under their departments. They must report any deviations to the Chief

Financial Officer or the budget office in writing. They must seek reasons for deviations from the responsible donor or the transferring sector departments.

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

8. NON-MANAGEABLE GROUPS OF REVENUE AND EXPENDITURE

No funds Transfers can be made on these groups:-

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

9. OPERATING BUDGET VIREMENTS

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

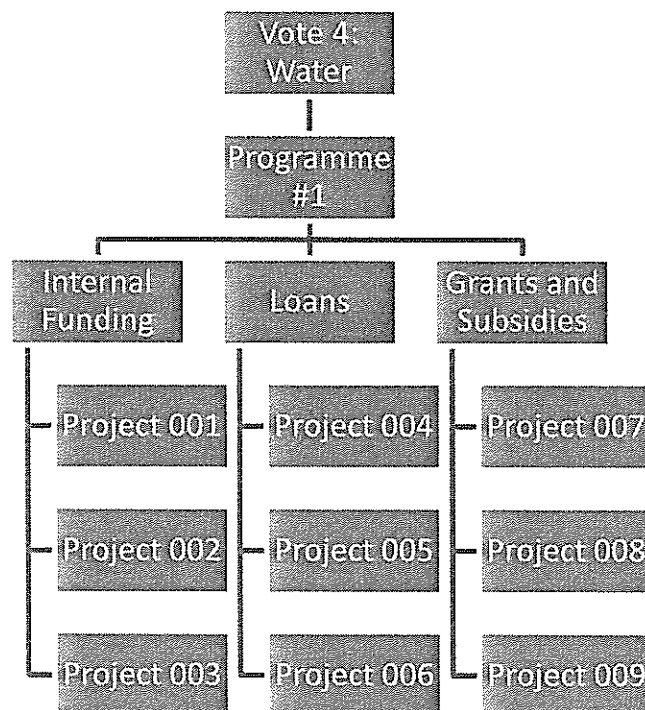
Funds transfer can take place within these groups provided the total approved budget allocation per vote is not exceeded. In order for an account to transfer funds from one item to another, there must be identified savings within the limitations of the approved budget for that group. These must be clearly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

- 9.2 All requests for the transfer of funds must be in writing using the prescribed request forms in Appendix A and B, and must be properly authorised by the Manager and General Manager responsible for that vote and the Chief Financial Officer as per the set limits.
- 9.3 The prescribed request form shall include, but not limited to, provisions for the following:
- a) The name of the department concerned;
 - b) Descriptions of the line items from and to which the transfer is to be made;
 - c) The amount of the proposed transfer;
 - d) The cause of the saving in the line item from which the transfer is to be made;

- e) The justification for the transfer;
- f) A description of any consequences that such transfer may have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan.

- 9.4 Each Head Of Department is responsible for his/her own operational budget and must ensure that all expenditure is contained to the approved allocations by Council.
- 9.5 Movement of funds from different sectors and categories will be attended to in the normal Adjustments Budget process annually in February.

10. CAPITAL BUDGET VIREMENTS



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

- 10.3 All requests must be in writing on the prescribed form in Appendix B and must be properly authorised by the responsible Manager, General Manager and the Chief Financial Officer.

11. **REVIEW OF POLICY**

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

12. **COMPLIANCE AND ENFORCEMENT**

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

13. **EFFECTIVE DATE**

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

14. **POLICY ADOPTION**

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

Resolution No:.....

Approval Date:.....