

CASH AND INVESTMENT POLICY

6 DELEGATION OF AUTHORITY

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

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

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

7 INVESTMENT ISSUE PERTAINING TO MUNICIPAL COUNCIL APPROVAL

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

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

Where payments to financial institutions in respect of investments are to be effected by cheque, the following procedures must apply:

- The Manager: Equity & Accounts must complete a cheque requisition form and submit it to the Municipal Manager and the Chief Financial Officer together with the supporting quotations,
- The Municipal Manager and the Chief Financial Officer must either authorize the requisition or submit it to the Municipal Council for authorization depending on the value of the investment,
- When the Municipal Council or the Municipal Manager have authorized the requisition, the Municipal Manager and the Chief Financial Officer or their delegated signatories are required to sign the cheque and submit it to the financial institution concerned.

All investment documents must be signed by two authorized cheque signatories.

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



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

8 MUNICIPAL ENTITIES

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

9 POLICY REVIEW

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

10 INTERNAL CONTROL PROCEDURES

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

Name of institution;

- Capital invested;
- Date invested;
- Interest rate; and
- Maturity date and
- Interests earned on investments.

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

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



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

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

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

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

The Chief Financial Officer or his/her assignee is responsible for ensuring that the invested funds have been invested with financial institutions approved by the Republic of South Africa: National Minister of Finance, Public Investors Commission or with a bank rating of AA and endeavour to minimize risk exposure.

11 REPORTING AND MONITORING PROCEDURES

The Municipal Manager must within 10 days of the end of each month submit to the Mayor or Finance, Budget Control & Monitoring Committee a report describing in detail the investment and cash flow position of the municipality as at the end of the month.

The report must contain a statement, prepared in compliance with generally recognized accounting principles/generally accepted municipal accounting principles, that states the:

- beginning market value for the period
- additions and changes to the market value during the period
- ending market value for the period
- fully accrued interest/yield for the reporting period
- the credit risk rating for the institutions whose securities are held by the municipality as at beginning and end of the reporting period
- investments disposed of due to adverse changes in credit ratings
- diversification of investments
- any investments locked into a time period with an institution that has a rating that is not acceptable according to Fitch, Naspers or CA-ratings.



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12 PERMITTED INVESTMENTS

The Republic of South Africa: National Minister of Finance may identify by regulation in terms of Section 168 of the Municipal Finance Management Act instruments or investments other than those referred to below in which Municipality may invest:

- Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- Securities issued by the National Government;
- Investments with the Public Investment Commissioners as contemplated by the Public Investment Commissions Act, 1984 (Act No. 5 of 1984);
- Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- Deposits with the corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984);
- Banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
- Municipal Bonds issued by a Municipality
- Guaranteed endowment policies with the intention of establishing a sinking fund; and
- Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)

13 EXISTING INVESTMENTS

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

14 INVESTMENT DIVERSIFICATION

The Chief Financial Officer must ensure that available money is not invested with one institution. Investment will be restricted to institutions with a minimum credit rating of [AA].

The maximum term for any investment, may be 2 years, other than ceded investments.

15 PERFORMANCE EVALUATION



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The performance of the Investment portfolio must be evaluated quarterly. The time weighted yield attributable to the investment portfolio must be calculated each quarter and compared with the prevailing returns available on securities issued by the National Government.

A report discussing the performance of the investment portfolio must be submitted to the Chief Financial Officer within 10 days of the end of each quarter.

16 USE OF INDEPENDENT INVESTMENT MANAGERS

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

17 CASH MANAGEMENT

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

18 UNALLOCATED RECEIPTS

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

19 PAYMENT OF CREDITORS

Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors to one payment per creditor per month. Should the facility be available, payments should be done by electronic transfer (subject to strict controls).

When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered.

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



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

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

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

21 MANAGEMENT OF STOCK

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

22 SHORT- AND LONG-TERM DEBT

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

22.1. SHORT-TERM DEBT

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

- 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



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

A municipality:

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

22.2. LONG-TERM DEBT

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

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

23. CONCLUSION

The Municipal Manager in particular and the Chief Financial Officer must ensure that the implementation of this policy is done according to the prescripts. Any deviations due to unforeseen circumstances must be brought to the attention of the Municipal Council in a written form and recommended remedial solutions thereof.



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Records of Approval

Meeting	Date	Resolution
Manco		
EXCO		
Revision 1_2013		
BTS Task Team		
Manco		
Extended Manco		
LLF		
Corporate Services Portfolio		
EXCO		



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FIXED ASSET MANAGEMENT POLICY

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MUNICIPAL FINANCE MANAGEMENT ACT 2003

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PART 1 DEFINITION OF A FIXED ASSET

A fixed asset is defined in GAMAP 17 as a tangible item of property, plant or equipment held by a municipality for use in the productions or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).

A fixed asset is thus an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

To be recognised as a fixed asset, an asset must also meet the criteria referred to in parts 13, 14 and 15 below.

Assets held under leases

Finance leases are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the FAR. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset registers of the municipality.

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PART 2 FUNCTIONAL RESPONSIBILITIES

The purpose of this section is to prescribe the responsibilities of the Municipality regarding assets as follows:

- 2.1. The Municipal Manager
- 2.2. The Treasury Section: Equity & Accounts.
- 2.3. The Budget Office
- 2.4. The Expenditure Section
- 2.5. The Supply Chain Management Section
- 2.6. Human Resources Section (HR)
- 2.7. Other Departments

2.1. The Municipal Manager

The Municipal Manager or his duly delegated representative is responsible to:

- a) Ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA).
- b) Verify assets in possession of the Council annually, during the course of the financial year.
- c) Keep a complete and balanced record of all assets in possession of the Council.
- d) Report in writing all asset losses, where applicable, to Council.
- e) Ensure that assets are valued and accounted for in accordance with GRAP.

2.2 The Treasury Section: Equity & Accounts.

The Treasury Section: Equity & Accounts:

- a) Shall ensure that complete records of asset items are kept, verified and balanced regularly,
- b) Shall ensure that all departments are doing annual asset verification. The results of this verification must be reported to the Municipal Manager or Council.
- c) The asset verification report shall –
 - i. Reflect a complete list of all assets found during the verification;

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- ii. Reflect whether appropriate records have been maintained reflecting what articles should have been found during verification
 - iii. Reflect any discrepancies between the articles found during verification and the record referred to in paragraph (b);
 - iv. Be submitted to the departments for comment on variances reflected
- d) Shall ensure that the Asset Register is balanced annually with the general ledger and the financial statements.
 - e) Shall ensure adequate bar codes and equipment to exercise the function relating to asset control are available at all times.
 - f) Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Asset Register.
 - g) Ensure that all audit queries are resolved in a timely manner.

2.3. The Budget Office:

The Budget Office:

- a) Shall ensure that a project is created for approved budgeted capital expenditure that clearly describes the item to be acquired. A clear description of the funding source is also required.
- b) Shall release capital funds only after receiving written authority and a clear and concise description of the item to be purchased.
- c) Shall ensure that any changes in the capital budget, with regards to funds transferred or project description changes are communicated to Treasury Section: Equity & Accounts.
- d) Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the Treasury Section in the prescribed format.

2.4. The Expenditure Section

The Expenditure Section:

- a) Shall ensure that invoices authorized for payment are matched to the goods received note before processing such payment.

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- b) Shall if any doubt exists as to whether the invoice is in accordance with policy, query the payment with the relevant department and shall not process a payment until the invoice meets the policy criteria

2.5. The Supply Chain Management Section

2.5.1 The Supply Chain Management Section:

- a) Shall ensure that the correct material group is allocated to asset acquisitions to enable the creation of the relevant work flow message.
- b) The bid committees must comply with and be constituted in accordance with the Supply Chain Management policy.

2.5.2 Expenditure Section: (Stores)

- a) Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset form and condemnation form, counter signed by Treasury Section: Equity & Accounts, are presented.
- b) Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from departments.
- c) Shall compile a list of the items to be auctioned in accordance with their guidelines and the prescriptions of the Treasury Section: Equity & Accounts.
- d) Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- e) Shall ensure that Budget Office is notified of any auctioning or disposing of written-off asset or asset inventory items.

2.6. Human Resources Section

Human Resources Section:

- a) Shall ensure that no monies are paid out on terminations of service without receiving the relevant asset resignation form signed off by the relevant department.
- b) Shall ensure that every asset resignation form is counter signed by the Treasury Section: Equity & Accounts before processing the termination of service.

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2.7. All other Departments

All Departments:

- a) Shall ensure that employees in their departments adhere to the approved Asset Management Policies and Procedures.
- b) Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in his/her department. Budget Office 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 Head of Department.
- c) Shall ensure that assets are properly maintained in accordance with their respective asset maintenance policy.
- d) Shall ensure that the assets and / or inventory items of the municipality are not used for private gain.
- e) Shall ensure that they budget for adequate funds for the purchase of bar coding equipment.
- f) Shall ensure that all their movable assets as reflected on the Asset Register and the Asset Inventory Register are bar coded.
- g) Shall ensure that The Budget Office is notified of any changes in the status of the assets under the departments. This must be done on the prescribed form and include the following:
 - Movements which relate to the writing-off of and transfer of assets (inter departmental transfers).
 - Changes in the estimated useful lives of assets for depreciation purposes.
 - The identification of impairment losses on assets by following the procedures as outlined in this policy document.
- h) Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
- i) Shall ensure that a complete asset verification of all inventory and asset items is done during the course of every financial year and that the results of the verification are reported to Budget Office.
- j) Shall ensure that all obsolete and broken inventory and asset items, accompanied by the relevant asset form and attached condemnation forms, are handed in to the inventory management section without delay.

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- k) Shall be responsible for maintaining and managing their own Departmental Asset Inventory Records (DIR) for items that will not be recorded in the Asset Register or Asset Inventory Register. These inventory assets are acquired via the operational budget. The information to be recorded in the DIR must include the description, quantity and location of the items.
- l) Shall ensure that the correct cost element and description are being used before authorizing any requisitions.
- m) The detailed projects as created must be categorized and clearly identified as follows:

Immovable Assets:

- Infrastructure assets
- Roads
- Buildings
- Land
- Pedestrian Malls
- Airports
- Recreational Facilities
- Security Measures
- Asset under construction (Only an asset after completion)
- Town Development
- Investment Properties

Movable Assets:

- Office Equipment
- Furniture and Fittings
- Bins and Containers
- Emergency Equipment
- Motor Vehicles
- Aircraft
- Watercraft
- Plant and Equipment
- Vehicles
- Furniture
- Plant
- Small Plant

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PART 3 FORMAT OF FIXED ASSET REGISTER

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 generally accepted municipal accounting practice (GAMAP) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset
- the department(s) or vote(s) within which the assets will be used
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- where applicable, the identification number, as determined in compliance with part 11 below
- the original cost, or the revalued amount determined in compliance with part 26 below, or the fair value if no costs are available
- the (last) revaluation date of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- who did the (last) revaluation
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation
- Accumulated impairment losses to date
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing
- the current insurance arrangements

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- whether the asset is required to perform basic municipal services
- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- the date on which the asset is disposed of
- the disposal price
- the date on which the asset is retired from use, if not disposed of.

All heads of department under whose control any fixed asset falls shall promptly provide the chief financial officer in writing with any information required to compile the fixed asset register, and shall promptly advise the chief financial officer in writing of any material change which may occur in respect of such information.

A fixed 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, whereafter it shall be appropriately capitalised as a fixed asset.

A fixed 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.

PART 4 CLASSIFICATION OF FIXED ASSETS

In compliance with the requirements of the National Treasury, the chief financial officer shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of departments shall in writing provide the chief financial officer with such information or assistance as is required to compile a proper classification:

PROPERTY, PLANT AND EQUIPMENT

- land (not held as investment assets)

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- infrastructure assets (assets which are part of a network of similar assets)
- community assets (resources contributing to the general well-being of the community)
- heritage assets (culturally significant resources)
- other assets (ordinary operational resources)

INVENTORY

- housing (rental stock or housing stock not held for capital gain)

INVESTMENT PROPERTY

- investment assets (resources held for capital or operational gain)

The chief financial officer shall adhere to the classifications indicated in the annexure on fixed asset lives (see part 33 below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

PART 5 INVESTMENT PROPERTY

Investment assets shall be accounted for in terms of IAS 40 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of position.

Investment assets shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

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Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

An expert valuer shall be engaged by the municipality to undertake such valuations unless available in-house.

If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – whereafter it shall be reclassified as an investment asset.

PART 6 FIXED ASSETS TREATED AS INVENTORY

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's statement of position.

Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

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PART 7 RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER

If no original costs or fair values are available in the case of one or more or all heritage assets, the chief financial officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned.

For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

PART 8 RECOGNITION OF DONATED ASSETS

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

PART 9 SAFEKEEPING OF ASSETS

Every head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.

In exercising this responsibility, every head of department 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.

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PART 10 IDENTIFICATION OF FIXED ASSETS

The municipal manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.

The identification system shall be determined by the municipal manager, acting in consultation with the chief financial officer and other heads of departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the municipality's audit report(s), and shall be decided upon within the context of the municipality's budgetary and human resources.

Every head of department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

PART 11 PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS

Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed 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.

PART 12 CAPITALISATION CRITERIA: MATERIAL VALUE

No item with an initial cost or fair value of less than R5 000 (five thousand rand) – or such other amount as the council of the municipality may from time to time determine on the recommendation of the municipal manager – shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

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Every head of department shall, however, ensure that any item with a value in excess of R250 (two hundred and fifty rand), and with an estimated useful life of more than one year, shall be recorded on a stocksheets. Every head of department shall moreover ensure that the existence of items recorded on such stocksheets is verified from time to time, and at least once in every financial year, and any amendments which are made to such stocksheets pursuant to such stock verifications shall be retained for audit purposes.

PART 13 CAPITALISATION CRITERIA: INTANGIBLE ITEMS

No intangible item shall be recognised as a fixed asset, except that the chief financial officer, acting in strict compliance with the criteria set out in IAS 38 (dealing with research and development expenses) may recommend to the council that specific development costs be recognised as fixed assets.

PART 14 CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES

Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, installation, assembly and communication costs.

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The following matrix will assist in distinguishing capital expenditure from maintenance expenditure: -

Capital Expenditure	Maintenance
<ul style="list-style-type: none"> ▪ Acquiring a new asset ▪ Replacing an existing asset ▪ Enhancing an existing asset so that its use is expanded ▪ Further developing an existing asset so that its original useful life is extended 	<ul style="list-style-type: none"> ▪ Restoring an asset so that it can continue to be used for its intended purpose ▪ Maintaining an asset so that it can be used for the period for which it was initially intended.

PART 15 MAINTENANCE PLANS

Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the council of the municipality for approval.

If so directed by the municipal manager, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

PART 16 DEFERRED MAINTENANCE

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 16 above), the chief

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financial officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the chief financial officer shall redetermine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

PART 17 GENERAL MAINTENANCE OF FIXED ASSETS

Every head of department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in part 16 and part 17 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

PART 18 DEPRECIATION OF FIXED ASSETS

All fixed assets, except land and heritage assets, shall be depreciated – or amortised in the case of intangible assets.

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.

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However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, deprecation charges shall be calculated monthly.

Each head of department, acting in consultation with the chief financial officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

PART 19 RATE OF DEPRECIATION

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 set out in the annexure to this document (see part 33 below).

In the case of a fixed asset which is not listed in this annexure, 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 fixed 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.

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PART 20 METHOD OF DEPRECIATION

Except in those cases specifically identified in part 23 below, the chief financial officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

PART 21 AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS

Only the chief financial officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the chief financial officer shall inform the council of the municipality of such amendment.

The chief financial officer shall amend the useful operating life assigned to any fixed 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.

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

Similarly, if a fixed asset 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 fixed asset has physically ceased to exist, it shall be written off the fixed asset register.

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In the all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

PART 22 ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES

The chief financial officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.

The chief financial officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the municipal manager to provide:

- estimates of statistical information required by the chief financial officer to prepare estimates of depreciation expenses for each financial year; and
- actual statistical information, for each financial year.

The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the chief financial officer.

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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.

PART 23 CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION

The chief financial officer shall ensure that in respect of all fixed assets financed from internal loans and advances, from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of fixed assets donated to the municipality, a non-distributable reserve for future depreciation is created equal in value to the capitalised value of each fixed asset in question.

The chief financial officer shall thereafter ensure that in the case of depreciable fixed assets an amount equal to the monthly depreciation expenses of the fixed asset concerned is transferred each month from such non-distributable reserve to the municipality's appropriation account. Where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, the chief financial officer shall appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

PART 24 CARRYING VALUES OF FIXED ASSETS

All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation.

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The only exceptions to this rule shall be revalued assets (see part 26 below) and heritage assets in respect of which no value is recorded in the fixed asset register (see part 8 above).

PART 25 REVALUATION OF FIXED ASSETS (LAND AND BUILDINGS ONLY)

Subsequent to initial recognition as an asset, an item of **land and buildings** may be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations shall be made with sufficient regularity such that the carrying amounts do not differ materially from those which would be determined using fair value at the balance sheet date.

The fair value of land and buildings will be based on their market value indicated in the valuation roll. This value will normally be determined by a professional valuer.

The revaluation of land and buildings cannot be limited to specific sets of land or buildings but shall include the entire class of property to which such an asset belongs.

Any increase as a result of a revaluation in the carrying amount will be credited to the NDR under the heading "Revaluation Surplus", however a revaluation increase shall be recognised as revenue to the extent that it reverses a revaluation decrease previously recognised as an expense. Depreciation on the re-valued amount will be charged to the income statement and a transfer will be made from the NDR to offset this depreciation in the statement of changes in equity.

Where a decrease arises such a decrease should be recognised as an expense but may be charged directly against any revaluation surplus to the extent of the balance of such a revaluation surplus.

PART 26 IMPAIRMENT LOSSES

The accounting treatment relating to impairment losses is outlined as follows in **GAMAP 17**:

The carrying amount (Book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

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Recoverable amount is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve in accordance with GAMAP 17.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

The following may be indicators that an item of PPE has become impaired:

- The asset has been damaged.
- The asset has become technologically obsolete.
- The asset remains idle for a considerable period either prior to it being put into use or during its useful life.
- Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.

Example:

An example of where the municipality has suffered an impairment loss is the purchase of land for an amount of R 5 000 000. The land will be utilized for new subsidized housing developments. If at year end the expectation is that the Municipality will receive only R 1000 000 by way of subsidies an impairment loss of

R 4 000 000 needs to be recognized. The recoverable amount (R 1 m) is calculated as being the larger of

- **Net Selling price** of the land which is the amount obtainable from the sale of the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.
- **Value in use** of the land which is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

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The following steps will have to be performed regularly during the year to account for impairment losses:

- Departments will identify and inform Treasury Section: Equity & Accounts of assets that:
 - Are in a state of damage at year end.
 - Are technologically obsolete at year end. This can be facilitated if departments require Treasury Section: Equity & Accounts to supply them with a Fixed Asset Register printout pertaining to major assets showing the remaining useful lives of assets. The departments can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout.
 - Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
 - Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is Land that is purchased at market value and is to be utilized for subsidized housing developments.
- The recoverable amounts of these assets need to be calculated by calculating the Net selling Price per asset as defined above.
- The impairment loss per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.
- The impairment loss needs to be accounted for by identifying the relevant funding source.

DISCLOSURE REQUIREMENTS RELATING TO IMPAIRMENT LOSSES:

All material impairment losses need to be disclosed in the notes to the income statement as a separately disclosable item. They are normally disclosed as part of the note on the amounts that are included in the calculation of the Net Surplus or Deficit for the year.

PART 27 VERIFICATION OF FIXED ASSETS

Every head of department shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

Every head of department shall promptly and fully report in writing to the chief financial officer in the format determined by the chief financial officer, all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the

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end of each financial year, and that the resultant report shall be submitted to the chief financial officer not later than 30 June of the year in question.

PART 28 ALIENATION OF FIXED ASSETS

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Every head of department shall report in writing to the chief financial officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate by public auction or public tender. The chief financial officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

The council shall delegate to the municipal manager the authority to approve the alienation of any fixed asset with a carrying value less than R5 000 (five thousand rand).

The council shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004 (see part 34 below).

Once the fixed assets are alienated, the chief financial officer shall delete the relevant records from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the

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income statement of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the income statement of the department or vote concerned.

All gains realised on the alienation of fixed assets shall be appropriated annually to the municipality's capital replacement reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

Transfer of fixed 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.

PART 29 OTHER WRITE-OFFS OF FIXED ASSETS

A fixed asset 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.

Every head of department shall report to the chief financial officer on 31 October and 30 April of each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation. The chief financial officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

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

In every instance where a not fully depreciated fixed 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 (see also part 22).

PART 30 REPLACEMENT NORMS

The municipal manager, in consultation with the chief financial officer and other heads of departments, shall formulate norms and standards for the replacement of all normal operational fixed assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

PART 31 INSURANCE OF FIXED ASSETS

The municipal manager shall ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

If the municipality operates a self-insurance reserve (assuming such reserve to be allowed), the chief financial officer shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.

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The municipal manager 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 fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

The chief financial officer shall annually submit a report to the council of the municipality on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

PART 32 BIOLOGICAL ASSETS

Accounting for biological assets shall take place in accordance with the requirements of IAS 41.

The chief financial officer, in consultation with the head(s) of department concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs. Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned. Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as an operating revenue.

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the head of department concerned in exactly the same manner as though the asset were an ordinary fixed asset.

Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record altogether, and such details shall reflect the information which the chief financial officer, in consultation with the head of department concerned and the internal auditor, deems necessary for accounting and control purposes.

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The chief financial officer shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the council of the municipality considers such insurance desirable and affordable.

PART 33 ANNEXURE: FIXED ASSET LIVES

INFRASTRUCTURE ASSETS

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

*	Electricity	
	Power stations	(30)
	Cooling towers	(30)
	Transformer kiosks	(30)
	Meters	(20)
	Load control equipment	(20)
	Switchgear	(20)
	Supply and reticulation networks	(20)
	Mains	(20)
*	Roads	
	Motorways	(15)
	Other roads	(10)
	Traffic islands	(10)
	Traffic lights	(20)
	Street lights	(25)
	Overhead bridges	(30)
	Stormwater drains	(20)
	Bridges, subways and culverts	(30)
	Car parks	(20)

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	Bus terminals	(20)
*	Water	
	Mains	(20)
	Supply and reticulation networks	(20)
	Reservoirs and storage tanks	(20)
	Meters	(15)
	Rights (that is, the right to draw water from a particular source belonging to another party)	(20)
*	Gas	
	Supply and reticulation networks	(20)
	Storage tanks	(20)
	Mains	(20)
	Meters	(20)
*	Sewerage	
	Sewer mains	(20)
	Outfall sewers	(20)
	Sewage purification works	(20)
	Sewerage pumps	(15)
	Sludge machines	(15)
*	Pedestrian malls	
	Footways	(20)
	Kerbing	(20)
	Paving	(20)
*	Airports	
	Runways	(20)
	Aprons	(20)
	Taxiways	(20)

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	Airport and radio beacons	(20)
*	Security measures	
	Access control systems	(5)
	Security systems	(5)
	Security fencing	(3)

COMMUNITY ASSETS

The following is a list of community assets, showing again the assigned or estimated useful lives in years in brackets:

*	Buildings and other assets	
	Ambulance stations	(30)
	Aquariums	(30)
	Beach developments	(30)
	Care centres	(30)
	Cemeteries	(30)#
	Civic theatres	(30)
	Clinics and hospitals	(30)
	Community centres	(30)
	Fire stations	(30)
	Game reserves and rest camps	(30)
	Indoor sports	(30)
	Libraries	(30)
	Museums and art galleries	(30)
	Parks	(30)
	Public conveniences and bath houses	(30)
	Recreation centres	(30)
	Sports and related stadiums	(30)
	Zoos	(30)
*	Recreation facilities	

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Bowling greens	(20)
Tennis courts	(20)
Swimming pools	(20)
Golf courses	(20)
Jukskei pitches	(20)
Outdoor sports facilities	(20)
Organs (that is, pipe organs that are fixtures in a municipal hall or other centre)	(20)
Lakes and dams	(20)
Fountains	(20)
Flood lighting	(20)

Sum-of-units method of depreciation may be preferred.

HERITAGE ASSETS

The following is a list of at least some typical heritage assets encountered in the municipal environment (no asset lives are given, of course, as no ordinary depreciation will be charged against such assets):

- Museum exhibits
- Works of art (which will include paintings and sculptures)
- Public statues
- Historical buildings or other historical structures (such as war memorials)
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

INVESTMENT ASSETS

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

UGU DISTRICT MUNICIPALITY

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municipality. However, the following will be among the most frequently encountered:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties) (30)
- Shopping centres (again developed along similar lines) (30)
- 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)

OTHER ASSETS

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

*	Buildings	
	Abattoirs	(30)
	Asphalt plant	(30)
	Cable stations	(30)
	Caravan parks	(30)
	Compacting stations	(30)
	Hostels used to accommodate the public or tourists	(30)
	Hostels for municipal employees	(30)
	Housing schemes	(30)
	Kilns	(30)
	Laboratories	(30)
	Fresh produce and other markets	(30)

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	Nurseries	(30)
	Office buildings	(30)
	Old age homes	(30)
	Quarries	(30) #
	Tip sites	(30) #
	Training centres	(30)
	Transport facilities	(30)
	Workshops and depots	(30)
*	Office equipment	
	Computer hardware	(5)
	Computer software	(3-5)
	Office machines	(3-5)
	Air conditioners	(5-7)
*	Furniture and fittings	
	Chairs	(7-10)
	Tables and desks	(7-10)
	Cabinets and cupboards	(7-10)
*	Bins and containers	
	Household refuse bins	(5)
	Bulk refuse containers	(10)
*	Emergency equipment	
	Fire hoses	(5)
	Other fire-fighting equipment	(15)
	Emergency lights	(5)
*	Motor vehicles	
	Ambulances	(5-10)
	Fire engines	(20)

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	Buses	(15)
	Trucks and light delivery vehicles	(5-7)
	Ordinary motor vehicles	(5-7)
	Motor cycles	(3)
*	Plant and equipment	
	Graders	(10-15)
	Tractors	(10-15)
	Mechanical horses	(10-15)
	Farm equipment	(5)
	Lawn mowers	(2)
	Compressors	(5)
	Laboratory equipment	(5)
	Radio equipment	(5)
	Firearms	(5)
	Telecommunication equipment	(5)
	Cable cars	(15)
	Irrigation systems	(15)
	Cremators	(15)
	Lathes	(15)
	Filling equipment	(15)
	Conveyors	(15)
	Feeders	(15)
	Tippers	(15)
	Pulverising mills	(15)
*	Other	
	Aircraft	(15)
	Watercraft	(15)

Sum-of-units may be preferred.

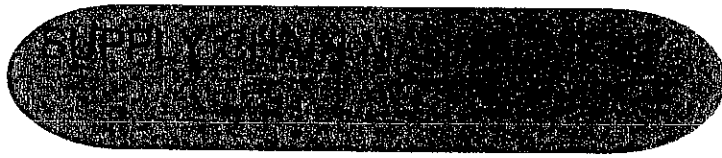
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**PART 34 ANNEXURE: PARAPHRASE OF SECTION 14 OF THE
MUNICIPAL FINANCE MANAGEMENT ACT 2003**

A municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.

A municipality may alienate any other capital asset, but provided

- the council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
- the council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.



SUPPLY CHAIN MANAGEMENT POLICY

UGU DISTRICT MUNICIPALITY



LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003

Date of adoption: 23 October 2009

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

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Definitions

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

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

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



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

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

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

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

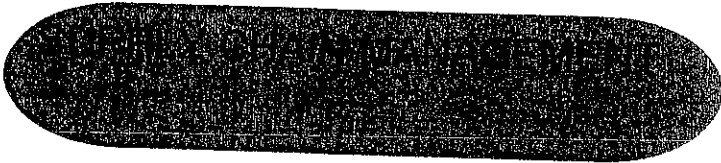
“long term contract” means a contract with a duration period exceeding one year;

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

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

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





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

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

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

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

“municipality” means the Ugu District Municipality.



CHAPTER 1

IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY

Supply chain management policy

2. (1) All officials and other role players in the supply chain management system of the municipality must implement this Policy in a way that –

- (a) gives effect to –
 - (i) section 217 of the Constitution; and
 - (ii) Part 1 of Chapter 11 and other applicable provisions of the Act;
- (b) is fair, equitable, transparent, competitive and cost effective;
- (c) complies with –
 - (i) the Regulations; and
 - (ii) any minimum norms and standards that may be prescribed in terms of section 168 of the Act;
- (d) is consistent with other applicable legislation;
- (e) does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres; and
- (f) is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.

(2) This Policy applies when the municipality –

- (a) procures goods or services;
- (b) disposes of goods no longer needed;
- (c) selects contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the Municipal Systems Act applies; or
- (d) selects external mechanisms referred to in section 80 (1) (b) of the Municipal Systems Act for the provision of municipal services in circumstances contemplated in section 83 of that Act.

(3) This Policy, except where provided otherwise, does not apply in respect of the procurement of goods and services contemplated in section 110(2) of the Act, including –

- (a) water from the Department of Water Affairs or a public entity, another municipality or a municipal entity; and



- (b) electricity from Eskom or another public entity, another municipality or a municipal entity.

Amendment of the supply chain management policy

3. (1) The municipal manager must –
- (a) at least annually review the implementation of this Policy; and
 - (b) when the municipal manager considers it necessary, submit proposals for the amendment of this Policy to the council.

(2) If the municipal manager submits proposed amendments to the council that differs from the model policy issued by the National Treasury, the accounting officer must –

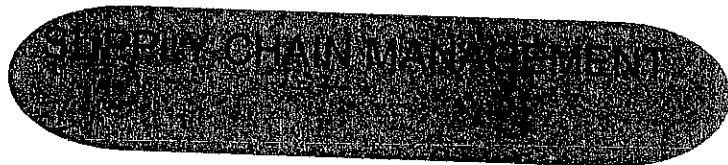
- (a) ensure that such proposed amendments comply with the Regulations; and
- (b) report any deviation from the model policy to the National Treasury and the relevant provincial treasury.

(3) When amending this supply chain management policy the need for uniformity in supply chain practices, procedures and forms between organs of state in all spheres, particularly to promote accessibility of supply chain management systems for small businesses must be taken into account.

Delegation of supply chain management powers and duties

4. (1) The council hereby delegates all powers and duties to the municipal manager which are necessary to enable the municipal manager –
- (a) to discharge the supply chain management responsibilities conferred on accounting officers in terms of –
 - (i) Chapter 8 or 10 of the Act; and
 - (ii) this Policy;
 - (b) to maximise administrative and operational efficiency in the implementation of this Policy;





- (c) to enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of this Policy; and
- (d) to comply with his or her responsibilities in terms of section 115 and other applicable provisions of the Act.

(2) Sections 79 and 106 of the Act apply to the sub-delegation of powers and duties delegated to an accounting officer in terms of sub-paragraph (1).

(3) The municipal manager may not sub-delegate any supply chain management powers or duties to a person who is not an official of municipality or to a committee which is not exclusively composed of officials of the municipality.

(4) This paragraph may not be read as permitting an official to whom the power to make final awards has been delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 26 of this Policy.

Sub-delegations

5. (1) The municipal manager 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 subdelegation must be consistent with sub-paragraph (2) of this paragraph and paragraph 4 of this Policy.

(2) The power to make a final award –

- (a) above R10 million (VAT included) may not be sub-delegated by the municipal manager;
- (b) above R2 million (VAT included), but not exceeding R10 million (VAT included), may be sub-delegated but only to –



SUPPLY CHAIN MANAGEMENT

- (i) Chief Financial Officer;
 - (ii) General Manager: Water Services; or
 - (iii) General Manager: Corporate Services;
- (c) not exceeding R2 million (VAT included) may be sub-delegated but only to –
- (i) Chief Financial Officer;
 - (ii) Other General Managers; or
 - (iii) the 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 municipal manager 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) Sub-paragraph (3) of this paragraph does not apply to procurements out of petty cash.

(5) 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 26 of this Policy.



SUPPLY CHAIN MANAGEMENT

(6) No supply chain management decision-making powers may be delegated to an advisor or consultant.

Oversight role of council

6. (1) The council reserves its right to maintain oversight over the implementation of this Policy.

(2) For the purposes of such oversight the municipal manager must –

(a) (i) within 30 days of the end of each financial year, submit a report on the implementation of this policy, to the council of Ugu District Municipality; and

(ii) whenever there are serious and material problems in the implementation of this policy, immediately submit a report to the council.

(3) The municipal manager 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.

Supply chain management unit

7. (1) A supply chain management unit is hereby established to implement this Policy.



SUPPLY CHAIN MANAGEMENT

(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.

Training of supply chain management officials

8. 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

Format of supply chain management system

9. 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

System of demand management

10. (1) The municipal manager must establish and implement an appropriate demand management system in order to ensure that the resources required by Ugu District 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.

