

ANNEXURE C
DRAFT TARIFF POLICY



TARIFF POLICY

Date Approved: **DD MM YYYY**

Council Resolution **DC ???/??/??**
(DC No):

Contents

- 1. INTRODUCTION..... 2
- 2. LEGISLATION 2
- 3. OBJECTIVES..... 2
- 4. POLICY PRINCIPLES..... 2
- 5. NEED FOR A TARIFF POLICY 3
 - 5.1 Revenue Adequacy and Certainty..... 3
 - 5.2 Sustainability..... 3
 - 5.3 Effective and Efficient usage of Resources..... 3
 - 5.4 Accountability, Transparency and Good Governance 3
 - 5.5 Budgeting and the financial affairs..... 3
 - 5.6 Equity and Redistribution..... 3
- 6. IMPLEMENTATION OF POLICY..... 4
 - 6.1 Affordable Tariffs 4
 - 6.2 Tariff Equality for Services 4
 - 6.3 Payment for services rendered..... 4
 - 6.4 Local Economic Development and Competitiveness 4
 - 6.5 Tariff Determination 5
- 7. SOURCES OF REVENUE..... 5
- 8. TARIFF STRATEGY 6
- 9. CATEGORIES OF USERS 6
- 10. TARIFF CHARGES 6
- 11. RESPONSIBILITY / ACCOUNTABILITY 6

1. INTRODUCTION

A tariff policy must be compiled, adopted and implemented in terms current legislation. This Policy will focus on the levying of fees and for municipal services provided by the Municipality itself or by way of service delivery agreements. In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and also of the impact its own tariffs may have on local economic development.

2. LEGISLATION

For the purposes of this Policy, the Municipal Finance Act No. 53 of 2003 and the Local Government Municipal Systems Amendment Act No. 44 of 2003 has been used as a reference.

3. OBJECTIVES

The objectives of the tariff policy are to ensure the following:

- 3.1. The tariffs of the Municipality conform to acceptable policy principles;
- 3.2. Municipal services are financially sustainable;
- 3.3. That there is certainty in the Council, of how the tariffs will be determined;
- 3.4. Tariffs of the Municipality comply with the applicable legislation.

4. POLICY PRINCIPLES

The Municipality's tariff policy will reflect the following principles:

- 4.1 Although users of municipal services should be treated equitably in the application of tariffs, tariffs may differentiate between different categories of consumers, municipal services and service standards as long as such differentiation does not amount to unfair discrimination.
- 4.2 The amount individual users pay for services should generally be in proportion of their use of that service;
- 4.3 Tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned. A service is financially sustainable when it is provided in a manner that would ensure it's financing from internal and external sources is sufficient to cover the costs of the initial capital expenditure required, operating the service, maintaining, repairing and replacing the physical assets used in its provision.

- 4.4 Provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users.

5. NEED FOR A TARIFF POLICY

5.1 Revenue Adequacy and Certainty

The Municipality must have access to adequate sources of revenue to enable it to carry out its functions. The Municipality must:

- (a) Fully utilize the available sources of revenue to meet its development objectives; and
- (b) Be reasonably certain of its revenue to allow for realistic planning.

5.2 Sustainability

Financial sustainability requires that the Municipality must ensure that:

- (a) Services are provided at affordable levels; and
- (b) It is able to recover the costs of service delivery.

5.3 Effective and Efficient usage of Resources.

Resources are scarce and must be used in the best possible way to reap the maximum benefit for the community.

5.4 Accountability, Transparency and Good Governance.

The Municipality must be accountable to the community for the use of its resources, Councillors must be able to:

- (a) Justify their expenditure decisions; and
- (b) Explain why and how the revenue necessary to sustain expenditure, is raised.

5.5 Budgeting and the financial affairs

Must be open to public scrutiny, in accordance with Section 22 of the Municipal Finance Management Act No 53 of 2003. The community should be part of the decision-making process about how revenue is raised and spent.

5.6 Equity and Redistribution

The Municipality must treat members of the community equitably with regard to the provision of services.

6. IMPLEMENTATION OF POLICY

6.1 Affordable Tariffs

The Council is aware of the financial situation of most residents within the municipal area and need to keep tariffs at affordable levels. In order to ensure that tariffs remain affordable, the Council will ensure that:

- (a) Services are delivered at an appropriate level; and
- (b) Efficiency improvements are actively pursued across the Municipalities' operations;

6.2 Tariff Equality for Services

The Council believes that all residents must pay the same tariff for the same level and quality of service.

The Municipality, like any other business enterprise is subject to continuous price increases in the goods, materials and other resources that it uses to perform its functions. Consequently it is the policy of the Council:

- (a) That tariffs for service and property rates will be reviewed at least once during every financial year;
- (b) That the tariff increases must be in line with increases in the price of goods, material and other resources acquired and used by the Municipality to perform its functions; and
- (c) Further the tariff for a particular service must be calculated in such a way that all relevant costs are covered. This means that a tariff for a service must include at least the capital expenditure required and interest thereon, the cost of managing and operating the service and the cost of maintaining, repairing and replacing the physical assets used in its provision.

6.3 Payment for services rendered

Consumers of services must pay for the amount of services that they use.

6.4 Local Economic Development and Competitiveness

The Council will take care that the service charges presented to consumers are fair. To ensure fairness toward consumers, the Council will, when it determines tariffs, take into account the desire:

- (a) To promote local economic competitiveness, and
- (b) To promote local economic development and growth.

The Municipality must ensure that the services that it provides must be sustainable. Financial sustainability of an enterprise will be

achieved when it is financed in a manner that ensures that its financing is sufficient. .

6.5 Tariff Determination

Tariffs represent the charges levied by Council on consumers for the utilization of services provided by the Municipality. Tariffs may be calculated in various different ways, dependent upon the nature of the service being provided. Tariffs may be set in such a manner so as to recover the full cost of the service being provided or recover a portion of those costs, or to bring about a surplus that can be utilized to subsidise other non-economical services. Proposed tariffs will be presented to the community during the Council's consultations about the budget.

7. SOURCES OF REVENUE

The Municipality may impose:

- 7.1 If authorised by National legislation, other taxes, levies and duties appropriate to Local Government, but it may not impose income tax, value-added tax or customs duty.
- 7.2 May not be exercised in a way that materially and unreasonably prejudices national economic policies, economic activities across municipal boundaries, or the national mobility of goods, services, capital or labour; and may be regulated by national legislation.

The Council may finance the affairs of the Municipality by:

- (a) Charging fees for services; and
- (b) The revenue of the Municipality consists of the taxes, fees, charges, fines and other sums imposed or recoverable by or payable to the Council under any law;
- (c) The Council may charge interest on any other amount due to it that may not have been paid within thirty days from the date on which such amounts became due. The interest rate charged is one percent higher than the rate payable by the Council to its bank in respect of an overdraft for the period during which such amounts remain unpaid after the expiry of the period of thirty days. Interest may not be charged on: Fines imposed by a court and due to the Council; and

Monies due to the Council in terms of a law and in respect of which that law provides that a penalty on interest must be levied if such monies are not paid on the date when due or payable.

- (d) The interest rates referred to above must be amended on the first day of the month following on the month in which the Council's bank has amended the interest rate payable by the Council to its bank in respect of an overdraft; and
- (e) Any fine imposed or money treated as bail in respect of any offence under the ordinance or a bylaw made by the Council, must be paid to the Municipality.

8. TARIFF STRATEGY

The Council's strategy is to recover the full financial cost of rendering the services required by the community from the community, including the cost of capital:

- 8.1 The starting point to recover cost is the determination of service levels. These shall be based on basic human needs;
- 8.2 The second point will be to ensure a sustainable service delivery based on the set service level; and
- 8.3 The third point will be the upgrade of services to higher levels in accordance with the affordability of the community and the ability to render the upgraded services in a sustainable manner.

9. CATEGORIES OF USERS

The tariff structure of the Garden Route District Municipality will make provision for the following categories of users.

- Domestic;
- Commercial;
- Industrial
- Agricultural
- Rural
- Municipal Services; and
- Special agreements for users not falling in any of the above-mentioned categories.

10. TARIFF CHARGES

All tariffs will be charged as set out in the tariff list as approved within the budget of each year.

11. RESPONSIBILITY / ACCOUNTABILITY

The Council or designates of the Council have the overall responsibility of laying down the Tariff Policy. The Municipal Finance Management Act defines the responsibility of the Municipal Manager as ensuring that the Tariff Policy be in place and that it is effectively implemented.

ANNEXURE D
LONG TERM FINANCIAL PLAN POLICY



LONG TERM FINANCIAL PLAN POLICY

Date Approved: xxx

Council Resolution (DC xxx
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TABLE OF CONTENTS

1. ABBREVIATIONS AND DEFINITIONS	2
2. INTRODUCTION	3
3. PURPOSE	3
4. GUIDING PRINCIPLES	3
5. ROLE PLAYERS AND STAKEHOLDERS	4
6. REGULATORY CONTEXT	5
7. POLICY DIRECTIVE DETAILS	6
8. EVALUATION AND REVIEW	9

1. ABBREVIATIONS DEFINITIONS

Basic municipal service: A municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

BSC: Budget Steering Committee, a committee established to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the MFMA;

Budget-related policy: A policy of a municipality affecting or affected by the annual budget of the municipality, including—

(a) the tariffs policy which the municipality must adopt in terms of section 74 of the Municipal Systems Act;

(b) the credit control and debt collection policy which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

IDP: Integrated Development Plan;

LTFP: Long Term Financial Plan;

Long-term debt: Debt repayable over a period exceeding one year;

MBRR: Municipal Budget and Reporting Regulations;

MFMA: Municipal Finance Management Act No 56 of 2003;

MTREF: Medium Term Revenue and Expenditure Framework, as prescribed by the MFMA. It sets out indicative revenue and projected expenditure for the budget year, plus two outer financial years;

Municipal tariff: A tariff for services which a municipality may set for the provision of a service;

National Treasury: National Treasury established by section 5 of the Public Finance Management Act;

Short Term: Refers to a period up to 1 (one) year;

Medium Term: Refers to a period between 2 (two) and 3 (three) years;

Long Term: Refers to any period longer than 3 (three) years.

2. INTRODUCTION

2.1 The Local Government: Municipal Finance Management Act No 56 of 2003 (MFMA) has instituted various financial reform measures. Sound financial management practices have been identified as essential to the long-term sustainability of municipalities. In this regard the MFMA necessitates that municipality's must have a policy related to a Long Term Financial Plan (LTFP).

2.2 A municipality's financial plan integrates the financial relationships of various revenue and expenditure streams to give effect to the Integrated Development Plan (IDP). It provides guidance for the development of current budgets and assesses financial impacts on outer years' budgets by incorporating capital expenditure outcomes, operating expenditure trends, optimal asset management plans and the consequential impact on tariffs and other service charges.

2.3 A municipality's long term financial model aims to determine the appropriate mix of parameters and assumptions within which the municipality should operate to facilitate budgets which are affordable and sustainable at least 5 years into the future. In addition, it identifies the consequential financial impact of planned capital projects on the municipality's operational budget.

3 PURPOSE

The policy aims to ensure that all long-term financial planning is based on a structured and consistent methodology thereby ensuring long-term financial affordability and sustainability.

4. GUIDING PRINCIPLES

The policy is based on the following principles:-

(a) Future financial sustainability;

- (b) Optimal collection of revenue, taking into consideration the socio economic environment;*
- (c) Optimal utilisation of grant funding;*
- (d) Continuous improvement and expansion in the service delivery framework, and*
- (e) Prudent financial strategies.*

5. ROLE PLAYERS AND STAKEHOLDERS

The following role players will ensure that the LTFP is implemented in accordance with the prescribed legislative requirements and Council processes.

5.1 Chief Financial Officer

- (a) Responsible for the preparation and the compilation of the LTFP;*
- (b) Responsible for overall oversight;*
- (c) Present long term financial plan outcome to the Budget Steering Committee;*
- (d) Review Policy and Strategy, in consultation with relevant stakeholders, to ensure maximum compliance in terms of legislation.*

5.2 Departments

- (a) Responsible for providing reasons on past performance outcomes;*
- (b) Responsible for providing information to Chief Financial Officer to update the financial plan;*
- (c) Required to identify revenue and expenditure plans for both operating and capital budgets for at least 3 years;*
- (d) Required to make recommendations on future service delivery matters.*

5.3 Budget Steering Committee

- (a) Responsible for providing strategic guidance on matters relevant to the long term financial plan;*
- (b) Responsible for endorsing the projected MTREF assumptions and parameters contemplated by the LTFP.*

6. REGULATORY CONTEXT

6.1 Section 17 (3) of the MFMA states that “when an annual budget is tabled it must be accompanied by, amongst others, “any proposed amendments to the budget-related policies of the municipality”.

6.2 Section 21 of the MFMA states that the mayor of a municipality must at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for, amongst others:

- (i) the annual review of—
 - (aa) the integrated development plan in terms of section 34 of the Municipal Systems Act;
 - (bb) the budget-related policies;
- (ii) the tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and
- (iii) any consultative processes forming part of the processes referred to in subparagraphs(i and (ii).

6.3 Section 7 (1) of the Local Government: Municipal Finance Management Act, 2003, Municipal Budget and Reporting Regulations, 2009 (MBRR) states that:

“the Municipal Manager of a municipality must prepare, or take all reasonable steps to ensure the preparation of budget-related policies of the municipality, or any necessary amendments to such policies, in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the mayor in terms of section 21 (1)(b) of the MFMA”.

6.4 Section 7 (1) reference (1) of the MBRR, further states that “as defined in section 1 of the MFMA. Policies that affect or are affected by the annual budget of a municipality include . . . “(g) a policy related to the long term financial plan”.

6.5 Section 4 (1) of the MBRR states “that the mayor of a municipality must establish a budget steering committee to provide technical

assistance to the mayor in discharging the responsibilities set out in section 53 of the MFMA”.

6.6 Section 26 (h) of the Local Government: Municipal Systems Act 32 of 2000 (MSA) states that “An Integrated Development Plan must reflect a financial plan, which must include a budget projection for at least the next three years”.

7. POLICY DIRECTIVE DETAILS

7.1 Financial strategies.

An intrinsic feature of the LTFP is to give effect to the municipality’s financial strategies. These strategies include:

- (a) Increasing funding for asset maintenance and renewal;*
- (b) Continuous improvement to the financial position;*
- (c) Ensuring affordable debt levels to fund the capital budget;*
- (d) Maintaining fair, equitable and affordable tariff increase;*
- (e) Maintaining or improving basic municipal services;*
- (f) Achieving and maintaining a breakeven/surplus Operating budget; and*
- (g) Ensuring full cost recovery for the provision of internal services.*

7.2 Non – financial strategies

The LTFP is a key component for achieving the goals listed in the IDP of the Municipality. The LTFP must consider the following non – financial strategic strategies:

- (a) The Municipality’s Strategic Focus Areas;*
- (b) Infrastructure growth strategies; and*
- (c) The Municipality’s Spatial Development Framework.*

7.3 Preparation of the LTFP

7.3.1 The LTFP process should commence by latest June of each year.

7.3.2 The LTFP should consider the fiscal overview by reviewing past financial performance, projection of long-term financial outlook and financing and funding arrangements. The following matters should be considered annually:

- (a) Revising the long-term financial plan for events that may have impacted during the recent past;*
- (b) Assessing the outcomes and achievements of the past few years’ financial performance as per the audited financial statements;*
- (c) Reviewing the financial objective and assumptions;*

- (d) *Reviewing the past and summarise long term financial outlook;*
- (e) *Assess the current overall financial position and liquidity situation;*
- (f) *Identify any financial challenges and constraints;*
- (g) *Identifying strategies to deal with the challenges, and to maintain financial viability and capacity to sustain services;*
- (h) *Identify overall funding mix and implications for own revenue and external funding; and*
- (i) *Assess compliance with the MFMA and other relevant legislation.*

7.3.3 The LTFP is prepared in an uncertain environment. It is therefore required to make certain assumptions. Assumptions on the following internal and external factors must be made:

- (a) *Reviewing the external factors (e.g. population migration, employment, health, roads, development of businesses and the Garden Route region);*
- (b) *General inflation outlook and its impact on the municipal activities;*
- (c) *Credit rating outlook;*
- (d) *Interest rates for borrowing and investment of funds;*
- (e) *Tariffs and charges, and timing of revenue collection;*
- (f) *Collection rates for each revenue source;*
- (g) *Price movements on specifics e.g. fuel etc.*
- (h) *Average salary increases;*
- (i) *Industrial relations climate, reorganisation and capacity building;*
- (j) *Trends in population and households (growth, decline, stable);*
- (k) *Changing demand characteristics (demand for services);*
- (l) *Impact of national, provincial and local policies;*
- (m) *Ability of the municipality to spend and deliver on programmes; and*
- (n) *Implications of restructuring and other major events into the future.*

7.3.4 Intergovernmental fiscal transfers/allocations from National and Provincial government play a pivotal role in the finances of the Municipality. The following unconditional transfers/allocations must be considered, as a minimum, when projecting the budget:

- (a) *Local Government Equitable Share; and*
- (b) *Grants related to the provision of Provincial government functions.*

7.4 The Municipality's LTFP model and scenario planning:

7.4.1 The Municipality's financial model gives effect to the LTFP. It enables the forecasting of the operating and capital budgets for at least 5 years into the future. The model embodies National Treasury's budget preparation guidelines, drawing on assumptions and parameters to forecast the operating budget.

7.4.2 Strategic initiatives should be prioritised and quantified to be included in the financial model.

7.4.3 The financial forecasting model must be updated using the fiscal overview, assumption and intergovernmental fiscal transfers/allocations information to identify immediate opportunities and/or risks.

7.4.4 The medium and long-term financial viability should be evaluated.

7.4.5 Re-iterative scenario planning should be executed to ensure optimum use of resources to cater for strategic initiatives.

7.4.6 To identify the optimum balance between revenue collection and municipal spending the following should be taken into account:

- (a) The impact each scenario has on the financial sustainability and affordability of the Municipality;*
- (b) Whether scenarios are realistic in terms of revenue projections;*
- (c) Potential revenue enhancement strategies which may have a long-term impact on the revenue base of the Municipality;*
- (d) Potential cost saving mechanisms related to strategic initiatives; and*
- (e) The impact of infrastructure investments and maintenance programs on future revenue streams.*

7.4.7 Presentations on scenarios should be presented to the BSC as may be requested.

7.4.8 BSC should endorse the final MTREF scenario inclusive of assumptions and parameters annually by latest January.

7.5 The annual updated LTFP should identify the following:

7.5.1 Assumptions and parameters to be used to compile the Operating and Capital budgets over the next MTREF;

- 7.5.2 Future operating revenue and expenditure projections based on assumptions and parameters;*
- 7.5.3 Future affordability of projected Capital Plans;*
- 7.5.4 The level of infrastructure development required to achieve the Municipal priorities, within the funding restrictions; and*
- 7.5.5 External funding requirements in respect of long term debt.*
- 7.6 Implementation of the LTFP*
 - 7.6.1 The annual updated LTFP should provide the parameters and assumptions for the compilation of the operating and capital budgets for the next MTREF.*
 - 7.6.2 This information should be provided to the departments by latest January of each year.*

8. EVALUATION AND REVIEW

- 8.1 This policy shall be implemented once approved by Council.*
- 8.2 This policy must be reviewed on an annual basis.*
- 8.3 Changes in financial strategy, non – financial strategic strategies and legislation must be taken into account for future amendments to this policy.*
- 8.4 Any amendments must be tabled to Council for approval as part of the budget process.*

ANNEXURE E

BUDGET POLICY



BUDGET POLICY

Date **xxxxx**
Approved:

Council Resolution
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TABLE OF CONTENTS

1. DEFINITIONS	2
2. INTRODUCTION	7
3. OBJECTIVE OF THE POLICY	7
4. BUDGETING PRINCIPLES	7
5. BUDGET PREPARATION PROCESS	7
5.1. Budget Steering Committee	7
5.2. Quality Certification	7
5.3. Formulation of the Budget	8
5.4. Public Participation Process	8
5.5. Approval of the Budget	9
5.6. Publication of the Budget	9
5.7. Service Delivery and Budget Implementation Plan (SDBIP)	10
6. CAPITAL BUDGET	10
7. OPERATING BUDGET	11
8. FUNDING OF CAPITAL AND OPERATING BUDGET	12
9. UNSPENT FUNDS / ROLL OVERS	12
10. BUDGET TRANSFERS / VIREMENTS	
10.1 Virement Procedure	
10.2. Virement Restrictions	12
11. ADJUSTMENT BUDGET	13
12. BUDGET IMPLEMENTATION	14
12.1. Monitoring	14
12.2. Reporting	14
13. CONCLUSION	15

1. DEFINITIONS

"Accounting Officer"

(a) means the Municipal Manager;

"Allocation", means

- (a) a municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution;
- (b) an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution;
- (c) an allocation of money to a municipality in terms of a provincial budget; or
- (d) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

"Annual Division of Revenue Act" means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

"Approved budget," means an annual budget

- (a) approved by a municipal council in terms of section 24 of the MFMA, or
- (b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

"Basic Municipal Service" means a municipal service that is necessary to ensure an acceptable and Reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Budget-related Policy" means a policy of a municipality affecting or affected by the annual budget of the municipality, including

- (a) the tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- (b) the rates policy which the municipality must adopt in terms of section 3 of the municipal property rates Act; (not applicable to district municipalities)
- (c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;
- (d) the cash management and investment policy which the municipality must adopt in terms of section 13(2) of the Act;
- (e) a borrowing policy which must comply with Chapter 6 of the Act;
- (f) a funding and reserves policy;
- (g) a policy related to the long-term financial plan;
- (h) the supply chain management policy which the municipality is required to adopt in terms of section 111 of the Act;
- (i) any policies dealing with the management and disposal of assets;
- (j) any policies dealing with infrastructure investment and capital projects, including –
 - (i) the policy governing the planning and approval of capital projects; and
 - (ii) the policy on developer contributions for property developments;
- (k) the indigents policy of the municipality; (not applicable to a district municipality)
- (l) any policies related to the provision of free basic services; (not applicable to a district municipality)
- (m) any policies related to budget implementation and monitoring including –
 - (i) a policy dealing with the shifting of funds within votes;
 - (ii) a policy dealing with unforeseen and unavoidable expenditure; and

- (iii) policies dealing with management and oversight;
- (n) any policies related to the managing electricity and water including - (not applicable to a district municipality)
 - (i) a policy related to the management of losses; and
 - (ii) a policy to promote conservation and efficiency;
- (o) any policies related to personnel including policies on overtime, vacancies and temporary staff;
- (p) any policies dealing with municipal entities, including – (GRDM do not have any municipal entities at this stage)
 - (i) the service delivery agreement; and
 - (ii) the dividend preference of the municipality; and
- (q) any other budget-related or financial management policies of the municipality.

"Budget transfer" means transfer of funding within a function / vote.

"Budget Year" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

"chief financial officer" means a person designated in terms of section 80(2) (a) of the MFMA;

"councillor" means a member of a municipal council;

"creditor", means a person to whom money is owed by the municipality;

"current year" means the financial year, which has already commenced, but not yet ended;

"delegation", in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

"financial recovery plan" means a plan prepared in terms of section 141 of the MFMA

"financial statements", means statements consisting of at least

- (a) a statement of financial position;
- (b) a statement of financial performance;
- (c) Statement of change in net assets
- (d) a cash-flow statement;
- (e) Statements of comparison of budget and actual amounts
- (f) any other statements that may be prescribed; and
- (g) any notes to these statements;

"financial year" means a twelve months period commencing on 1 July and ending on 30 June each year

"financing agreement" includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

"fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

"irregular expenditure", means

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in Accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure";

"investment", in relation to funds of a municipality, means

(a) the placing on deposit of funds of a municipality with a financial institution; or

(b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

"lender", means a person who provides debt finance to a municipality;

"local community" has the meaning assigned to it in section 1 of the Municipal Systems Act;

"mSCOA" Municipal Chart of Accounts

"Municipal Structures Act" means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

"Municipal Systems Act" means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

"long-term debt" means debt repayable over a period exceeding one year;

"executive mayor" means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act;

"municipal council" or **"council"** means the council of a municipality referred to in section 18 of the Municipal Structures Act;

"municipal debt instrument" means any note, bond, debenture or other evidence of indebtedness issued by a municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;

"municipal entity" has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"municipality"

(a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or

(b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

"accounting officer" means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

"municipal service" has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"municipal tariff" means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

"municipal tax" means property rates or other taxes, levies or duties that a municipality may impose;

"National Treasury" means the National Treasury established by section 5 of the Public Finance Management Act;

"official", means

- (a) an employee of a municipality or municipal entity;
- (b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

"overspending"

- (a) means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;
- (b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
- (c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"past financial year" means the financial year preceding the current year;

"quarter" means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

"service delivery and budget implementation plan" means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate

- (a) projections for each month of
 - (i) revenue to be collected, by source; and
 - (ii) operational and capital expenditure, by vote;
- (b) service delivery targets and performance indicators for each quarter; and
- (c) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) (c) of the MFMA;

"short-term debt" means debt repayable over a period not exceeding one year;

"standards of generally recognised accounting practice", (GRAP) means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board (ASB)

"unauthorised expenditure", means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or

(f) a grant by the municipality otherwise than in accordance with the MFMA;

"virement" means transfer of funds between functions / votes

"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. INTRODUCTION

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the executive mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualisation and the operationalisation of the budget must be located within the national government's policy framework.

3. OBJECTIVE

The objective of the budget policy is to set out:

- The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget, (MTREF)
- The responsibilities of the executive mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget
- To establish and maintain procedures to ensure adherence to Garden Route District Municipality's IDP review and budget processes.

4. BUDGETING PRINCIPLES

- The municipality shall not budget for a cash deficit
 - The municipality should ensure that revenue projections in the budget are realistic taking into account actual collection levels but taking into account any changes in the environment which can influence the collection rates.
- Expenditure may only be incurred in terms of the approved annual budget (or adjustment budget) and within the limits of the amounts appropriated for each vote in the approved budget.
- Garden Route District Municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF)) and that will be reviewed annually and approved by Council.
- The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan (IDP).

5. BUDGET PREPARATION PROCESS

5.1 Budget Steering Committee

A Budget Steering Committee must be established by the Executive Mayor in terms of regulation 4 of the Municipal Budget and Reporting Regulations, to provide technical assistance to the Mayor in discharging the budget process and related matters set out in section 53 of the Act.

5.2 Quality Certification

Whenever an annual budget and supporting documentation, an adjustment budget and supporting documentation or an in-year report of a municipality is submitted to the mayor, tabled in the municipal council, made public or submitted to another organ of state, it must be accompanied by a quality certificate complying with Schedule A, B or C of the regulations, as the case may be, and signed by the municipal manager. (Regulation 5).

5.3. Formulation of the budget

- (a) The Accounting Officer with the assistance of the Chief Financial Officer and the IDP Manager shall draft the IDP process plan as well as the budget timetable for the municipality including municipal entities for the ensuing financial year.
- (b) The executive mayor shall table the IDP process plan as well as the budget timetable to Council not later than 31 August of each year for approval (10 months before the start of the next budget year).
- (c) IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act (MFMA), Municipal Budget and reporting regulations as well as the guidelines set by National Treasury or any other legislation that may be applicable.
- (d) The Executive Mayor shall table the draft IDP and MTREF budget to council by 31 March of each year (90 days before the start of the new budget year) together with the draft resolutions and budget related policies.
- (e) The Chief Financial Officer and Executive Management team (MANCOM) undertake the technical assumptions and changes to be made to the budget and which inputs will be included in the budget.
- (f) The Manager: BTO will provide assistance where needed to the senior management to forecast the projections of the tariffs, revenue, and expenditure to be included in the MTREF as per MANCOM directives set.
- (g) The Manager: BTO will oversee the budget process and staff of the BTO office will compile the budget in the prescribed formats with the inputs receive from the Accounting Officer, CFO and the executive managers. The Manager BTO and CFO will review the schedules and budget report before submission for the council agenda.
- (h) The budget must be in the prescribed format by National Treasury, and must be divided into capital and operating budget.
- (i) The budget must reflect the realistically expected revenues by major source for the budget year concerned that is estimated to be collected. (Section 18(2 (a)&(b)):
- (a) projected revenue for the current year based on collection levels to date; and
 - (b) actual revenue collected in previous financial years
- (j) According to Section 18 of the MFMA, an annual budget ay only be funded from:
- Realistically anticipated revenues to be collected;
 - Cash-backed accumulated funds from previous years' surpluses not committed for other purpose; and
 - Borrowed funds, but only for the capital budget referred to in section 17 (2).
- (j) The expenditure reflected in the budget must be divided into the different line items and per vote.
- (k) The budget must contain the information related to the two financial years following the financial year to which the budget relates, as well as the estimated revenues and expenditure for the current year and the two prior year actual revenue and expenditure.

5.4. Public participation process

Immediately after the draft annual budget has been tabled, the municipality invites the public, stakeholder organisations, to make representation at the council hearings and to submit comments in response to the draft budget. Section 22 of the MFMA states:

Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must:

- (a) In accordance with Chapter 4 of the Municipal Structures Act –
 - (i) Make public the annual budget and the documents referred in section 17 (3); and
 - (ii) Invite the local community to submit representation in connection with the budget; and
- (b) Submit the annual budget –
- (c) (i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and

- (iii) In either format to any prescribed national or provincial organ of state and to other municipalities affected by the budget.

Section 23 of the MFMA states: (consultations on tabled budget)

- (1) When the annual budget has been tabled the municipal council must consider any views of –
 - (a) The local community; and
 - (b) The National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (2) After considering all budget submissions, the council must give the mayor an opportunity –
 - (a) To respond to the submissions; and
 - (b) If necessary, to revise the budget and table amendments for consideration by the council..
- (3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guideline on the formation of a committee of the council to consider the budget and to hold public hearings.
- (4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

5.5. Approval of the annual original budget

- (a) Council shall consider the next medium term expenditure framework budget for approval not later than 31 May (30 days before the start of the budget year).
- (b) The council resolution, must contain the budget related policies and performance measures to be adopted, the budget (MTREF) (operating and capital budget), tariffs and any other information required by legislation.
- (c) Should the municipality fail to approve the budget before the start of the budget year, the executive mayor must inform the MEC for Finance that the budget has not been approved.
- (d) The budget tabled to Council for approval shall include the following supporting documents:
 - i. draft resolutions approving the budget;
 - ii. other taxes and tariffs for the financial year concerned;
 - iii. measurable performance objectives for each budget vote, taking into account the municipality's IDP;
 - iv. the projected cash flows for the financial year by revenue sources and expenditure votes;
 - v. any proposed amendments to the IDP;
 - vi. any proposed amendments to the budget-related policies;
 - vii. the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the accounting officer, the chief financial officer, and other senior managers;
 - viii. particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as Non-Governmental Organisations, welfare institutions and so on;
 - ix. particulars of the municipality's investments; and
 - x. various information in regard to municipal entities under the shared or sole control of the municipality

5.6. Publication of the budget

- (a) Within 14 days after the draft annual budget has been tabled, the municipality must publish the budget and other budget-related documentation on the municipal website to be accessible to the public.
- (b) The Chief Financial Officer must within 14 days after the draft annual budget is tabled:
 - (i) submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as publish it on the municipal website.
 - (ii) ensure that a newspaper advertisement is placed that the draft budget is available at the Municipal offices and available for comments.

5.7. Service Delivery and Budget Implementation Plan (SDBIP)

- (a) The Executive mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council.
- (b) The SDBIP shall include the following components:
 - (i) Monthly projections of revenue to be collected for each source
 - (ii) Monthly projections of expenditure (operating and capital) and revenue for each vote
 - (iii) Quarterly projections of service delivery targets and performance indicators for each vote
 - (iv) Ward information for expenditure and service delivery
 - (v) Detailed capital works plan broken down by ward over three years
 - (vi) Any other information that may be required by legislation.

6. CAPITAL BUDGET

- (a) Expenditure of a project shall be included in the capital budget if it meets the asset definition i.e. if it results in an asset being acquired or created and has a useful life in excess of one year and inflow of economic benefits are expected.
- (b) The capital budget shall distinguish between replacement and new assets.
- (c) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- (d) The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes. Refer to above section with regards to the funding of the budget.
- (e) Before approving a capital project, the Council must consider:
 - (i) the projected cost of the project over all the ensuing financial years until the project becomes operational,
 - ii. future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).
- (f) Before approving the capital budget, the council shall consider:
 - (i) the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans,
 - (ii) depreciation of fixed assets,
 - (iii) maintenance of fixed assets, and
 - (iv) any other ordinary operational expenses associated with any item on such capital budget.
- (g) Council shall approve the annual or adjustment capital budget only if it has been properly cash funded.
- (h) The capital expenditure shall be funded from the following sources:

(i) Revenue or Surplus

- If any project is to be financed from revenue this financing must be included in the cash budget to raise sufficient cash for the expenditure.
- If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project.

(ii) External loans

- External loans can be raised only if it is linked to the financing of an asset;
- A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured;
- The loan redemption period should not exceed the estimated life span of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure;
- Interest payable on external loans shall be included as a cost in the operating budget;
- Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.
- Section 46 of the MFMA with regards to taking up of a loan must be adhered to.

Capital Replacement Reserve (CRR)

- Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve can be funded from:
 - inappropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
 - interest on the investments of the CRR, appropriated in terms of the investments policy;
 - additional amounts appropriated as contributions in each annual or adjustments budget; and
 - interest on investments of unutilised grants;
 - only VAT claimed back on grants and subsidies; and
 - Sale of land and profit or loss on the sale of assets.
- Before any asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed;
- If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash;
- Transfers to the CRR must be budgeted for in the cash budget

Grant Funding

- Non capital expenditure funded from grants
 - must be budgeted for as part of the revenue budget;
 - Expenditure must be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such.
 - Capital expenditure must be budgeted for in the capital budget;
- All unutilized grants received must be ring fenced and cash backed by means of an investment.

7. OPERATING BUDGET

- (a) The municipality shall budget in each annual and adjustments budget for the contribution to:
- (i) provision for accrued leave entitlements .
 - (ii) entitlement of officials as at 30 June of each financial year,
 - (iii) provision for the impairment of debtors taking into account prior year, current year improvements and future improvement in debt collection percentages.
 - (iv) provision for the obsolescence and deterioration of stock in accordance with its stores management policy
 - (v) Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.
 - (vi) At least 2% of the operating budget component of each annual and adjustments budget shall be set aside for maintenance. (excluding Roads and PPP.)
 - (vii) Any other matters that need to be included in the budget.
- (b) When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.
- (c) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.
- (d) The operating budget shall reflect the impact of the capital component on:
- depreciation charges
 - repairs and maintenance expenses
 - interest payable on external borrowings.
 - other operating expenses.

8. FUNDING OF CAPITAL AND OPERATING BUDGET

- (a) The budget may be financed only from:
 - (i) realistically expected revenues, based on current and previous collection levels;
 - (ii) cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
 - (iii) borrowed funds in respect of the capital budget only.

9. UNSPENT FUNDS / ROLL OVER OF BUDGET

- (a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure.
- (b) Only unspent grant (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year
- (c) Conditions of the grant fund shall be taken into account in applying for such roll over of funds
- (d) No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made at least 30 days (31 May each year) prior the end of that particular financial year.
- (e) No unspent operating budget shall be rolled over to the next budget year

10. ADJUSTMENT BUDGET

Each adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenditure.

- (a) The chief financial officer shall ensure that the adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the executive mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the executive mayor on the revision of the IDP and the budget-related policies where these are indicated.
- (b) Council may revise its annual budget by means of an adjustments budget in terms of section 28 of the MFMA and according to the timelines of the Municipal Budget and reporting regulations section 23.
- (c) The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.
- (d) The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council.
- (e) The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.
- (f) An adjustments budget must contain all of the following:
 - (i) an explanation of how the adjustments affect the approved annual budget;
 - (ii) appropriate motivations for material adjustments; and
 - (iii) an explanation of the impact of any increased spending on the current and future annual budgets.
- (g) Any inappropriate surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget, but shall be appropriated to the municipality's capital replacement reserve.

- (h) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.
- (i) Unauthorised expenses may be authorised in an adjustments budget.
- (j) In regard to unforeseen and unavoidable expenditure, the following apply:
 - (i) the Executive mayor may authorise such expenses in an emergency or other exceptional circumstances in terms of Section 29 of the MFMA;
 - (ii) these expenses must be reported by the Executive mayor to the next Council meeting;
 - (iii) the expenses must be appropriated in an adjustments budget; and
 - (iv) Council must pass the adjustments budget within sixty days after the expenses were incurred.

11. BUDGET TRANSFERS AND VIREMENTS

Virement is the process of transferring budgeted funds from one line item number to another, with the approval of the relevant Executive Manager and CFO and Accounting Officer, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes. [{Section 28 \(2\) \(d\) MFMA}](#).

11.1 VIREMENT PROCEDURE

- a) All virement proposals must be completed on the appropriate documentation which is submitted to the CFO who recommends such virement to the Municipal Manager who will approve the virement.
- (b) After approval, the relevant documentation is forwarded to the BTO Office for implementation.
- b) All virements must be signed by the manager of the directorate within which the vote is allocated. (Section 79 MFMA)
- c) All virements should be approved in line with Council's System of Delegation.
- d) Projected cash flows in the SDBIP should be adjusted in line with the virement.
- e) All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 MFMA)
- f) All virements of funds between votes (directorates/departments) are not allowed.

11.2 VIREMENT RESTRICTIONS

- a) Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes).
- b) Virements between the capital budget and the operating budget are not allowed.
- c) No virement may be made where it would result in over expenditure of a line item [\(Section 32 MFMA\)](#)
- d) Virements should not result in adding 'new' projects to the Capital Budget.
- e) Virements towards personnel expenditure are not permitted.
- f) Budgets from the following line items may only be transferred by Financial Services:

- (i) Salaries and allowances
 - (ii) Depreciation
 - (iii) Capital Cost (Interest and Redemption)
 - (iv) Appropriations
 - (v) Contributions to Funds and Provisions
 - (vi) Administration Cost
 - (vii) Municipal Services Consumption (Water, Electricity, Refuse and Sewerage)
 - (viii) Any other accounting/ GRAP/ mSCOA related items
- g) Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges, grants to individuals, revenue foregone, insurance and VAT).
- h) An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement/supply chain management policy of Council as periodically reviewed.
- i) Virements may not be made between Expenditure and Income.

12. BUDGET IMPLEMENTATION

12.1 Monitoring

- (a) The accounting officer with the assistance of the chief financial officer and other executive managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
- funds are spent in accordance with the budget;
 - expenditure are reduced if expected revenues are less than projected; and
 - revenues and expenses are properly monitored.
- (b) The Accounting officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the Executive mayor for consideration and tabling to Council.
- (c) The Accounting officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

12.2 Reporting

12.2.1 Monthly budget statements

- (a) The accounting officer with the assistance of the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the Executive mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

The Chief Accountant: BTO will compile the report and reviewed by the Manager: BTO who submit it to chief financial officer for review. The CFO will submit the report after his/her review to the Accounting Officer

This report must reflect the following:

- (i) actual revenues per source, compared with budgeted revenues;
- (ii) actual expenses per vote, compared with budgeted expenses;

- (iii) actual capital expenditure per vote, compared with budgeted expenses;
 - (iv) actual borrowings, compared with the borrowings envisaged to fund the capital budget;
 - (v) the amount of allocations received, compared with the budgeted amount;
 - (vi) actual expenses against allocations, but excluding expenses in respect of the equitable share;
 - (vii) explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
 - (viii) the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
 - (ix) projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.
- (b) The report to the National Treasury must be both in electronic format and in a signed written document.

12.2.2 Quarterly Reports

- (a) The Executive mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.
- (b) The Chief Accountant: BTO will compile the report and reviewed by the Manager: BTO who submit it to the chief financial officer for review, who will then submit the report to the accounting officer for review.
- (c) The accounting officer will submit the report to the Mayor to review and submit to Council.

12.2.3 Mid-year budget and performance assessment

- (a) The Accounting officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.
- (b) The Chief Accountant: BTO will compile the report and reviewed by the Manager: BTO who submit it to the chief financial officer for review and CFO will submit report to the accounting officer for review.
- (c) The Accounting officer must then submit a report on such assessment to the Executive mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.
- (d) The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

13. CONCLUSION

All budgets and budget related documentation must be placed on the municipality's official website as prescribed by legislation.

ANNEXURE F

ASSET MANAGEMENT

POLICY



ASSET MANAGEMENT POLICY

Date Approved: **xxx**

Council Resolution (DC No): **DC xxxx**

INDEX

<u>1</u>	<u>INTRODUCTION</u>	157
<u>2</u>	<u>OBJECTIVE OF THIS POLICY</u>	157
<u>3</u>	<u>DEFINITIONS</u>	158
<u>4</u>	<u>STATUTORY AND REGULATORY FRAMEWORK</u>	161
<u>5</u>	<u>BACKGROUND</u>	161
<u>6</u>	<u>DELEGATION OF POWERS</u>	162
<u>7</u>	<u>EFFECTIVE ASSET MANAGEMENT</u>	163
<u>8</u>	<u>ACQUISITION OF ASSETS</u>	185
<u>9</u>	<u>PURCHASE OR HIRE OF IMMOVABLE PROPERTY</u>	186
<u>10</u>	<u>IMPLEMENTATION OF THIS POLICY</u>	187

1. INTRODUCTION

This Policy for the management of assets has been designed to assist management and officials of the Garden Route District Municipality with the description of management procedures for Property, Plant and Equipment, Investment Property, Agricultural Assets and Intangible Assets. It also should assist with the capacity to differentiate between activities, which are acceptable in terms of general authorization, supervisory responsibilities and limits of authority to the management of assets and functions of the organisation.

This Policy will provide certainty with respect to the handling of asset management procedures undertaken within the organization and will ensure that management and employees understand their respective responsibilities and duties.

There is a separate fixed asset property policy which resides under the Property Manager in the Department of Planning and Economic Development.

For the purpose of this policy, assets exclude inventory and monetary assets such as debtors.

2. OBJECTIVE OF THIS POLICY

The objective of this policy is to ensure that assets of the Municipality are properly managed and accounted for by: -

- The accurate recording of essential asset information;
- The accurate recording of asset movements;
- Exercising strict physical controls over all assets;
- Treating the assets correctly in the Municipality's financial statements and fixed asset register;
- Providing accurate and meaningful management information;
- Compliance with the Council's accounting policies and Generally Recognised Accounting Practices (GRAP);

- Adequate insuring of assets;
- Maintenance of Council's assets;
- Ensuring that managers are aware of their responsibilities with regard to the assets; and the responsibility of any custodian to whom assets are allocated.
- Setting out the standards of management, recording and internal controls so as to safeguard the assets against inappropriate utilisation or loss.

3. DEFINITIONS

Accounting officer means the municipal manager appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of section 60 of the Local Government: Municipal Systems Act 2000 (Act No. 32 of 2000).

Agricultural Activity is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

Agricultural Produce is the harvested product of the entity's biological assets.

A Biological Asset is a living animal or plant.

Assets are resources controlled by the municipality as a result of past events and from which future economic benefit or service potential are expected to flow. However for the purpose of this policy exclude inventory and other monetary assets.

Biological Transformation comprises the processes of growth, degeneration, production and procreation that cause qualitative or quantitative changes to a biological asset.

Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Chief Financial Officer means an officer of a municipality designated by the municipal manager to be administratively in charge of the budgetary and treasury functions.

Class of property, plant and equipment means a grouping of assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Community assets are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.

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 or where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of Standards of GRAP.

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

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

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

Heritage assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

An **impairment loss** of a cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An **impairment loss** of non-cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Infrastructure assets are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

Intangible assets are identifiable non-monetary assets without physical substance.

Investment properties are defined as property (land or a building-or part of a building-or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production and supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

Municipal valuation means the official valuation of an immovable property as reflected in the Municipality's valuation roll.

Other assets are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

Property, plant and equipment are tangible assets that:-

- are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- are expected to be used during more than one period.

Recoverable amount is the higher of a cash-generating asset's net selling price and its future value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its future value in use.

Residual value of an asset 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 condition expected at the end of its useful life.

Useful life is:-

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality's accounting officer.

4. STATUTORY AND REGULATORY FRAMEWORK

The Municipality shall, notwithstanding this policy, comply with all relevant legislative requirements, including:

- The Constitution of the Republic of South Africa; 1996
- Local Government: Municipal Systems Act; 2000
- Local Government: Municipal Finance Management Act; 2003
- Division of Revenue Act; 2005
- Generally Recognised Accounting Practice (GRAP)
- Supply Chain Management Legislation
- Asset Transfer Regulations

This document constitutes a policy statement and shall not take precedence over the standards specified by the Accounting Standards Board. The relevant accounting standards include amongst others:

- **GRAP 1** Presentation of Financial Statements;
- **GRAP 13** Leases;
- **GRAP 16** Investment Property;
- **GRAP 17** Property, Plant and Equipment;
- **GRAP 100** Non-Current Assets Held for Sale and Discontinued Operations;
- **GRAP 101** Agriculture; and
- **GRAP 102** Intangible Assets.

5. BACKGROUND

The utilization and management of property, plant and equipment, investment property, intangible assets and agricultural assets is the prime mechanism by which the Municipality can fulfil its constitutional mandates for:-

- Delivery of sustainable services;
- Social and economic development;
- Promoting safe and healthy environments; and

- Fulfilling the basic needs to the community.

As trustees on behalf of the local community, the Municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in assets.

The policy for the management of assets deals with the Municipal rules required to ensure the enforcement of appropriate stewardship of assets. Stewardship has two components being the:-

- Financial administration by the Chief Financial Officer; and
- Physical administration by the relevant managers.

Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposals by local government.

Accounting standards have been approved by the Accounting Standards Board to ensure the appropriate financial treatment for property, plant and equipment, investment property, intangible assets and agricultural assets. The requirements of these new accounting standards include:-

- The compilation of asset registers covering all assets controlled by the Municipality.
- Accounting treatment for the acquisition, disposal, recording and depreciation / amortisation of assets.
- The standards to which financial records must be maintained to comply with the new accounting standards.

6. DELEGATION OF POWERS

This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Executive Mayor and the Council and the Municipal Manager. All delegations in terms of this policy must be recorded in writing.

In accordance with the Local Government: Municipal Finance Management Act (Act 56 of 2003) (MFMA), the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/her. The Municipal Manager is therefore accountable for all transactions entered into by his/her designates.

The overall responsibility of asset management lies with the Municipal Manager. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing.

7. EFFECTIVE ASSET MANAGEMENT

7.1 Responsibilities

The Municipal Manager is responsible for the management of the assets of the Municipality, including the safeguarding and the maintenance of those assets. He/she must ensure that:-

- The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality.
- The Municipality's assets are valued in accordance with standards of Generally Recognized Accounting Practice (GRAP).
- The Municipality has and maintains a system of internal control of assets, including an asset register.
- Executive managers and their teams comply with this policy.

The Chief Financial Officer is responsible to the Municipal Manager to ensure that the financial investment in the Municipality's assets is safeguarded and maintained. He/she may delegate or otherwise assign responsibility for performing these functions but he/she will remain accountable for ensuring that these activities are performed. He/she must ensure that:-

- Appropriate systems of financial management and internal control are established and carried out diligently.
- The financial and other resources of the Municipality assigned to him/her are utilized effectively, efficiently, economically and transparently.
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented.
- The systems, processes and registers required to substantiate the financial values of the Municipality's assets are maintained to standards sufficient to satisfy the requirements of effective management.
- Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- The Executive managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.

The Executive Managers must ensure that:

- Appropriate systems of physical management and control are established and carried out for assets in their area of responsibility.
- The Municipal resources assigned to them are utilized effectively, efficiently, economically and transparently.
- Any unauthorized, irregular or fruitless or wasteful utilization and losses resulting from criminal or negligent conduct are prevented.
- Their management systems and controls can provide an accurate, reliable and up to date account of assets under their control.
- They are able to justify that their plans, budgets, purchasing, maintenance and disposal decisions for assets optimally achieve the Municipality's strategic objectives.

The executive managers may delegate or otherwise assign responsibility for performing these functions but they ***will remain accountable for ensuring that these activities are performed.***

Each executive manager should report to the Municipal Manager on issues that will significantly impede the item of asset capabilities to provide the required level of service or economic benefit.

The responsibility for the physical control of assets rests with the relevant executive manager to whom the responsibility was delegated to in terms of section 79 of the Municipal Finance Management Act, No 56 of 2003.

Each executive manager shall ensure that assets entrusted to him / her ***are adequately maintained, properly used and insured and ensure that section 78 of the Municipal Finance Management Act, No 56 of 2003, is adhered to.***

The Chief Financial Officer (Asset Unit), must be notified by the Heads Of Departments of any transfer of assets between departments after arrangements between the relevant executive managers were made.

Upon the resignation / retirement of an employee, the applicable executive manager must inform the Chief Financial Officer and Corporate Service Department in writing that the asset items entrusted to that employee to execute his / her duties are in good order and returned. When necessary the applicable senior manager must inform the Corporate Services Department of any losses and the value of such losses. The ultimate responsibility of any losses lies with the relevant executive manager.

7.2 Asset Register

Establishment and Management of the Register of Assets

The Chief Financial Officer will establish and maintain the Register containing key financial data on each item of Property, Plant or Equipment, Investment Property, Intangible Assets and Agricultural Assets that satisfies the criterion for recognition.

Executive managers are responsible for establishing and maintaining any additional register or database required to demonstrate their physical management of their assets.

Each executive manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, location and condition of all assets in their registers.

Contents of the Asset Register

- The measurement based used (Cost or Fair Value);
- The depreciation methods used;
- The original useful life;
- The revised useful life;
- The residual value;
- The revised residual value;
- Depreciation charged for the period;
- The accumulated depreciation;
- The gross carrying amount;
- Date of acquisition or brought into use;
- Date of disposal (if applicable);
- Increases or the decreases resulting from revaluations (if applicable);
- Date of last revaluation;
- Method of calculating recoverable amount (when impairment tests are required in terms of GRAP);
- Any restrictions on title to the asset;
- Location;
- Source of finance;
- Condition of the asset;
- Method of calculating the recoverable amount (when impairment losses are required in terms of GRAP);
- Strategic purpose and if it is required to provide minimum basic services; and
- Responsible Functional Manager/ department/ vote.
- Impairment losses incurred during the financial year (and the reversal of such losses, where applicable)

- 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 title deed number, in the case of fixed property

All Executive managers 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. A fixed asset shall remain in the fixed assets register for as long as it is in physical existence.

7.3 Classification of Assets

In compliance with the requirements of the National Treasury, the Chief Financial Officer shall ensure that all 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:-

7.3.1 Property, Plant and Equipment

- Land (not held as investment assets).
- Infrastructure assets (assets which are part of a network of similar assets).
- Community assets (assets contributing to the general well-being of the community).
- Heritage assets (culturally significant assets).
- Other assets (ordinary operational assets).
- Housing (rental stock or housing stock not held for capital gain).

Save for land and buildings other assets shall be classified under the following headings:

- Bins and Containers;
- Emergency Equipment;
- Disaster Management Equipment;
- Fire Engines;
- Plant and Equipment;
- Computer equipment;
- Office equipment;
- Furniture and fittings; and

- Motor Vehicles.

7.3.2 Investment Property

Investment assets (resources held for capital or operational gain and which are not used by the Municipality). Properties occupied by the Municipality, Councilors or officials are classified as owner-occupied property and are therefore not classed as investment property unless it is leased out on the same conditions that is applicable to the general public.

Investment properties will be treated in accordance with relevant GRAP standards and will separately be classified in the Statement of Financial Position.

7.3.3 Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance.

Intangible assets will be treated in accordance with relevant GRAP standards and will separately be classified in the Statement of Financial Position. Intangible assets shall be valued at cost less any accumulated amortization and any impairment losses.

7.3.4 Agricultural Assets

Agricultural Assets will be treated in accordance with relevant GRAP standards and will separately be classified in the Statement of Financial Position

7.3.5 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.

The Chief Financial Officer shall use the classifications indicated in the Annexure on estimated lives of assets, as a guideline and in the case of an item of assets not appearing in the Annexure shall use the classification applicable to the asset most closely comparable in the Annexure.

7.4 Recognition of Assets

7.4.1 Recognition of Heritage Assets

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 Statement of Financial Position purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

7.4.2 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 in reference to the relevant generally accepted accounting practice.

7.5 Capitalisation Criteria

7.5.1 Material Value

PPE and Intangible Assets

All assets may only be acquired in terms of council's Supply Chain Management Policy and in terms of the budgetary provisions. The responsibility for the purchase of assets would be delegated in terms of council's Delegation Framework and Supply Chain Management Policy. Depending on the cost of the asset to be purchased the following procedure for purchasing an asset must be followed:

- Executive managers shall at all times ensure that there are enough funds in their departmental budgets before requesting approval to any requisition to purchase an asset;
- Executive managers shall ensure that the correct vote and expenditure line item are used and recorded on the requisition requesting approval to purchase an asset;
- Tenders or quotations as required in terms of council's Supply Chain Management policy should be obtained and where required submitted to council's tender committee for approval;
- The tender committee resolution of the approved tender or recommended quotation should be attached to the requisition signed by the relevant head of department;
- The order would then be generated by the finance department;
- Once delivered the asset must be labeled / bar-coded by the Budget and Treasury department before such asset is put into use;
- The executive manager must indicate what the expected useful life of the asset will be;
- The executive manager should endorse receipt of the asset on the invoice and forwarded it for payment to the Finance department; and
- The Finance department would then generate payment.

The completion of any immovable asset by or under control of every head of department should promptly be declared to the Chief Financial Officer in writing stating the full details required for recording in the assets register.

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

The **original cost** of an item of PPE or intangible assets may include:

- Cost price;
- Financing costs (MFMA section 46(4));
- Import tax;
- Non-claimable purchase tax; and
- 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.

When payment for an item of PPE or intangible assets is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as an interest expense over the period of credit.

When an item of PPE is acquired to be exchanged or partly exchanged for a dissimilar item of PPE or other asset, the cost of such item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents paid additional. For the purpose hereof, "fair value" shall be determined by the council with due regard to the definition ascribed to fair value in paragraph 2 hereof.

The only exceptions to this rule shall be revalued items of PPE (see part 7.9 below) and heritage assets in respect of which no depreciation is recorded in the fixed asset register.

Subsequent expenditure

Subsequent expenditure relating to an asset that has already been capitalized, should only be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.

Investment Property

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of purchased investment property includes all directly attributable expenditure (professional fees for legal services, property transfer taxes and other transaction costs).

When payment for an investment property is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as an interest expense over the period of credit.

When investment property is acquired to be exchanged or partly exchanged for a dissimilar investment property or other asset, the cost of such item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents paid additional. For the purpose hereof, "fair value" shall be determined by the council with due regard to the definition ascribed to fair value in paragraph 2 hereof.

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Subsequent expenditure relating to an asset that has already been capitalized, should only be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.

In terms of GRAP 16 transfers to and from investment property shall be made when there is a change in use:

- (a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) Commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) End of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) Commencement of an operating lease to another party, for a transfer from inventories to investment property.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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 and installation, assembly and communication costs.

7.5.2 Intangible Items

Assets that meet the criteria of GRAP 102 (Intangible Assets) shall be recognized as Intangible Assets at cost.

7.6 Depreciation

7.6.1 Depreciation of PPE and Investment Property

All PPE and Investment Property, 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 PPE and Investment Property are 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 an annual basis against the appropriate line item in the department or vote in which the item of PPE and Investment Property is used or consumed.

However, depreciation shall initially be calculated from the day following the day in which an item of PPE and Investment Property are acquired or – in the case of construction works and plant and machinery – the day following the day in which the item is brought into use, until the end of the year concerned. Thereafter, depreciation charges shall be calculated annually.

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 PPE and Investment Property 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 PPE.

7.6.2 Rate of Depreciation and Amortisation

The relevant head of department shall assign a useful operating life to each depreciable item of PPE and Investment Property recorded on the Municipality's asset register. In determining such a useful life the relevant head of department shall use to the useful lives set out in the annexure to this document and relevant historical experience as a guideline.

In the case of an item of PPE or Investment Property which is not listed in this annexure, the relevant head of department in consultation with the Chief Financial Officer shall determine a useful operating life, and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.

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 PPE.

7.6.3 Method of Depreciation

The Chief Financial Officer shall allocate the depreciable amount of all depreciable PPE and intangible on a systematic basis over its useful life.

The residual value and useful life of an asset shall be reviewed at least at each reporting date by each executive manager and, if expectations differ from previous estimates, the changes shall be accounted for as a change in accounting estimate in accordance with GRAP 3.

7.7 Amendment of Asset Lives and Diminution in the Value of PPE

A printout of the asset register indicating the current remaining useful lives of all assets allocated to a department will be distributed by the Chief Financial Officer to all Heads of Department annually. All Heads of Department must review the remaining useful lives of the assets under their control. Any changes in useful lives must be communicated to the Chief Financial Officer in order for the Finance Department to make the required changes to the Fixed Asset Register. All changes will be treated as Changes in Accounting Estimates in terms of GRAP 3 in the annual financial statements.

The Heads of Department shall request the Chief Financial Officer to amend the useful operating life assigned to any item of PPE if it becomes known that such item 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 item's economic benefits or service potential will be consumed.

If the value of an item of PPE, Investment Property or intangible assets has been diminished to such an extent that it has no or a negligible further useful operating life or value such item shall be fully depreciated or eradicated in the financial year in which such diminution in value occurs.

Similarly, if an item of PPE and Investment Property 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 item has physically ceased to exist, it shall be written off in the fixed asset register.

In all of the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the item of PPE, Investment Property or intangible asset in question.

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

Additional depreciation not budgeted for as a result of unforeseeable or unavoidable circumstances must be provided for in an adjustments budget and, if such circumstances arises close to the end of the financial year and there will not be time for Council to consider the adjustments before the end of the financial year, may in advance be approved by the Mayor in terms of Section 29 of the MFMA, provided that any other provisions of the MFMA be complied with.

7.8 Funding of PPE and Reserves

The purchase of assets may be funded from the raising of external loans, leases, government- and public contributions, the Capital Replacement Reserve and surplus cash.

7.9 Other Write-offs of PPE

An item of PPE, shall be written off when it can no longer be used, in consultation with the Head of Department controlling or using the item concerned.

Every Head of Department shall report to the Chief Financial Officer on 31 October and 30 April of each financial year on any item of PPE 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 notify the Council on the PPE to be written off.

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

If an item of PPE must be written off as a result of an occurrence out of the control of the municipality, such as malicious damage, theft or destruction, the municipal manager must determine whether a third party or an employee was involved in the loss and take all reasonable steps to recover such loss, including reporting the incident to the South African Police Services and the Auditor General, the insurance as well as institute disciplinary steps against any employee who might have been involved in such incident.

In every instance where a not fully depreciated item of PPE 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 item concerned.

7.10 Management and Operation of Assets

7.11.1 Accountability to manage assets

Each Executive Manager is accountable to ensure that Municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This will include:-

- Developing appropriate management systems, procedures, processes and controls for managing assets;
- Providing accurate, reliable and up to date account of assets under their control; and
- The development and motivation of relevant strategic asset management plans and operational budgets that optimally achieve the Municipality's strategic objectives.

7.11.2 Contents of a strategic management plan

Executive Managers need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, the Executive Manager will need to develop strategic asset management plans that cover:-

- Alignment with the Integrated Development Plan;
- Operational guidelines;
- Performance monitoring;
- Maintenance programs;
- Renewal, refurbishment and replacement plans;
- Disposal and Rehabilitation plans;
- Operational, financial and capital support requirements, and
- Risk mitigation plans including insurance strategies

The operational budgets are the short to medium term plan for implementing this strategic asset management plan.

7.11.3 Reporting on Emerging Issues

Each Functional Manager should report to the Municipal Manager on issues that will significantly impede the item of asset capabilities to provide the required level of service or economic benefit.

7.11.4 Verification of Assets

The Municipality shall at least once during every financial year undertake on a date as determined by the CFO a comprehensive verification of all moveable assets controlled or used by all the departments of the Municipality.

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

verification, provided that each such item of asset verification shall be undertaken and completed during April of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 31 May of the year in question.

7.11.5 Movement of Assets

Movement of moveable assets to be undertaken as per Standard operating procedures in annexure A.

7.11 Alienation of 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 and the Municipal Asset Transfer Regulations

Every head of department shall report in writing to the Chief Financial Officer on 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 moveable asset with a carrying value less than R50 000 (fifty thousand rand). The council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R50 000 (fifty thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004.

In terms of Section 14 of the Municipal Finance Management Act, 2004 the Municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of assets needed to provide the minimum level of basic municipal services.

The Municipality may transfer ownership or otherwise dispose of assets other than one contemplated above, but only after the Council, in a meeting open to the public:-

- has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
- has considered the fair market value of the item and the economic and community value to be received in exchange for the asset.

The decision that a specific asset is not needed to provide the minimum level of basic municipal services, may not be subsequently reversed by the Municipality after that asset has been sold, transferred or otherwise disposed of.

Once the fixed assets are alienated, the Chief Financial Officer shall treat the disposal of the items in terms of GRAP and amend the relevant records of 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 Statement of Financial Performance 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 Statement of Financial Performance of the department or vote concerned.

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 Municipal Asset Transfer Regulations.

7.12 Maintenance

7.12.1 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 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 or the earliest Council meeting thereafter, 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 item concerned.

7.12.2 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, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the annual financial statements. Such note shall also indicate any plans which the Council 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 re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the Head of Department controlling or using such item, and shall recalculate the increased annual depreciation expenses accordingly.

7.12.3 General Maintenance of Assets

Every Head of Department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in part 7.13.1 and part 7.13.2 above) are properly maintained and in a manner which will ensure that such item attain their useful operating lives.

7.13 Replacement Strategy

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 assets. Such norms and standards shall be incorporated in a formal strategy, which shall be submitted to the Council for approval. **This strategy shall cover the replacement of motor**

vehicles, furniture and fittings, computer equipment, and any other appropriate operational items.

Such strategy shall also provide for the replacement of assets which are required for service delivery but which have become uneconomical to maintain.

7.14 Insurance of Assets

The municipal manager or heads of departments to whom the responsibility of the assets have been delegated shall ensure that all movable assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils. The municipal manager and heads of department will annually revise council insurance portfolio to ensure that all assets are adequately insured. The services of an insurance broker would be required in terms of council's Supply Chain Management policy.

Any theft, loss or damage to an asset should immediately be reported to council's insurance brokers by the relevant head of department under whose responsibility the asset falls. A copy of the insurance claim submitted should be forwarded to the Chief Financial Officer who must record such claim in the insurance register. It is the responsibility of the relevant head of department to ensure that all documents / information for the completion of the claim is forwarded to council's insurance brokers and that copies thereof is forwarded to the Chief Financial Officer. The head of department should in writing request the replacement of the asset which can only be authorized, if sufficient provision for the replacement of the asset is on the capital budget, by the Municipal Manager after consultation with the Chief Financial Officer. If sufficient provision is not on the capital budget the asset can only be replaced if provision for the replacement is made on an Adjustments budget. In the case where an asset must be replaced as an emergency measure, the Mayor may authorise such expenditure, subject to compliance with Section 29 of the MFMA.

Third-party (insurance) pay-outs must be treated as revenue when the amount is certain and may not be offset against the cost of replacing the item. The carrying value of items lost, stolen or damaged beyond repair must be treated as impairment against the relevant department or vote. The full cost of the replacement item must then be capitalised.

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.

7.15 Impairment of Assets

The accounting treatment relating to impairment losses is outlined in GRAP 21 and GRAP 26.

7.15.1 Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(b) Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the Municipality 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, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The

reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

7.15.2 Non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect 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 in which the Municipality operates.

(b) Internal sources of information

- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the Municipality 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, an asset is used or is 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.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

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

- Departments will identify and inform the Chief Financial Officer of assets that:
 - Are in a state of damage at year end.
 - Are technologically obsolete at year end. .
 - 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.

- The recoverable amounts of these assets need to be determined by calculating the net selling price per asset and value-in-use as defined above.

8. ACQUISITION OF ASSETS

8.1 Pre-acquisition Planning

Before a capital project is included in the budget for approval, the Chief Financial Officer must demonstrate that he/she has considered the following:

- The projected cost over all the financial years until the project is operational;

- The future operational costs and revenue on the project, including the tax and tariff implications;
- The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- The physical and financial stewardship of that asset through all stages of its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
- The inclusion of the capital project in the Integrated Development Plan and future budgets; and
- Alternatives to the capital purchase.

The heads of department are accountable to ensure that the Chief Financial Officer receives all reasonable assistance, guidance and explanation to enable him to achieve his planning requirements.

8.2 Approval to Acquire Property, Plant and Equipment

Money can only be spent on a project if:

- The money has been appropriated in an approved budget;
- The project, including the total cost has been approved by the Council;
- The Chief Financial Officer confirms that funding is available for that specific project; and
- Any contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed.

Funding of Capital Projects

Within the Municipality's on-going financial, legislative or administrative capacity, the Chief Financial Officer must establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the Integrated Development Plan. The acquisition of assets may not be funded over a period longer than the useful life of that asset.

9. PURCHASE OR HIRE OF IMMOVABLE PROPERTY

The municipality may acquire by purchase, or by hire, immovable property within- or outside the municipal boundary provided it complies with the requirements of the MFMA and the Supply Chain Management policy and subject to the following:

- The cost of the purchase or hire had been budgeted for; and
- The intention to buy or hire the immovable property had been advertised for public comment.
- After consideration of any public comments/objections the Council will:-
 - In the case of the following paragraph complies with the requirements of that paragraph; and
 - In the case of all other immovable property, finally resolve to continue with the purchase or hire and apply the supply chain management processes
- The Council will not continue with the purchase or hire of any immovable property where:
 - The price is in excess of the market value thereof as assessed by an appraiser; or
 - The rental which, when calculated per annum in the case of:
 - Immovable property hired for agricultural purposes, exceeds six percent; and
 - Immovable property hired for any other purpose, exceed twelve percent of the market value of the property, as assessed by an appraiser.

The Council may accept a gift or conveyance of immovable property either for the municipality or in trust for charitable or other public purposes not connected with public worship, and hold the same in such trust or for such purpose as may be declared by such donors and may administer, utilize and improve such property.

The trustees of any immovable property held in trust for any township village of settlement which has become a municipality or part of a municipality may transfer such property to the Council, subject to any special trusts in their deeds of title and upon conditions not at variance therewith.

10. IMPLEMENTATION OF THIS POLICY

This policy to be implemented as approved by Council Decision DCxxx, 28 May 2019. All future asset management must be done in accordance with this policy.

This policy must be reviewed annually by the Accounting Officer and the CFO for any legislative or General Accounting Practise changes in consideration with audit recommendations for the Auditor General.

APPENDIX A

SCHEDULE OF EXPECTED USEFUL LIVES OF ASSETS (to be used as a guide only, every asset's useful life must be determined individually)

	<i>Years</i>		<i>Years</i>
<u>Infrastructure</u>		<u>Other</u>	
Roads and Paving	7 - 32	Buildings	5 - 32
		Other vehicles	2 - 34
<u>Community</u>		Office equipment	3 - 32
Buildings	7 - 32	Furniture and fittings	1 - 33
Recreational Facilities	32	Bins and containers	8 - 32
Parks and gardens	22	Specialised plant and	
Investment Property Buildings	- 29 -32	Equipment	2 - 32
		Fire Engines	3 - 34
		Emergency equipment	6 - 22
		Computer equipment	1 - 32
		Computer Software	2 - 18

Annexure A : Movement of Moveable Assets

- Do not move assets without having completed an asset transfer form (Annexure B), signed off by the Executive Manager of the department; the form to be submitted to Asset Management Unit (Finance) within 3 working days of being.
- Keep assets issued to you personally (laptops, camera's, etc.) safely and in good working condition. Assets will not be readily replaced and that could hamper your work performance. If there are any assets not in good working condition please inform asset management for them to be repaired as this will affect the value of our assets in our books if it is not in good working condition during asset verification or audit process.
- Ensure that assets in your possession are barcoded if not inform asset management (Finance) to have the item barcoded.
- If there are any concerns regarding missing assets that might have been moved without following the correct process of filling in the Assets transfer form, please raise the matter immediately with asset management unit for the item to either be moved back to your office or the process be ratified (Asset Register – Location of Asset, filling in of asset transfer form)
- If you are aware of stolen assets or missing assets that have not been located please inform asset management unit to allow the due process regarding assets to be ensued, otherwise failure to do will result in the official to whom the asset was entrusted as personally liable for the recovery cost of the asset
- Every room should have an asset list mounted at the back each door listing all assets in that room. If you become aware that a room /office does not have one, please inform asset unit immediately.
- Asset list to be reviewed very month by the allocated user/occupant of the office or room, to ensure that all assets in the office exist, they are complete and in good working condition. (Ensure that they still have their Bar Codes)
- Any missing assets on the list but not in the office/room to be reported to asset unit immediately.
- Any unidentified asset in the room but not listed in the room asset list to be reported to the asset unit. (Asset Unit will remove the asset and place it in the allocated location as per asset register)

Matters of Emphasis

1. All transfer of asset forms completed to be signed off by the relevant head of department with the approval of the designated official and sent to Asset unit (Ext. 1325 or 1303).
2. Should there be any discrepancies between the Asset register and the assets in your custody and no formal documentation indicating their movement; report the matter to asset unit immediately.
3. Every person to whom assets are allocated are responsible to ensure the assets are safeguarded and any theft/damage is immediately reported. Reasonable care must be exercised to safeguard the assets. Negligence to safeguard assets can lead to investigated procedures to be initiated which can potentially lead to disciplinary action.

Annexure B: Asset Transfer Form:

Application for Asset Transfer

Asset No	From Location	To Location

Requested	Authorised By	Date

Received By	Date

ANNEXURE G

FUNDING AND RESERVE POLICY



FUNDING AND RESERVES POLICY

Date Approved: **27 May 2016**

Council Resolution **1054/05/16**
(DC):

INDEX

1.	INTRODUCTION AND OBJECTIVE	2
2.	SECTION A: FUNDING POLICY	2
2.1	LEGISLATIVE REQUIREMENTS	2
2.2	STANDARD OF CARE	2
2.3	STATEMENT OF INTENT	2
2.4	CASH MANAGEMENT	3
2.5	DEBT MANAGEMENT	3
2.6	FUNDING THE OPERATING BUDGET	3
2.7	FUNDING THE CAPITAL BUDGET	3
2.8	FUNDING COMPLIANCE MEASUREMENT	5
3.	SECTION B: RESERVES POLICY	7
3.1	INTRODUCTION	7
3.2	LEGAL REQUIREMENTS	7
3.3	TYPES OF RESERVES	7
3.4	ACCOUNTING FOR RESERVES	8
4.	SECTION C: REVIEW OF THE POLICY	8

FUNDING AND RESERVE POLICY

1. INTRODUCTION AND OBJECTIVE

The Council sets as objective a long term financially sustainable municipality with acceptable levels of service delivery to the community.

This policy aims to set standards and guidelines towards ensuring financial viability over both the short- and long term and includes funding as well as reserves requirements.

2. SECTION A: FUNDING POLICY

2.1 LEGISLATIVE REQUIREMENTS

In terms of Sections 18 and 19 of the Municipal Finance Management Act (Act No 56 of 2003) (MFMA), an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes. and
- Borrowed funds, but only for capital projects.

Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

The requirements of the MFMA are therefore clear in that the budget must be cash – funded i.e. cash receipts inclusive of prior cash surpluses must equal or be more than cash paid.

In determining whether the budget is actually cash funded and in addition ensuring long term financial sustainability, the municipality will use analytical processes, including those specified by National Treasury from time to time.

2.2 STANDARD OF CARE

Each functionary in the budgeting and accounting process must do so with judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise to the management of his or her own finances with the primary objective of ensuring that the objectives of this policy are achieved.

2.3 STATEMENT OF INTENT

The municipality will not pass a budget which is not cash – funded or where any of the indicators as listed in this document are negative, unless acceptable reasons can be provided for non-compliance, provided that the requirements of the MFMA must at all times be adhered to.

2.4 CASH MANAGEMENT

Cash must be managed in terms of the municipality's Cash Management and Investment Policy.

2.5 DEBT MANAGEMENT

Debt must be managed in terms of the municipality's Debt Management and credit control Policy, together with any requirements in this policy.

2.6 FUNDING THE OPERATING BUDGET

2.6.1 INTRODUCTION

The municipality's objective is that the user of municipal resources must pay for such usage in the period it occurs.

The municipality however, recognizes the plight of the poor, and in line with national and provincial objectives, the municipality commits itself to subsidized services to the poor. This will necessitate cross subsidization in funding to be calculated in the budget process.

2.6.2 GENERAL PRINCIPLE WHEN COMPILING THE OPERATING BUDGET

The following specific principles apply when compiling the budget:

- a) The budget must be cash – funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;
- b) Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information and in any line with any budget circulars issued by National and Provincial Treasury;
- c) Tariff adjustments must be fair;
- d) Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in the Division of Revenue Act, proven provincial transfers and any possible transfers to or from other municipalities.

For the purpose of the Cash flow budget any National or Provincial grants that have been re-appropriated for roll-over purposes must be excluded from the calculation as it must be included in changes in Cash and Cash Equivalents and Payables.

Furthermore, in the budget the total grants recognised as revenue must equal the total expected expenditure from grants, inclusive of capital expenditure and VAT as per directive given in MFMA circular 48.

- e) Projected revenue from services charges must be reflected as net (all billing less revenue foregone, which is free basic services, discounts and rebates).
- f) Only changes in fair values related to cash may be included in the cash flow budget. Changes to unamortised discount must be included in the Operating Budget but excluded in the cash flow budget.
- g) Employee related costs include contributions to non-current and current employee benefits. It is acknowledged that the non-current benefits' requirements are well above the initial cash capabilities of the municipality, and it is therefore determined

that provision for the short term portion of employee benefits, as well as an operating surplus calculated at the minimum of 10% of the prior year balance of the long-term benefits not yet cash-funded, be included in the operating budget, in order to build sufficient cash for these requirements. The cash portion of the employee benefits must be accounted for in an "Employee Benefits Reserve".

h) Depreciation must be fully budgeted for in the operating budget.

In order to ensure a sufficient accumulation of cash for the replacement of Property, Plant and Equipment and Intangible Assets, the amount of depreciation on assets funded from own sources, excluding assets funded from grants, public contributions and external loans must be reflected as a surplus on the cash flow budget. Capital Replacement Reserve must be fully cash funded and amount equal to the annual depreciation/amortisation must be transferred to the Capital Replacement Reserve annually.

i) Contributions to provisions (non-current and current) do not form part of the cash flow. It is however, necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed. All provisions must be cash backed and cash set aside for the payment of these contributions as they become due and payable.

2.7 FUNDING THE CAPITAL BUDGET

2.7.1 INTRODUCTION

The municipality's objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non-existent.

In order to achieve this objective the municipality must annually, within financial means, budget for the replacement of redundant assets as well as new assets.

2.7.2 FUNDING SOURCES FOR CAPITAL EXPENDITURE

The capital budget can be funded by way of own contributions, grants, public contributions as well as external loans.

Own Contributions

The capital budget financed from own contributions must primarily be funded from the Capital Replacement Reserve which must be cash funded and/or current year surplus revenue.

Notwithstanding the above the capital budget or portions thereof may also be funded from surplus cash. The allocations of the funding sources from own contributions are determined during the budget process.

Annually the depreciation/amortization amount must be transferred to the capital replacement reserve. When the capital replacement reserve is utilized for the funding of the capital budget, the capital replacement reserve must be replenished within two years to

ensure adequate cash is available in the reserve to fund unforeseen and unavoidable capital purchases that was not included in the original budget.

Grants (Including Public Contributions)

Grants for capital expenditure have become a common practice, especially in order to extend service delivery to previously disadvantaged areas. While such grants are welcomed, care should also be taken that unusual grant funding does not place unreasonable burden on the residents for future maintenance costs which may be higher than their ability to pay.

It is therefore determined that the accounting officer must evaluate the long term effect of unusual capital grants on future tariffs, and if deemed necessary, report on such to Council.

It is furthermore determined that the depreciation charges on assets financed from grants and donations must not have a negative effect on tariffs charged to the users of such assets. The Accounting Officer must put such accounting measures in place to comply with this requirement, to a reasonable extent.

External Loans

The municipality may only raise loans in accordance with its Debt Management Policy.

The Accounting Officer must also put such accounting measures in place to ensure that no unspent portions of loans are utilised for operating purposes.

For budgeting purposes any difference between proposed capital spending from loans and proposed loans raised must be included in the cash surplus for the year. Given the revenue restraints of a district municipality detail cost analysis must be performed for considering raising loans and the ability to repay such obligations as they become due and payable. Loans must be used for purchasing of cash generated assets to ensure a constant revenue stream to be utilized for the repayment of such loans.

2.8 FUNDING COMPLIANCE MEASUREMENT

2.8.1 INTRODUCTION

The municipality wants to ensure that the budget or adjustments budget complies with the requirements of the MFMA and this policy. For this purpose a set of indicators must be used as part of the budget process and be submitted with the budget. These indicators include all the indicators as recommended by National Treasury as well as reconciliations according to this policy. Any additional indicators recommended by National Treasury in future must also be taken into account, as well as any additional reconciliation items as either determined by the Council or the Accounting Officer.

If any of the indicators are negative during the compilation or approval process of the budget, the budget may not be approved until all the indicators provide a positive return, unless any negative indicators can be reasonably explained and future budget projections address the turn-around of these indicators to within acceptable levels.

2.8.2 CASH PLUS INVESTMENTS LESS APPLICATION OF FUNDS

The overall cash position of the municipality must be sufficient to include:

- unspent conditional grants;
- unspent conditional public contributions;
- unspent borrowings;
- VAT due to SARS;
- secured investments;
- the cash portion of statutory funds such as the Housing Development Fund;
- other working capital requirements; and
- In addition, it must be sufficient to back reserves as approved by the municipality and the portions of provisions as indicated elsewhere in this policy.

2.8.3 SURPLUS/DEFICIT EXCLUDING DEPRECIATION OFFSETS

Should the budget result in a deficit after the offsetting, the budget will be deemed unfunded and must be revised. Annually the depreciation/amortization amount must be transferred to the capital replacement reserve to build up the reserve and it must be cash funded.

3. SECTION B: RESERVES POLICY

3.1 INTRODUCTION

The municipality recognises the importance of providing to the municipality itself, as well as its creditors, financiers, staff and general public a measure of protection for future losses, as well as providing the necessary cash resources for future capital replacements and other current and non-current liabilities.

This policy aims to provide for such measure of protection by creating certain reserves.

3.2 LEGAL REQUIREMENTS

There are no specific legal requirements for the creation of reserves, except for the Housing Development Fund, however this is not applicable to district municipalities currently. The GRAP Standards itself also do not provide for reserves.

However, the GRAP “Framework for the Preparation and Presentation of Financial Statements” states in paragraph 91 that such reserves may be created, but “Fund Accounting” is not allowed and any such reserves must be a “legal” reserve, i.e. created by law or Council Resolution.

3.3 TYPES OF RESERVES

Reserves can be classified into two main categories being “cash funded reserves” and “non – cash funded reserves”.

3.3.1 CASH FUNDED RESERVES

In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserves:

(a) Capital Replacement Reserve (CRR)

The CRR is to be utilised for future capital expenditure from own funds and may not be used for maintenance– or other operating expenditure. This fund must be fully cash backed.

(b) Capital Replacement Reserve for regional landfill site

The once off payment as stipulated in the Private Partner Public Agreement paragraph 29 for the regional landfill site must be placed in a separate capital reserve and must be cash backed and may only be utilized for purposes of the regional landfill site.

(c) Rehabilitation Reserve

The operation, licensing, management and closure of landfill sites in South Africa is highly regulated. The objective of the legislation is to minimize the potential impact that landfill sites can, or may have on the environment.

The rehabilitation of the landfill site is legislatively required to ensure that the site is environmentally acceptable after the landfill site has stopped receiving waste. Garden Route District Municipality is in the process of erecting a regional landfill site in conjunction with a Private Partner, and a PPP agreement will be signed to govern this process. The agreement will be for ten (10) years and local municipalities will partake in this project and contribute monthly towards the operational cost of the regional landfill site as well the administration and rehabilitation cost.

The monthly rehabilitation cost contribution received from the participating local municipalities must be transferred to a cash funded reserve set aside for the rehabilitation cost payable after the landfill site has reached the end of its useful live.

(d) Employee benefit reserve

To be utilized for any provision of employee related benefits/provisions and must be cash backed.

3.3.2 NON CASH FUNDED RESERVES

Currently the district municipality do not have any such reserves.

ANNEXURE H
SUPPLY CHAIN MANAGEMENT
POLICY



SUPPLY CHAIN MANAGEMENT POLICY

Adopted by Council: 29/05/17 COUNCIL RESOLUTION DC 162/05/17

"In review process to be finalized in May 2020".

LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003

Date of adoption: **[29/05/17]**

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

TABLE OF CONTENTS

1. Definitions	5
CHAPTER 1	
IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY	
2. Supply chain management policy	7
3. Adoption & Amendment of supply chain management policy	8
4. Delegation of supply chain management powers and duties	9
5. Sub-delegations	10
6. Oversight role of council	12
7. Supply chain management units	13
8. Training of supply chain management officials	13
CHAPTER 2	
SUPPLY CHAIN MANAGEMENT SYSTEM	
9. Format of supply chain management system	14
<i>Part 1: Demand management</i>	
10. Demand management system	14
<i>Part 2: Acquisition management</i>	
11. Acquisition management system	18
12. Range of procurement processes	20
13. General preconditions for consideration of written Quo tations or bids	20
14. Lists of accredited prospective providers	22
15. Petty cash purchase	23
16. Written or verbal quotations	24
17. Formal written price quotations	24
18. Procedures for procuring goods or services through written or verbal quotations and formal written price quotations	25
19. Competitive bidding process	26
20. Process for competitive bidding	27
21. Bid documentation for competitive bids	28
22. Public invitation for competitive bids	30

23.	Procedure for handling, opening and recording of bids	31
24.	Negotiations with preferred bidders	32
25.	Two-stage bidding process	32
26.	Committee system for competitive bids	32
27.	Bid specification committees	33
28.	Bid evaluation committees	35
29.	Bid adjudication committees	35
30.	Asset Disposal committee	37
31.	Procurement of banking services	38
32.	Procurement of IT related goods or services	38
33.	Procurement of goods and services under contracts secured by other organs of state	39
34.	Procurement of goods necessitating special safety Arrangements	39
35.	Proudly SA Campaign / Proudly Garden Route	40
36.	Appointment of consultants	40
37.	Deviation from and ratification of minor breaches of, Procurement processes	41
38.	Transversal Bids	42
39.	Unsolicited bids	43
40.	Combating of abuse of supply chain management system	45
40B.	Contract management	47

Part 3: Logistics, Disposal, Risk and Performance Management

41.	Logistics management	48
42.	Disposal management	51
43.	Risk management	52
44.	Performance management	53

Part 4: Other matters

45.	Prohibition on awards to persons whose tax matters are not	
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	in order	54
46.	Prohibition on awards to persons in the service of the state	54
47.	Awards to close family members of persons in the service of the state	54
48.	Ethical standards	55
49.	Inducements, rewards, gifts and favours	55
50.	Sponsorships	56
51.	Objections and complaints	56
52.	Resolution of disputes, objections, complaints and queries	56
53.	Contracts providing for compensation based on turnover	57
54.	The Construction Industry Development Board (CIDB) has been established by Government to promote uniform application of policy to the construction industry	57
55.	Commencement	58
	Annexure A: Supply Chain Management Processes	59
	Annexure B: Municipal Code of Conduct for Supply Chain Management Officials and other role players within Supply Chain Management process	65
	Annexure C: Standard for Infrastructure Procurement and Delivery Management	69

1. Definitions

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

“Central Supplier Database (CSD)” means National Treasury’s web based Vendor Management Database established as per MFMA circular No. 81, Municipal Finance Management Act No. 53 of 2003. www.csd.gov.za effective as 01 July 20016

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

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

“emergency” means is a serious, unexpected, unforeseen and potentially dangerous and damaging situation requiring immediate action and which is not due to lack of planning, if left unattended will cause a serious health/life threatening risk or adverse financial ramifications.

“e-Tender publication portal” means National Treasury’s central web based publication platform to ensure goods, services and works are procured in a manner that is fair, equitable, transparent, competitive and cost effective by advertising centrally as an invitation to prospective bidders to submit bids. www.etenders.gov.za

“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) an executive member of the accounting authority of any national or provincial public entity; or
- f) an employee of Parliament or a provincial legislature;

“contract of long term nature” means a contract with a duration period exceeding the three year MTREF period as per section 33 of the MFMA;

“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; or Central Supplier Database

“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)

“PPPFA” means the preferential Procurement policy framework Act, no 5 of 2000

“Executive Manager” reporting directly to the Accounting Officer” means an executive manager in the employment of the Garden Route District Municipality who heads a department and reports to the Municipal Manager

“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.

CHAPTER 1

IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY

2. Supply chain management policy

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

- a. gives effect to –
 - (i) section 217 of the Constitution; and
 - (ii) Part 1 of Chapter 11 and other applicable provisions of the Act;
- b. is fair, equitable, transparent, competitive and cost effective;
- c. complies with –
 - (i) the Regulatory framework prescribed in chapter 2 of 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:
 - (i) The Preferential Procurement Policy Framework Act
 - (ii) The Preferential Procurement Regulation, 2017
 - (iii) The Broad Based Black Economic Empowerment Act
 - (iv) The Construction Industry Development Board Act
 - (v) The Local Government: Municipal Systems Act
 - (vi) The Promotion of Administrative Justice Act
 - (vii) The Promotion of Access to Information Act
- 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.
- g. assigns the responsibility for the implementation of policy to the Accounting Officer of the Municipality.

(2) The Municipality may not act otherwise than in accordance with the supply chain management policy *when* –

- (i) Procuring goods or services

- (ii) Disposing of goods no longer needed or which have become redundant
 - (iii) Disposing or letting of fixed assets, including land needed have proven commercial value no longer required for basic municipal service
 - (iv) Selecting contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the Municipal Systems Act applies; or
 - (v) Selecting 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.

3. Adoption and amendment of the supply chain management policy

- (1)** The accounting officer must
- a) at least annually review the implementation of this Policy;
 - b) review compliance to norms and standards cost efficiency of the supply chain management process; and
 - c) when the accounting officer considers it necessary submit proposals for the amendment of this Policy to the council.
- (2)** If the accounting officer 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.

(4) The desired outcome of the policy is to provide mechanism to ensure sound, sustainable and accountable Supply Chain Management within the Garden Route District Municipality while promoting the following LED objectives:

- (i) to stimulate and promote local economic development in a targeted and focused manner as per **Regional Economic Development Strategy and Regional Economic Policy**;
- (ii) to promote resource efficiency and reduce the negative environmental impact of daily operations of the Garden Route District;
- (iii) to facilitate creation of employment and business opportunities for the people of the Garden Route District with particular reference to Preferential Procurement Policy Framework Act, 2000, Preferential Procurement Regulations, 2017, and **setting specific B-BEEE rating targets for all procurement above a range as determined by council over a period of the contract.**
- (iv) to promote the competitiveness of regional businesses within approved Regional Economic Development Strategy;

4. Delegation of supply chain management powers and duties

1)The council hereby delegates all powers and duties to the accounting officer which are necessary to enable the accounting officer –

- a) to discharge the supply chain management responsibilities conferred on accounting officers in terms of –
 - (i) Chapter 8 or 10 of the Act; and
 - (ii) this Policy;
- b) to maximise administrative and operational efficiency in the implementation of this Policy;
- c) to enforce reasonable cost-effective measures for the prevention of fraud, corruption, 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 subparagraph (1).

3)The accounting officer 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.

5. 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.

(2) The power to make a final award –

a) above R 10 million (VAT included) may not be sub delegated by the accounting officer;

b) above R 2 million (VAT Included), but not exceeding R 10 Million (VAT Included), may be sub-delegated but only to –

(i) the chief financial officer;

(ii) a Head of Department; or

(iii) a bid adjudication committee of which the chief financial officer or a senior manager is a member; or

c) not exceeding R 2 million (VAT Included) may be sub-delegate but only to –

(i) the chief financial officer;

(ii) a Manager directly accountable to Accounting Officer

(iii) a manager directly accountable to the Chief Financial Officer or a Senior 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 5(2) must within five days

of the end of each month submit to the accounting officer a written report containing particulars of each final award made by such official or committee during that month, including-

- (i) the amount of the award;
- (ii) the name of the person to whom the award was made; and
- (iii) the reason why the award was made to that person.

- (4) A written report referred to in subparagraph 5(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 5(3) and 5(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 26 of this Policy.

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

6. 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 share control of the municipality, to the council of the municipality;
- (ii) and whenever there are serious and material problems in the implementation of this Policy, immediately submit a report 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.

5. Section 117 of the MFMA prohibits a municipal councillor from being a member of a bid committee or attend any other committee evaluating or approving quotations or bids nor may a Municipal Councillor attend any such meeting as an observer.

6. In order to create an environment where business can be conducted with integrity and in a fair and reasonable manner, this Policy will strive to ensure that the Municipal Manager and all representatives of Garden Route District Municipality involved in supply chain activities shall act with Integrity and in accordance with the highest ethical standards

7. All supply chain management representatives shall adhere to the code of conduct of municipal staff contained in schedule 2 of the Systems Act, and this Policy's Code of Ethical Standards

7. 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.

- 3) The supply chain management unit shall operate as a centralised supply chain management function to administer and co-ordinate all the Supply Chain Management activities and functions of the municipality as described in this Policy unless a function or activity is specifically excluded by the accounting officer from the unit's term of reference
- 4) All Garden Route District officials shall act with integrity and adhere to the code of conduct of municipal staff contained in Annexure B of the Policy (Systems Act, schedule 2)

8. Training of supply chain management officials

The training of officials involved in implementing this Policy should be in accordance with any Treasury guidelines on supply chain management training. The Skills development Officer (HR) to facilitate the necessary training for the SCM officials to achieve the Minimum Competency Levels as required. Work based skills plan facilitated by Human Resources to form the basis for training of SCM officials.

CHAPTER 2: SUPPLY CHAIN MANAGEMENT SYSTEM

9. 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
- (vi) performance management

Part 1: Demand management

10. Demand Management System

- 1) The accounting officer must establish, through operational procedures, 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 as outlined in the Integrated Development Plan.

2)The Municipality's Integrated Development Plan (IDP) is a comprehensive strategic document setting out how the Municipality intends to tackle its development challenges in a financial year. It is on the basis of the IDP that the resources of the municipality will be allocated and on which the budget is based.

3)The demand management system to ensure that each Head of the Department has a yearly plan that will include the following:

- a) include timely planning and management processes to ensure that all goods and services required by the municipality / respective departments are quantified and budgeted for. Timely and effectively planning is executed to ensure they are delivered at the right location, at the critical delivery date, and are of the appropriate quality and quantity at a fair cost; *(All Executive / Senior Managers to oversee the Yearly Planning for their respective departments)*
- b) take into account any benefits of economies of scale that may be derived in the case of acquisitions of a repetitive nature;
- 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.
- e) In dealing with suppliers and potential suppliers, the Municipality shall respond promptly, courteously and efficiently to enquiries, suggestions and complaints.

(4) Major Activities

- a) Demand management to be executed following the tabling of the draft Integrated Development Plan (IDP) and draft budget by council or approval of the Adjustment budget by council, spending of funds subject to final approval of the budget by council and funds are available on the financial system.
- b) Establishing requirements
- c) Determining the needs
- d) Deciding on appropriate procurement strategy
- e) All procurement to be directly linked to the Demand Management Plan that will entail all envisaged planning for financial year ahead.

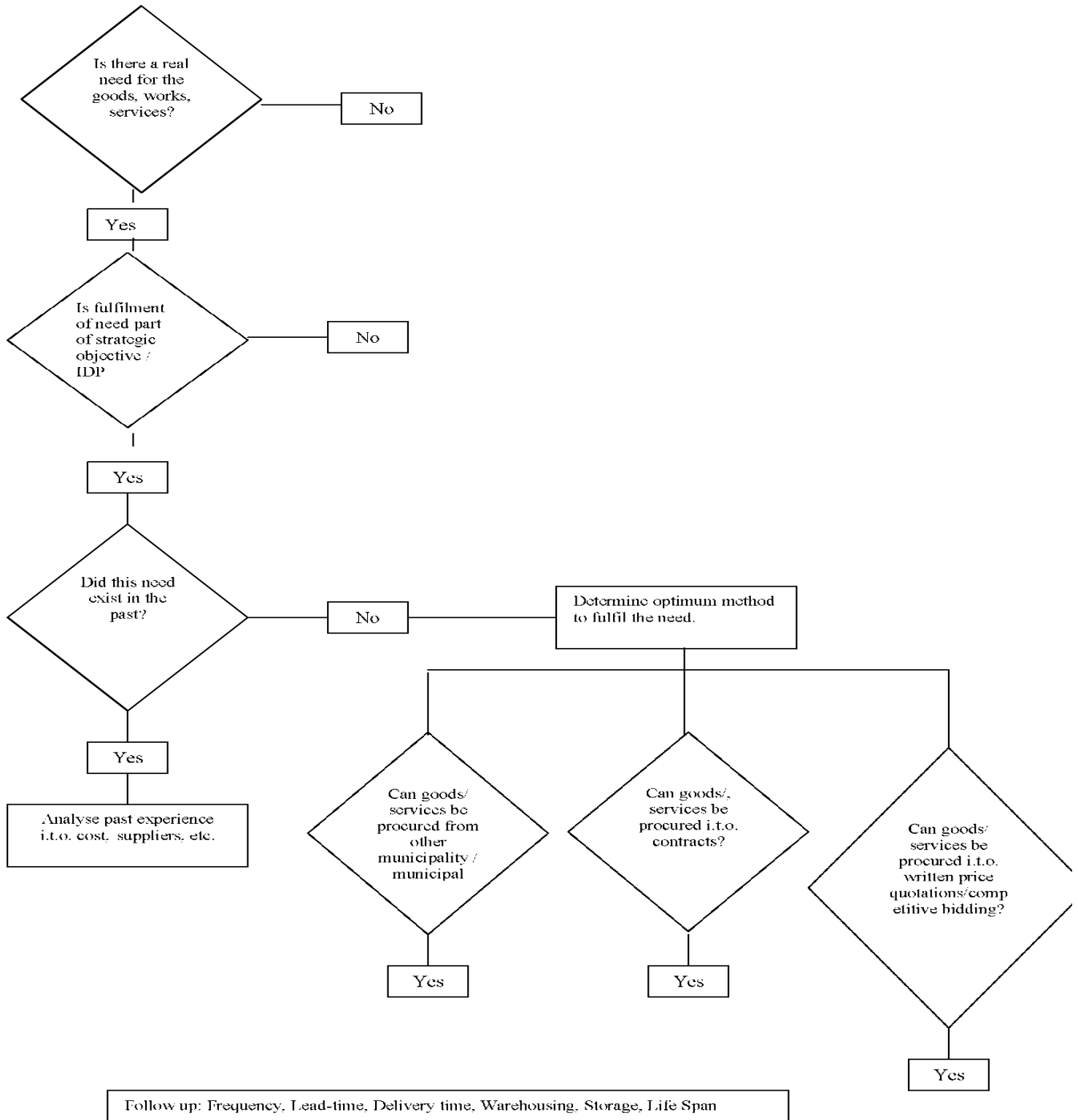
- f) Demand Management Plan of the respective departments to be reviewed by the Accounting Officer or Delegated Official and submitted to Supply Chain Management Unit for planning and execution.
- g) All deviations to be interrogated by the Accounting Officer against the Demand Management Plan and the Accounting officer to oversee the appropriate remedial steps to be implemented by the relevant executive / senior managers to prevent poor or lack of planning by departments

(5) Demand Management Plan to entail the following:

- a) establishing requirements and needs for the year ahead
- b) deciding on appropriate procurement strategies, use of quotations or bidding
- c) understanding the future needs;
- d) identifying critical delivery dates;
- e) Identifying the frequency of the need;
- f) linking the requirement to the budget;
- g) conducting expenditure analyses based on past expenditure;
- h) determining requirements (including the internal capacity to implement),
- i) conducting commodity analyses in order to check for alternatives; and
- j) conducting industry analyses to establish market prices and strategic industry role players

Annexure:

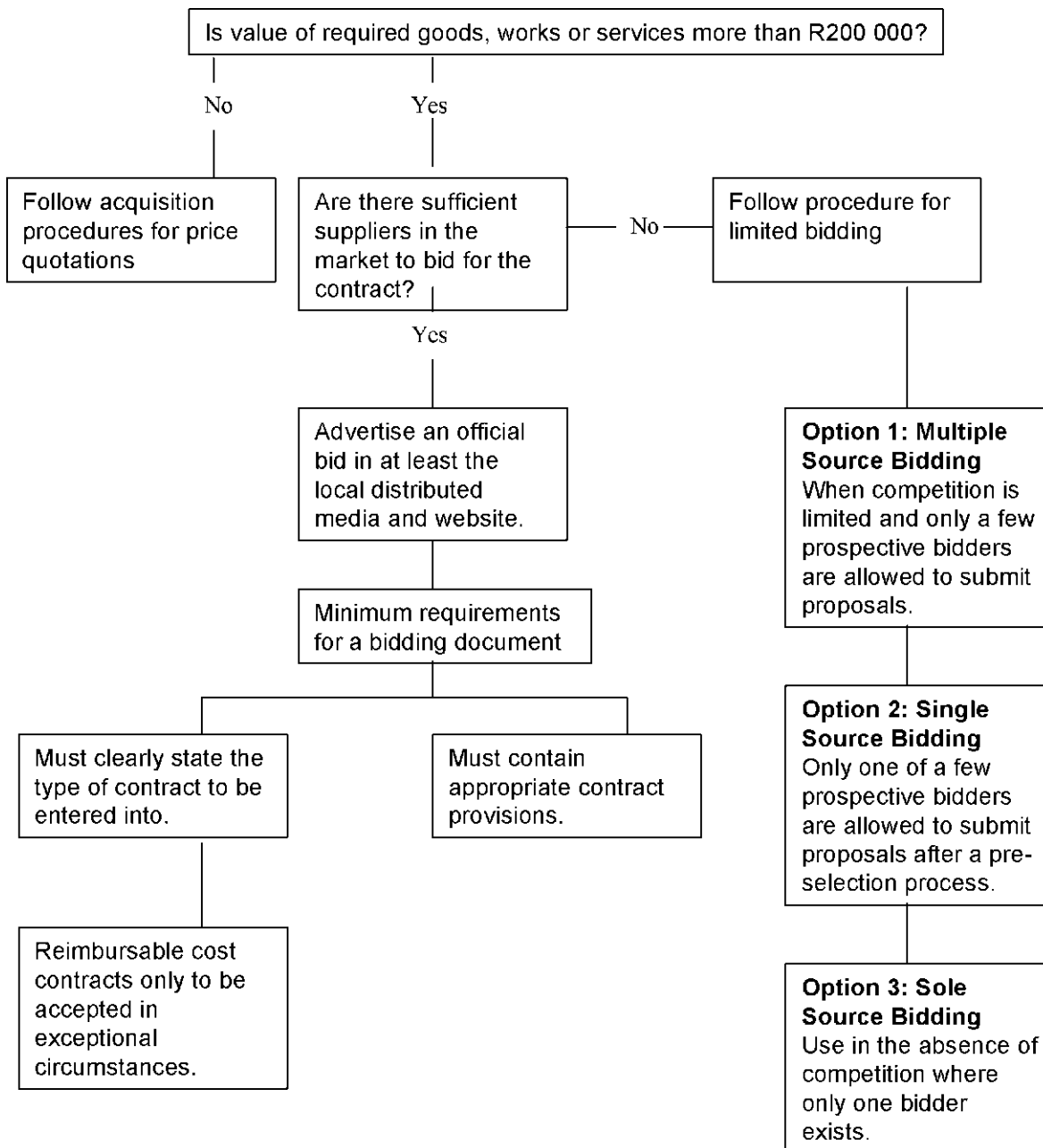
Flowchart of the Demand Management Process



Part 2: Acquisition management

11. Acquisition management System

- (1) The Objective of the System of Acquisition Management is to ensure –
- a) that goods and services are procured by the municipality in accordance with authorised 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 contract are in accordance with any applicable legislation including PPPFA, and any condition of the CIDBA; and
 - e) That any Treasury guidelines / circulars on acquisition management are properly taken into account during the review of the SCM Policy.
- (2) When procuring goods or services contemplated in section 110(2) of the Act, including water from the department of Water Affairs, Public Entity, another municipality or a municipal entity; and electricity from Eskom or public entity, municipality or municipal entity; 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.



Strategic sourcing flow chart for competitive bidding for Items above R200 000 (Source: The Accounting Officer’s guideline for Supply Chain Management)

12. Range of procurement processes

- (1) Goods and services may only be procured by way of -
 - a) petty cash purchases may be used up to a transaction value of R750, in accordance with the provisions of the Petty Cash Policy
 - b) written quotations for procurements of a transaction value over R750 up to R30 000 (VAT included);
 - c) formal written price quotations (informal tender) for procurements of a transaction value over R 30 000 up to R200 000 (VAT included); and
 - d) competitive bidding process (formal tender) for procurement above a transaction value of R 200 000 (VAT included)

- (2) The accounting officer may, in writing-
 - a) lower, but not increase, the different threshold values specified in subparagraph 12(1); or
 - b) direct that –
 - (i) written or verbal quotations be obtained for any specific procurement of a transaction value lower than R750;
 - (ii) formal written price quotations be obtained for any specific procurement of a transaction value lower than R10 000
 - (iii) informal tender process be followed for procurement below R30k
 - (iv) a competitive bidding process be followed for any specific procurement of a transaction value lower than R200 000.

- (3) 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.

13. 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 -

- a. full name;
- b. identification number or company or other registration number; and
- c. tax reference number and VAT registration number, if vat vendor;

(b) In the case of transactions exceeding R 30 000, including VAT:

(i) A valid Tax clearance certificate or service provider tax verification details (SARS Pin number for e-filing independent verification) must accompany the bid documents. (Status verification on the day of award) *(The onus is for the bidder to ensure that their tax matters are in order.)*

(ii) If the bid of the preferred bidder is not supported by a valid TAX Clearance Certificate, either as an attachment to the bid documents or on record in the case of suppliers registered on the Central Supplier Database of the National Treasury, the municipality reserves the right to request the Bidder to supply the municipality with a valid SARS(e-filing) TCS pin for independent verification on SARS e-filing within a prescribed period, failure of which will result in a disqualified bid. *(Within seven days of being notified by Supply Chain Management Office)*

(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, 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 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.

(d) The Municipality is aware that not all service providers in the region are registered on the Central Supplier Database of National Treasury; although it's preferable and the intention of Government to limit transactions to registered suppliers on the National Treasury Central Supplier Database, the following is applicable to acquiring goods or services from service providers not registered on the database with regards goods and services below R30 000:

- i. Where less than 3 services providers have been identified on the Central Supplier Database, alternative service providers not registered on the database maybe requested for additional quote(s)

- provided their tax matter are in order and can be independently verified on SARS e-filing. (Such service providers must be encouraged and assisted subsequently to register on the Central Supplier Database)
- ii. Where quotations provided are not market related, prices quoted are significantly material above market price, an alternative quotation should be requested from an alternative vendor rendering the same goods and services even if not on the system vendor management system, provided their tax matters are in order and can be independently verified on SARS e-filing)
 - iii. A declaration form to be attached to the requisition sent to the service provider not listed on the database requesting declaration of not being in the service of the state.
 - iv. Supplier to be provided with the Municipal Declaration form for regulation 44 vetting and SARS compliance
- (e) Where the chosen vendor to render services or supply goods is in accordance to section 13(d) of the Garden Route District Municipality's Supply Chain Management System, the following must take place
- i. Provision can be made for purchases to be made from such a supplier for transactions below R30K
 - ii. Suppliers not registered on the Central Supplier Database with whom the Municipality transacts with frequently to be encouraged to register on the National Treasury's Central Supplier Database.
 - a) Where services or goods delivered are once off the CFO to provide authorisation for direct payment,
 - b) Where it is likely that the similar service or goods requested will be required in the future, then DATA Unit to be approached to engage with the service provider and facilitate the process of the vendor registering on the Central Supplier database
 - iii. The user department must inform Data Unit in Finance Department of such a service provider and request that assistance be provided to the service provider to be registered on the Central Supplier Database.

14. Lists of accredited prospective providers

(1) The accounting officer must -

- a) at least once a year through website, newspapers commonly circulating

locally, or any other appropriate ways, invite prospective providers of goods or services to apply for evaluation and listing as accredited prospective providers on the National Treasury's Central Supplier Database and the updated Municipal Supplier Database

- b) Ensure use of The National Treasury Central Supplier Database, which is the database which lists the detail of all suppliers who have been registered and vetted in order to do business with the Municipality and Government
- c) Ensure Prospective suppliers to be assisted with registering on the National Treasury's Central Supplier Database at any time, www.csd.gov.za
- d) Ensure Minimum criteria for prospective suppliers is to be registered and approved on the National Treasury Central Supplier's Database
- e) *disallow* the registration of any prospective supplier whose name appears on the National Treasury's Database of Restricted Suppliers and/or Register for Tender Defaulters and who is therefore prohibited from doing business with the public sector.

(2) Vendors bidding for Informal/Formal tenders that are not registered on the National Treasury's Central Supplier Database are not precluded from submitting bids, but must however be registered and approved by the time the Bid is evaluated, failing which their bid may be declared non-responsive.

- a. All persons forming part of a Joint Venture or Consortium must be registered as such on the National Treasury's supplier Database and have obtained a joint venture or partnership B-BBEE certificate of the new entity.
- b. Use of National Treasury's Central Supplier Database for procurement approved from the 31 December 2017

15. Petty cash purchases

The conditions for the procurement of goods by means of petty cash purchases referred to in paragraph 12 (1)(a) of this Policy, are as follows –

1. Petty Cash management resides with the relevant Head of Department and in the absence of a Petty Cash policy the following shall apply:
 - a) Only an Executive manager may approve or authorize the petty cash voucher.

- b) The authorized petty cash voucher with the slip must be filed and recorded in a petty cash register.
 - c) The petty cash box must be stored away in safe place when it is not in use.
 - d) The designated personnel managing the petty cash to keep record of all transactions with the supporting document and avail it for inspection when required so.
 - e) The Chief Accountant Expenditure to verify the petty cash reconciliation every time it is replenished.
 - f) Random cyclical petty cash review can be undertaken without prior notice where the need has been identified by the Office of the Chief Financial Officer.
2. each executive manager may allow petty cash purchases not exceeding an amount of R2 000 in each month;
 3. a monthly reconciliation report from each executive manager must be provided to the chief financial officer, including –
 - (i) the total amount of petty cash purchases for that month; and
 - (ii) receipts and appropriate documents for each purchase.
 4. the following types of expenditure may not be made from petty cash: all Labour or salary related expenditure

16. Written or verbal quotations

The conditions for the procurement of goods or services through written or verbal quotations are as follows:

- a) Quotations must be obtained from at least three different providers preferably from National Treasury's Central Supplier Database, but not limited to, providers whose names appear on the list of accredited prospective providers, provided that if quotations are obtained from providers who are not listed, such providers can be requested to provide an a SARS e-filing pin for independent verification.
- b) to the extent feasible, providers must be requested to submit such quotations in writing;
- c) if it is not possible to obtain at least three quotations, the reasons must be recorded and reported quarterly to the accounting officer or official designated by the accounting officer;
- d) the accounting officer must record the names of the potential providers requested to provide such quotations with their quoted

prices; and

- e) if a quotation was submitted verbally, the order may be placed only against written confirmation by the selected provider.

17. 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 and the National Treasury's central supplier database.
- b) quotations may be obtained from providers who are not listed, provided that such providers are not listed on the national treasury's list prohibited suppliers;
- c) if it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the chief financial officer or an official designated by the chief financial officer, and
- d) the accounting officer must record 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.

18. Procedures for procuring goods or services through written or verbal quotations and formal written price quotations

The procedure for the procurement of goods or services through written or verbal quotations or formal written price quotations, is as follows, 1:

- a. when using the list of accredited prospective providers the accounting officer must promote on-going competition amongst providers by inviting all relevant providers to submit quotations. Rotation basis to be considered where

pricing is competitive between bidders otherwise normal SCM process to be followed for an award.

- b) all requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations (Informal Tender) must, in addition to the requirements of paragraph 17, be advertised for at least seven days on the website, an official notice board of the municipality and e-tender publication portal
- c) offers received must be evaluated on a comparative basis taking into account unconditional discounts;
- d) the accounting officer or chief financial officer must on a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a sub delegation;
- e) offers up to R10 000 (VAT included) must be awarded based on compliance to specifications, ability and capability to deliver the goods and services and lowest price;
- f) Council to consider use of rotation basis for requesting Quotations up to R10 000 (VAT Included), to avoid supplier fatigue and encourage a broader allocation of work.
- g) offers up to R30 000 (VAT included) and above R10 000 must be awarded based on price (formal written quotation) after consideration of compliance to specifications, conditions of contract, ability and capability to deliver the goods and services
- h) the accounting officer must take all reasonable steps to ensure that the procurement of goods and services through written or verbal quotations and formal written price quotations is not abused
- i) requirements for proper record keeping must be adhered to, such as:
 - i. completion of documents for audit purposes;
 - ii. ensuring the correctness of documents;
 - iii. before awards are made, proper review of documents must be undertaken .

19. Competitive bidding process

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.
3. Verification by the Chief Financial Officer prior to advertisement of bids above R10 million. The following information must be submitted by the executive/senior manager responsible for the vote to the CFO **prior** to the public advertisement of any bids in excess of R10 million (all applicable Taxes included):
 - (i) Proof that the budgetary provision exists for procurement of the goods and services and /or infrastructure projects;
 - (ii) Any ancillary budgetary implications related to the bid, for example, if the project is for the acquisition of a municipal asset, does budgetary provision exist for the operation of the asset, maintenance cost relating to the asset, administration costs and rehabilitation/renewal costs;
 - (iii) Any Multi-years budgetary implications, for example, if the project will take more than one financial year, the estimated expenditure per financial year
 - (iv) Goods, service and/or infrastructure projects above the value of R10 million (all applicable taxes included) may only be advertised after the CFO has verified in writing that budgetary provision exists for the commencement of the particular project
 - (v) Requirements may not be deliberately split into part or items of lesser value merely to avoid the information being submitted
 - (vi) Contracts above the value of R10 million(all applicable taxes included) may only be awarded to the preferred bidder after Chief Financial Officer has verified in writing that the budgetary provision exists for the acquisition of the goods, infrastructure projects and/or services and that it is consistent with the Integrated Development Plan.
 - (vii) Requirements of MFMA Circular No. 62 Municipal Finance Management Act No. 56 of 2003 relating to procurement of goods and services in excess of 10 million, be implemented dealing with procurement goods or services contracts in excess of

R10 million

20. 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 21;
- (b) Public invitation of bids as detailed in paragraph 22;
- (c) Site meetings or briefing sessions as detailed in paragraph 22;
- (d) Handling of bids submitted in response to public invitation as detailed in paragraph 23;
- (e) Evaluation of bids as detailed in paragraph 28;
- (f) Award of contracts as detailed in paragraph 29;
- (g) Administration of contracts
- (h) After approval of a bid, the accounting officer and the bidder must enter into a written agreement.
- (i) Proper record keeping
- (j) Original/ legal copies of written contracts agreements should be kept in a secure place for reference purposes.

21. Bid documentation for competitive bids

The criteria with which bid documentation for a competitive bidding process must comply in addition to the requirement as listed in section 13, 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
 - (aa) for the past three years; or
 - (bb) 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.
- (f) compel bidders to declare their previous supply chain management practices and state whether or not they:
- a. have been found guilty by a court of law or a structure established by council or the accounting officer for handling alleged abuses of the Municipality or the municipal entity's supply chain management system or committed any improper conduct in relation to such a system
 - b. have been convicted of fraud or corruption during the past five years

- c. have wilfully neglected, reneged on or failed to comply with any government , municipal or other public sector contract during the past five years
- d. have been listed on the Register for Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt activities Act 12 of 2004.

22. 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, e-Tender Publication Portal of National Treasury 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) date, time and venue of any proposed site meetings or briefing sessions.;
 - (iv) In accordance with MFMA circular 83, advertisement of bids and the publication of notices in respect of awarded bids, unsuccessful bids, cancelled bids, deviations, variations and extensions of existing contracts of a municipality to be published on the e-Tender publication Portal from date of approval of the policy.
 - (v) Notices of cancelled bids must be published on the same day, or at least the day after a municipality decided to cancel a bid on e-Tender Publications Portal.

- (vi) Notices of all awards to suppliers through deviations from competitive bidding, Awards through variations and extensions of existing contracts; must be published on the e-Tender Publications Portal within seven working days after the award was made
 - (vii) Bid documentation obtained from the municipality in hard copy to be disbursed at a nominal charge as set in the approved tariff structure of council; alternatively a soft copy may be obtained from the website at no cost.
- (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. (Reasons must be justifiable and recorded and not seen to favour any one bidder and prejudice competitive bidding)
- (3) Bids submitted must be sealed.
- (4) Where bids are requested in electronic format, such bids must be supplemented by sealed hard copies.

23. 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.
- (b) 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;
- (c) 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 publish the entries in the register and the bid results on the website.
 - (iii) After the closure of any advertised competitive Bid, Garden Route DM must publish information in terms of section 75 of the MFMA; on the municipality's website.

24. 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 –
 - i. does not allow any preferred bidder a second or unfair opportunity;
 - ii. is not to the detriment of any other bidder; and
 - iii. does not lead to a higher price than the bid as submitted.
- (2) Minutes of such negotiations must be kept for record purposes.

25. 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.

26. 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; and
- (3) A neutral or independent observer, appointed by the accounting officer, must attend or oversee a committee when this is appropriate for ensuring fairness and promoting transparency.
- (4) The committee system must be consistent with -
 - (a) paragraph 27, 28 and 29 of this Policy; and
 - (b) any other applicable legislation.
- (5) Informal tenders to be evaluated and awarded by the Bid Evaluation committee

27. Bid specification committee

- (1) A bid specification committee should only review specifications compiled by the user department only after being signed off by the head of the user department.
 - a) Head of the Department should satisfy themselves that all tenders initiated in the department, formal or informal are aligned or included in the Department's Demand management plan and provided for in the approved budget or adjustment budget
 - b) Every tender, formal or informal, before being submitted to the Supply Chain Management Unit must have the following:
 - a) User Department to identify the appropriate person(s) to compile the relevant specification
 - b) Ensure that the relevant technical expertise would be available in assessing the Technical requirements
 - c) The Risk officer to be invited to all Bid Specification Committee meeting as part of the risk assessment process. Risk assessment may include the content below or alternative as the risk officer may

deem appropriate:

a) –

I. Legislative/legal requirements – prescripts that govern process and legislative requirements

II. Deliverables – pre define the deliverables and parameters, no open ended contracts with specific reference to use of consultants

III. Time frames – critical deadlines to be defined, realistic time frames set

IV. Municipal resources – funding of the project is provided in the approved budget, either as own resources or alternative funding sources

V. Costs – project roll out cost to give a realistic indication of market conditions (basis for assessing value for money)

VI. Political Risk – Item linked to Integrated Development Plan of the municipality

(2) Final specifications –

- (a) must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services;
- (b) must take account of any accepted standards such as those issued by Standards South Africa, the International Standards Organisation, or an authority accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply;
- (c) must, where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design;
- (d) may not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labelling of conformity certification;
- (e) may not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the word “equivalent”;
- (f) must indicate each specific goal for which points may be

awarded in terms of the points system set out in the Preferential Procurement Regulations 2017; and

- (g) must be approved by the accounting officer prior to publication of the invitation for bids in terms of paragraph 22 of this Policy.
- (3) A bid specification committee must be composed of one or more officials of the municipality, preferably the manager responsible for the function involved if not a member of the Bid Adjudication Committee, and may, when appropriate, include external specialist advisors.
- (4) No person, advisor or corporate entity involved with the bid specification committee, or director of such a corporate entity, may bid for any resulting contracts.
- (5) It is preferable that the Accounting officer nominate municipal officials and establish a permanent Bid Specification Committee composed of varying expertise. Specific technical expertise to be co-opted on an ad hoc basis for a specific commodity or goods if needs be
- (6) should a member declare a conflict of interest at any stage, the member may not form part of the Bid Specification Committee and if necessary to reach a quorum the member must be replaced by a member of suitable expertise.

28. Bid evaluation committee

- (1) A bid evaluation committee must -
 - (a) evaluate bids (formal & Informal) in accordance with -
 - (i) the specifications for a specific procurement; and
 - (ii) the points system set out in terms of paragraph 27(2)(f);
 - (b) evaluate each bidder's ability to execute the contract;
 - (c) check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears, and;
 - (d) submit to the Bid Adjudication Committee a report and recommendations regarding the award of the formal bid or any other related matter.
 - (e) evaluate and award Formal written quotations (Informal Tender)
- (2) A bid evaluation committee must as far as possible be composed of-
 - (a) officials from departments requiring the goods or services; and
 - (b) at least one supply chain management practitioner of the municipality.
 - (c) It is preferable that the Accounting officer to nominate municipal officials and establish a permanent Bid Evaluation Committee composed of varying

expertise. Specific technical expertise to be co-opted on an ad hoc basis for a specific commodity or goods if needs be

- (d) Should a member declare a conflict of interest at any stage, the member may not form part of the Bid Evaluation Committee and if necessary to reach a quorum the member must be replaced by a member of suitable expertise

29. Bid adjudication committee

- (1) A bid adjudication committee must -
 - (a) consider the report and recommendations of the bid evaluation committee; and
 - (b) either -
 - (i) **depending on its delegations**, make a final award or a recommendation to the accounting officer to make the final award; or
 - (ii) make another recommendation to the accounting officer how to proceed with the relevant procurement.
- (2) A bid adjudication committee must consist of at least four senior managers of the municipality which must include -
 - (a) the chief financial officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer; and
 - (b) at least one senior supply chain management practitioner who is an official of the municipality; and
 - (c) a technical expert in the relevant field who is an official, if such an expert exists.
- (3) The accounting officer must appoint the chairperson of the committee. If the chairperson is absent from a meeting, the members of the committee who are present must elect one of them to preside at the meeting.
- (4) Neither a member of a bid evaluation committee, nor an advisor or person assisting the evaluation committee, may be a member of a bid adjudication committee.
- (5) (a) If the bid adjudication committee decides to award a bid other than the one recommended by the bid evaluation committee, the bid

adjudication committee must prior to awarding the bid -

- (i) check in respect of the preferred bidder whether that bidder's municipal rates and taxes and municipal service charges are not in arrears, and;
 - (ii) notify the accounting officer.
- (b) The accounting officer may -
- (i) after due consideration of the reasons for the deviation, ratify or reject the decision of the bid adjudication committee referred to in paragraph (a); and
 - (ii) if the decision of the bid adjudication committee is rejected, refer the decision of the adjudication committee back to that committee for reconsideration.
- (6) The accounting officer may at any stage of a bidding process, refer any recommendation made by the evaluation committee or the adjudication committee back to that committee for reconsideration of the recommendation.
- (i) Should an award be made to a bidder not recommended by the Bid Evaluation Committee on justifiable grounds, the decision must be noted and made available to the Auditor general for audit purposes.*
- (7) The accounting officer must comply with section 114 of the Act within 10 working days.
- (8) Should a member declare a conflict of interest at any stage, the member may not form part of the Bid Adjudication Committee and if necessary to reach a quorum the member must be replaced by a member of suitable expertise

30. Asset Disposal committee

- 1) The accounting officer or delegated authority will implement a mechanism to dispose of movable and immovable assets.
- 2) The accounting officer to establish an Asset Disposal Committee / Property Task Team, composed of line managers / designated personnel and on ad hoc basis may co-opt additional members with specific expertise
 - a) Line manager are regarded as asset managers / designated personnel
 - b) The nominated Asset Disposal Committee/ Property Task Team to oversee the asset disposal process of the municipality

- 3) Asset Disposal Committee / Property Task Team to meet as needs be in the financial year and assess any formal requests for Asset Disposals
- 4) Asset disposal dates to be determined by the committee following an assessment of the assets to be disposed
- 5) Detailed records of the committee, for reporting purposes, must be kept of all activities and should consist of at least, but not limited to,
 - a) Disposal verification schedule
 - b) Disposal schedule
- 6) Asset Disposal Committee / Property task team to establish a Disposal Management Standard operating procedure in accordance to the Supply Chain Management policy and aligned to the Asset Management Policy.
- 7) The committee to assess and ensure adequate insurance cover for Council Properties within the risk appetite of council

Specialised Forms of Procurement

31. Procurement of banking services

- (1) Subject to section 33 of the MFMA, any contract for banking services –
 - (a) shall be procured through competitive bids;
 - (b) shall 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).
- (4) Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990).

32. Procurement of IT related goods or services

- (1) The accounting officer may request the State Information Technology Agency (SITA) to assist with the acquisition of IT related goods or services through a competitive bidding process.

- (2) Both parties must enter into a written agreement to regulate the services rendered by, and the payments to be made to, SITA.
- (3) The accounting officer must notify SITA together with a motivation of the IT needs if -
 - (a) the transaction value of IT related goods or services required in any financial year will exceed R50 million (VAT included); or
 - (b) the transaction value of a contract to be procured whether for one or more years exceeds R50 million (VAT included).
- (4) If SITA comments on the submission and the municipality disagree with such comments, the comments and the reasons for rejecting or not following such comments must be submitted to the council, the National Treasury, the relevant provincial treasury and the Auditor General.

33. Procurement of goods and services under contracts secured by other organs of state (piggy backing)

- (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;
 - d. that other organ of state and the provider have consented to such procurement in writing.
 - e. the initial contract agreement needs to be valid and binding at the time “of piggy backing “; once the contract is terminated there is no longer a contract to “piggy back” from
 - f. where a contract is not linked to a period with a particular end date, the contract will terminate once the obligation outlined in the contract are completed or the final object is received and accepted.
 - g. any other organ of state wishing to “piggy back” from contracts as mentioned in subsection (1)(f) can only be granted permission while current contract with Garden Route District Municipality is active. (if contract has lapsed section 32 application may not be granted)

- (2) Subparagraphs (1)(c) and (d) do not apply if -
- a. a municipal entity procures goods or services through a contract secured by its parent municipality; or
 - b. a municipality procures goods or services through a contract secured by a municipal entity of which it is the parent municipality.

34. 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.

35. Proudly South African Campaign / Proudly Garden Route Campaign

(1)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:

- a) Preferential procurement framework Policy Act, 2000: Preferential Procurement Regulations, 2017, Regulation 8, Local production and Content and any subsequent circulars relating to designated sectors and local content thresholds
- b) In the absence of designated sector for a particular commodity by the Department of Trade and Industry or National Treasury, Garden Route District may include as a specific condition of tender , that locally produced services or goods or locally manufactured goods with a stipulated minimum threshold for local production and content will be considered
- c) Any prequalification criteria in the acquisition of goods or services that seeks to address localisation and empowerment local entities; must be in accordance with an approved Local Economic Development Strategy or Policy of Council that is in line with relevant regulatory framework or statute.

(2) The district to develop and support Proudly Garden Route Brand and products to the extent that all things being equal, preference is given to procuring local goods and services in accordance to section 35(1)(b) and Section 35(1)(c); in alignment to section 3(4) of the Policy. The aim is in support of the regional economic strategy and developing a vibrant economy in the Garden Route economic corridor.

36. 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 procurement is made.
- (2) Consultancy services must be procured through competitive bids if
 - (a) the value of the contract exceeds R 200 000 (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.
- (5) Should the Municipality have a Council approved Policy with regards to the appointment of consultants that is aligned to Treasury Guidelines; such policy would override this section of the Supply Chain Management Policy.

37. 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 procure any required goods or services through any convenient process, which may include direct negotiations, but only
 - I. in an emergency and subsequently the department to take into account in the review of their annual Demand Management Plan
 - 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
- V. in any other exceptional case where it is impractical or impossible to follow the official procurement processes e.g. any purchase on behalf of the District Municipality at a public auction sale; and

(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 37(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 11(2) of this policy.
- (4) Emergency Dispensation – Conditions warranting Emergency dispensation include the existence of one or more of the following
 - i. The possibility of human injury or death
 - ii. The prevalence of human suffering or deprivation of rights
 - iii. The possibility of damage to property, or suffering and death of livestock and animals
 - iv. The interruption of essential services, including transportations and communication facilities or support services critical to the effective functioning of the District or the B Municipalities within the District
 - v. The possibility of serious damage occurring to the natural environment
 - vi. The possibility that the security of the state could be compromised
- (5) Single Source selection – Justification for single source selection must be examined in the context of the overall interest of the Garden Route District Municipality and the project
 - i. Single source selection may be appropriate only if it represents a clear advantage over competition for services that represent a natural

continuation of previous work carried by the consultant, and continuity of downstream work is considered essential.

- ii. The reasons for single source selection must be fully motivated in a report and approved by the Bid Adjudication Committee prior to conclusion of a contract.
- iii. Detailed specification with defined scope and details of deliverables must be set before work can commence guiding the consultants and providing set the parameters to which they may operate with. No contract may be open ended without addressing specific needs analysis approved by the Accounting Officer or delegated authority beforehand.

38. Transversal bids

- 1) Accounting officer or delegated authority to approve initiation (shared services) or participation of transversal bids by Garden Route District Municipality
- 2) Transversal bids will only be relevant when the municipality wishes to invite a tender/bid itself and other municipalities or wishes to participate in a tender together with other municipalities or organs of state from the initial phase or it is prescribed through a circular by the National Treasury.
- 3) This form of bidding is different than when participating in a tender invited by another organ of state as referred to in SCM Treasury regulation 32 or section 33 of the Garden Route District Supply Chain Management Policy
- 4) Chief Financial Officer to arrange and provide advice, assist and guide the transversal procurement process and ensure that technical and governance requirements are met
- 5) Arrange implies drawing up a the business case, obtaining formal approval from affected municipalities and the Accounting Officer to proceed, the planning, organising, logistical and bid administration requirements by the custodian Municipality
- 6) Where transversal bids are contemplated, it should result in lower unit cost or economies of scale or other corporate advantage as demonstrated by the required business case.
- 7) Where the custodian municipality other than Garden Route District Municipality has identified the need for transversal tender, it must ensure that the procurement of

- goods or services or both is procured in terms of the section 217 of the constitution of the Republic of South Africa and any other relevant legislation and prescripts
- 8) Formal written consent must be obtained by the participating municipalities or other organs of state before the tender process is initiated.
 - 9) When Garden Route District Municipality initiates the transversal tender written consent obtained from the accounting officers of other municipalities or organs of state must mention a review and consensus of needs analysis, specification, risk assessment and, defined desired outcomes
 - 10) The Custodian Municipality will take full responsibility for the arrangement and conclusion of the bid process, inclusive of the formalisation of the contracting arrangements noting that each participating municipality, depending on the requirements and the nature of the contract, may have to sign a separate service level agreement with the selected service provider.
 - 11) Provision in the agreement amongst participating municipalities or organs of state should make provision for participating entities to second their own official with the relevant expertise to participate, observe or offer advice to the initiating entity.

39. Unsolicited bids

- 1) In accordance with section 113 of the Act, Garden Route Council is under 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 party or entity that has made the unsolicited 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 and justifiable by the accounting officer subject to relevant consultation.
- 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 may consider the unsolicited bid and may award the bid or make a recommendation to the accounting officer, with comments from Provincial and National Treasury
 - 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.

40. 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, favouritism, 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 bidder if they are listed as non-compliant on the National Treasury's Central Supplier Database
 - e) 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;
 - f) 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;
 - g) 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

- h) 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 wilfully 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), (f) or (g) of this policy.

(3) The Municipality takes cognisance of the provisions of Chapter 2 of the Competition Act no. 89 of 1998

- PART A - Restrictive practices;
- PART B - Abusive of a Dominant position; and
- PART C - Exemption from application of chapter 2.

(4) The accounting officer must also provide measures for the invalidation of recommendations or decisions that were unlawfully or improperly made, taken or influenced, including recommendation or decisions that were made, taken or in any way influenced by:

- i. Councillors in contravention of item 5 or 6 of the Code of Conduct for Councillors in schedule 1 of the Systems Act; or
- ii. Municipal officials in contravention of item 4 or 5 of the Code of Conduct for the Municipal Staff member set out in schedule 2 of the Systems Act

(5) The Bid Adjudication and Evaluation Committee to take cognisance of the provisions of the Competition Act no 89 of 1998 during the evaluation and

award of the tender.

- (6) Accounting Officer or any other delegated personnel of Garden Route DM, is prohibited from deliberately placing order for goods, service and /or infrastructure projects from suppliers, receiving such goods, services and/or infrastructure projects and arranging with suppliers for such goods, services and/or infrastructure projects to be invoiced and paid for in another financial year
- (7) The above prohibition does not apply to multi-year contracts and projects adopted over multi-years in terms of the MFMA sections 19 and 33.

40 (B). CONTRACT MANAGEMENT

- (1) All contracts entered into by the municipality in the tender process referred to in paragraph 18 &19 of this Policy must:
 - a. Be in writing
 - b. Stipulate the terms and conditions of the contract or agreement which must include provisions for providing for:
 - I. The termination of the contract or agreement in the case of non or under performance
 - II. Dispute resolution mechanisms to settle disputes between parties
 - III. A periodic review of contract or agreement
 - IV. Any other matters as maybe prescribed
 - c. Include General conditions of contract as prescribed by national treasury
 - d. Specify the duration of the contract
 - e. Specify the repayments terms in respect of the goods or services supplied
 - f. Be monitored by the Directorate of the municipality which requested the goods and services to ensure that all the contracts requirements are met.
- (2) Unauthorised or breaches of the contract as in paragraph 40(B) above by the supplier or service provider must be reported to the Legal Department for initiating appropriate action as well as to the SCM Unit which must record the details of such deviation and breaches.
- (3) Departmental Heads shall be responsible for ensuring that contract managers:
 - a. Are assigned to all contracts within the department Head's area of responsibility
 - b. Are adequately trained so that they can exercise the necessary formalities in signing up the contract and/or issuing the purchase order(s);

- c. Ensure that contracts related to the procurement of goods and services are captured on the Municipality's record management system
 - d. Ensure that all original contract documentation is lodged at registrar
 - e. Manage all contract variations and ensure any variations are administered in accordance with any treasury guidelines or relevant statute
 - f. Manage any contract disputes and lodge with the relevant authority and the legal department where disputes could not be resolved
 - g. Ensure suppliers performance review is undertaken against the project deliverables
 - h. Maintain appropriate formal records and correspondence regarding the project and contract for reference point
 - i. Act with care and diligence and observe all accounting and legal requirements
- (4) Management of expansion or variation of order against the original contract: The expansion or variation of contracts against the original contract and prevention of contract manipulation.
- a) Contracts may be expanded or varied by not more than 20% of the original value for Construction related goods, services and/ or infrastructure projects.
 - b) Contracts for all other goods and/or services may be varied by not more than 15% of the original value of the contract.
 - c) Any expansion or variation in excess of the above mentioned thresholds must be dealt with in terms of the provisions of section 116(3) of the MFMA which will be regarded as an amendment to the contract
 - d) The above is not applicable to transversal term contracts, facilitated by the relevant treasuries on behalf of Municipalities and specific term contracts. The latter refers to contracts where required quantities are not specified or are unknown and the award is based on creating a facility.

Part 3: Logistics, Disposal, Risk and Performance Management

41. Logistics management

- (1) 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) regular checking to ensure that all assets including official vehicles are properly managed, appropriately maintained and only used for official purposes; and
 - g) monitoring and review of the supply vendor performance to ensure compliance with specifications and contract conditions for particular goods or services.

General Logistics

(2) Placing Orders

- a) Purchase orders will be created with reference to requisitions where the supply source is either bids or quotations on Garden Route District Document Management System or financial system.
- b) Purchase order approval will be system based and authorised by the delegated authority (No manual process to be followed unless in exceptional circumstances, financial system is not accessible for unreasonable prolonged periods without clear indication when the system malfunction would be restored or there is power shortages or there is no power back up in place, however approval in writing to be obtained from the Chief financial officer authorising such process and giving guidance on the ratification process)
- c) All purchases orders will be captured on Garden Route District's Financial and

or Document Management System at stores, and ensure that proper audit trail exist. (no one may issue an order apart form a delegated officials)

- d) In respect of goods and services (with exception of professional services where there are other mechanisms place for accepting a bid), no work shall commence or goods be delivered before an official order has been placed with the vendor
- e) Garden Route District Municipality shall not be held liable for payment of any goods delivered or services rendered in contravention of clause (41)(2)(d) of the Garden Route District Municipality

(3) Receiving of Goods

- 1) Goods received note (GRV) will be completed for all goods and services received by the municipality in the following manner:
 - I. Goods delivered or services rendered to be received by the user department that issued the requisition at the location indicated in the requisition and the purchase order unless if it's a store item that should be delivered at the municipality's respective stores.
 - II. The official receiving the goods must inspect and agree the content of service provider's delivery note to Garden Route District Municipality's official order placed and agree to the following:
 - a) Delivery note to indicate Garden Route District Official Order number and the official to confirm the order number to be legitimate
 - b) Description of the type of goods on the delivery note, brand, the quantity of goods and the total cost of the goods or service to be agreed to the official order before any acceptance of goods and signing off of any delivery document
 - III. Deliveries where no official orders can be matched to an official order may not be accepted by the municipality, acceptance of such is seen as exposure of Council to Financial Risk
 - IV. On matching of the delivery note to the purchase order, the receiving official to inspect the goods or service being delivered against the content of the delivery note and the following to be agreed as faithful representation at hand:

- a) The description of goods and services being delivered or rendered to the municipality
 - b) The quantity of goods being delivered
 - c) The quality of the goods or service being delivered or rendered to the municipality (damaged goods or goods with past expiry period may not be accepted)
- V. Any discrepancies, shortfalls against the order, damaged goods, incorrect goods or any other discrepancy to be recorded in permanent marking and signed off by both the Municipality's receiving official and the supplier and delivering agent.
 - VI. Goods exceeding the quantities ordered or deviating from the description or quality should not be accepted and should be noted and communicated to the supplier formally and communicated to Finance Department (Creditors Unit)
 - VII. On acceptance of the Goods or services subsequent to the above mentioned process, an internally generated Good Received Note should be generated recording the goods or services received and their quantity and total cost and signed off.
 - VIII. All relevant documentation (original documentation) related to any delivery of goods or receipt of service from external service providers to be sent to Finance Department (Creditors unit immediately)
 - IX. Failure to record crucial information and omission of discrepancies that result in the municipality incurring a financial loss will be dealt with in accordance with municipality's disciplinary code of conduct or the equivalent.
 - X. Failure to forward all the relevant documentation to creditors department timeously can result in appropriate actions against the responsible official

(4) Stock Logistics

- I. Stock or inventory to be valued as per accounting policy of the Municipality in line with the relevant accounting practise
- II. Input VAT to be claimed upon purchase and output VAT is accounted for at the time of issue according to the accounting policy
- III. Stock items shall be systematically replenished using the re-order point or minimum level as set in the financial system

- IV. Issuing of stock shall be systematically administered through the financial system against internal orders or requisitions that are duly authorised
- V. Stores function is centralised and managed through the 3 stores of the municipality, George, Oudsthoorn and Riversdale. (Fuel through the stores and fuel depots)

42. Disposal management

- (1) The criteria for the disposal or letting of assets, including unserviceable, redundant or obsolete assets are as provided in **sections 14 and 90** of the Municipal Finance Management Act, and the Municipal Asset Transfer Regulations, 2008.
- (2) Assets may be disposed of by -
 - i. transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
 - ii. transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
 - iii. selling the asset; or
 - iv. destroying the asset.
 - v. In terms of the donations policy
- (3) The accounting officer must ensure that –
 - a) immovable property is sold only at market related prices except when the public interest or the plight of the poor demands otherwise;
 - b) movable assets are sold either by way of written price quotations, a competitive bidding process, auction or at market related prices, whichever is the most advantageous;
 - c) firearms are not sold or donated to any person or institution within or outside the Republic unless approved by the National Conventional Arms Control Committee;
 - d) immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise;
 - e) all fees, charges, rates, tariffs, scales of fees or other charge relating to the letting of immovable property are annually reviewed;
 - f) where assets are traded in for other assets, the highest possible trade-in price is negotiated; and

- g) in the case of the free disposal of computer equipment, the provincial department of education is first approached to indicate within 30 days whether any of the local schools are interested in the equipment.

43. Risk management

- a) Risk Management unit, to be serve as part of the Bid Specification Committee and Bid Evaluation Committee in facilitating and evaluation of risk identified in the procurement of goods and services.
- b) Risk management assessment will be guided by the risk assessment process in line with Risk Management guidelines and standards. The process may include the following:
 - i. The identification of risks on a case by case basis
 - ii. The allocation of risks to the party best suited to manage such risks;
 - iii. Acceptance of the cost of the risk where the cost of transferring the risk is higher than that of retaining it
 - iv. The management of risk in a pro-active manner and the provision of adequate cover for the residual risk; and
 - v. The assignment of relative risks to the contracting parties through clear and unambiguous contract documentation
- c) Risk management will duly assess corporate risk and identify mitigating controls

44. 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.

44 (A).

- 1) The official that receives goods or services on behalf of the Council, or manages the contract which was entered into as a result of a competitive bidding process, to ensure that the goods or services have been delivered in accordance with the service level agreement governing the contractual relationship
- 2) In the case of non-performance or unsatisfactory performance by a supplier, the user department concerned, in consultation with contracts management unit, must issue a notice to the supplier or service provider in writing notifying them of terms contravened and requesting immediate remedial action to comply with the contract

terms; failing which:

- a) Legal Services / contracts management unit to be consulted for appropriate action.
- (3) In the case of goods and services supplied in response to a quotation invited by the municipality, the official that initiated the requisition or received the goods or services on behalf of council, should complete a goods received voucher (GRV) and note any discrepancies that may require the attention of the service provider if any.
- (4) In the case of goods or services procured through a tender process as specified in terms of the policy, paragraph 18(b) and 19, the contract manager or designated person must ensure that goods or services requested have been provided in accordance with service level agreement before the final payment is settled..
- (5) Final review should consider the following:
- a) Satisfactory element of the quality and standard of the goods and services received and quality of workmanship.
 - b) Include details, supported by formal written notifications to the supplier regarding non-performance or poor service delivery.
 - c) Include recommendation on any further actions to be taken against the supplier in terms of paragraph 40 B of the policy.

Part 4: Other matters

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

45.

- (1) No award from R30 000 and above 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.
- (4) In cases of uncertainty on Tax affairs of the service provider, Service provider to provide the municipality with SARS e-filing pin code for independent verification by the municipality.
- (5) That Garden Route Council adopt MFMA circular No. 90, Tax Compliance Status, in the finalisation of awards made for transaction above R30 000 on Tax related matters.

Prohibition on awards to persons in the service of the state

- 46.** 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 executive 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.

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

- 47.** The accounting officer must ensure that the notes to the annual financial statements disclose particulars of any award of more than R 2 000 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.

48. Ethical standards

- (1) The code of ethical standards as set out in the “*National Treasury’s code of conduct for supply chain management practitioners and other role players involved in supply chain management*” is hereby established for officials and other role players in the supply chain management system of the Municipality in order to promote -
 - a. mutual trust and respect; and
 - b. an environment where business can be conducted with integrity and in a fair and reasonable manner.
- (2) A breach of the code of ethics must be dealt with as follows -
 - a) in the case of an employee, in terms of the disciplinary procedures of the municipality envisaged in section 67(1)(h) of the Municipal Systems Act;

- b) in the case a role player who is not an employee, through other appropriate means in recognition of the severity of the breach.
- c) In all cases, financial misconduct must be dealt with in terms of chapter 15 of the Act.

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

- (1) No person who is a provider or prospective provider of goods or services, or a recipient or prospective recipient of goods disposed or to be disposed of may either directly or through a representative or intermediary promise, offer or grant -
 - a) any inducement or reward to the municipality for or in connection with the award of a contract; or
 - b) any reward, gift, favour or hospitality to -
 - I. any official; or
 - II. any other role player involved in the implementation of this Policy.
- (2) 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.
- (3) Subparagraph (1) does not apply to gifts less than R350 in value.

50. 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.

51. 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, a written objection or complaint against the decision or action.

52. Resolution of disputes, objections, complaints and queries

- (1) The accounting officer must appoint an independent and impartial person, not directly involved in the supply chain management processes -
 - a) to assist in the resolution of disputes between the municipality and other persons regarding -
 - (i) any decisions or actions taken in the implementation of the supply chain management system; or
 - (ii) any matter arising from a contract awarded in the course of the supply chain management system; or
 - b) to deal with objections, complaints or queries regarding any such decisions or actions or any matters arising from such contract.
- (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 disputes, objections, complaints or queries received; and
 - b) submit monthly reports to the accounting officer on all disputes, objections, complaints or queries received, attended to or resolved.
- (4) A dispute, objection, complaint or query may be referred to the relevant provincial treasury if -
 - (a) the dispute, objection, complaint or query is not resolved within 60 days; or
 - (b) no response is forthcoming within 60 days.
- (5) If the provincial treasury does not or cannot resolve the matter, the dispute, objection, complaint or query may be referred to the National Treasury for resolution.
- (6) This paragraph must not be read as affecting a person's rights to approach a court at any time.

53. 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
- b) that such compensation must be performance based.

54. Construction Industry Development Board (CIDB)

The Construction Industry Development Board (CIDB) has been established by government to promote uniform application of policy to the construction industry.

a) When calling for construction related bids:

- I. The prescribed CIDB (uniformity bid documents) must be utilised
- II. Only contractors registered with CIDB may be used
- III. All projects must be advertised on the i-tender or e-tender system
- IV. Consultants used in the procurement process must adhere to the CIDB legislation
- V. Consultants used in the procurement process are prohibited to provide goods, works or service related to the project; and
- VI. Subcontract arrangements and joint venture initiatives must be aligned to CIDB guidelines and requirements

b) When evaluating construction related bids

- I. The validity of the contractor's registration on the CIDB website must be verified
- II. The bidders documents must be assessed against the prescribed CIDB contractor requirements
- III. Calculations for joint venture grading must be done according to the CIDB prescriptions

- c) All construction related procurement and projects above minimum threshold R50 million should be undertaken in accordance with the Standard for Infrastructure Procurement Delivery Management (SIPDM) – Refer to Annexure C

d) Other matters

- I. all projects approved by the municipality must be registered with the CDIB
- II. contracts registered on the i-tender systems must be update and completed
- III. non-performance and non-compliance of contractors must be **reported to the CIDB as per CIDB guidelines**

55. Commencement

This Policy takes effect on date of adoption by council and should be reviewed annually.

ANNEXURE A

PROCESS FOR THE OBTAINING OF GOODS AND SERVICES

The following process must be followed in terms of the Municipal Finance Management Act, Act 56 2003, Garden Route Supply Chain Management Policy and the Supply Chain Regulations to obtain goods and services.

1. **PURCHASES**

1.1 Purchase of all goods/services (capital and non-capital)

Value of Goods and Services	Procurement Method	Delegated Approval Authority	SCM Policy
<i>R0 – R750</i>	Petty Cash	Executive Manager	Supply Chain Management Policy S12(1)(a)
➤ <i>R750 up to R 30 000 (VAT Incl)</i>	Minimum of 3 x written quotations preferably selected from supplier database or central supplier database,	As per delegation register	Supply Chain Management Policy S12(1)(b)
➤ <i>R 30 000 but up to R 200 000 (Informal Tenders)</i>	Informal Tender process; (<i>successful bidder must be registered on the National Treasury's Central supplier Database</i>)	As per delegation register	Supply Chain Management Policy S12(1)(c)
➤ <i>R200 000 or Long Term Contracts (Formal Tenders)</i>	Formal Tender process to be followed. (<i>Successful Bidder – CSD Registered</i>)	As per delegation through the appointed Supply Chain Management Bid Committees.	Supply Chain Management Policy S12(1)(d)
<i>Deviation below 10k</i>	Through procurement system of the municipality	Final approval by the Executive Manager of the Department	Supply Chain Management Policy
<i>Deviations above R10 000</i>	Through procurement system of the municipality (<i>Tax Clearance in order & not in the employ of the state</i>)	Final approval by the Municipal Manager	Supply Chain Management Policy

2. **REQUISITIONS**

Requisitions must be approved in terms of the relevant delegation register as approved by the Accounting Officer or delegated authority.

3. **ORDERS**

I. **Capital purchases**

Requisitions are verified by the Asset Management Section.

II. **Non capital purchases**

All orders are issued through Stores.

4. **SUPPLY CHAIN MANAGEMENT POLICY**

A. >R 0 – R30 000: 3 x Written Quotations

- i. User department or initiator to put in requisition to the Buyers to obtain a minimum of three quotations. Preference to be given to suppliers listed on the National Treasury's Central Supplier Database, however if there is less than three suppliers identified on the database, potential additional suppliers not listed on the database to be identified and requests for quotation obtained.
- ii. If the preferred supplier is not listed on the Database the following to occur:
 - a) Procurement to take place through an approval by the CFO for direct payment to be obtained. Minimum supplier listing criteria to be fulfilled, i.e. Tax Clearance Certificate, regulation 44 declarations etc.
 - b) User departments to identify Key service providers within their operations and urge them to register on the National Treasury's Central Supplier Database
 - c) Deviations below Quotation R 10 000 to be approved by the Executive Manager of the relevant department.
 - d) The order number will be generated by the chief clerk at stores and forwarded to User department for action

B. R30 000 – R200 000: 3 x Informal tenders

- i. User department to initiate the procurement process by compiling specifications and forwarding them to Supply Chain Management via the electronic procurement system. (Specifications approved by the Head of the Department)
- ii. SCM Unit to facilitate the procurement process throughout the procurement life cycle until the award.

Procurement Life Cycle to involve the following:

- a) Specifications to serve before the specification committee
- b) Approved specifications will be advertised on the website, e-tender, notice board and send to potential suppliers registered on the accredited supplier database subject to review by Specs Committee and sign off by the Accounting Officer
- c) On submission, Informal tenders must be placed in the tender box and will be opened on the closing date as per time specified on the advertisement.
- d) Summary of informal tenders will be compiled by Supply Chain Management Officer.

- e) User department to provide the technical evaluation against pre-set evaluation criteria and submit to SCM Unit to evaluate the Responsive
- f) Formal Written Price Quotations(Informal Tenders) will be evaluated and awarded by the Bid Evaluation Committee
- g) Competitive Bids (Formal tenders) will be evaluated by the Bid Evaluation committee and recommendation submitted to bid adjudication committee for final award.
- h) Service Level Agreements to be compiled by legal services for all goods and services procured through Informal and Formal Tenders; signed off by both parties before goods and services may be procured

C. >R200 000: Formal Tenders & Long Term Contracts

- i. User department sends a request for a formal tender through to SCM Unit via Collaborator with the specifications.
- ii. SCM Unit to facilitate the procurement process throughout the procurement life cycle until the award.

Procurement Life Cycle to involve the following:

- iii. Specifications to serve before the specification committee
- iv. Reviewed and approved specifications to be approved by the accounting officer and Executive Manager of the department initiating the tender before advertising takes place
- v. Approved specifications will be advertised on the municipal website, e tender, notice board and send to potential suppliers registered on the accredited supplier database
- vi. The Tender number and closing date will be allocated by the SCM Unit.
- vii. Tender advertisement will be compiled and placed by the SCM Unit.
- viii. Standard tender documents will be provided to prospective tenderers by the SCM Unit.
- ix. Tenders will be opened on the date and time as specified in the advertisement.
- x. Summary of tenders will be compiled by Supply Chain Management Officer.
- xi. User department to provide the technical evaluation against pre-set evaluation criteria and submit to SCM Unit to evaluate the Responsive bidders in accordance with the Supply Chain Management Regulations.
- xii. The Bid Evaluation Committee to evaluate and make recommendations to the Bid Adjudication committee.
- xiii. The Bid Adjudication Committee can only adjudicate and on contracts up to 10 million.
- xiv. Tenders greater than R10 million will be awarded by the Accounting Officer after recommendations by the Bid Adjudication Committee
- xv. Service Level Agreements must be compiled and signed by both parties before goods and services may be procured in excess of R30 000

- xvi. Successful / unsuccessful tenderers will be notified of the Bid Adjudication Committee's decision.
- xvii. After awarding the formal tender, the User Department will be informed of the outcome and they are to complete a Service Level agreement before any requisition can be generated

5. SERVICE LEVEL AGREEMENTS

User department to liaise with Legal Services (contract management unit) on the compilation of service level agreements for all tenders (formal and Informal). Process guidance for compilation to be sought from Legal Services department.

6. Performance Management:

- (i) Each department to monitor the performance of each supplier to whom tenders have been issued under. The process flow for monitoring performance of service providers to be undertaken on the collaborator system and all the relevant compulsory review comments is completed.
- (ii) It is important that all communication with the service provider regarding the dissatisfaction of the work performed or goods delivered be documented and the service provider be afforded the opportunity to rectify it and respond accordingly. Where the final assessment of the service provider or supplier remains substandard after engaging with the service provider, legal services to facilitate the process going forth with the legal remedies available

7. STANDARD OPERATING PROCEDURES FOR PROCURING ACCOMMODATION AND FLIGHTS

7.1 Accommodation

- i. Out of town trip form to be duly completed and approved by the designated authority.
- ii. The Official concerned is to provide the designated central co-ordinator for the department with the supporting documentation indicating the reason for accommodation.
- iii. The secretary to source a minimum of three quotations from the internet or any other available resource, identify the lowest quote and proceed with the booking subject to availability OR refer the specifications to the Travel Agent Appointed by Council
- iv. The designated personnel in a particular department to initiate a requisition on collaborator, uploading all the relevant documentation, and route the requisition to the relevant official for approval.(Request CSD Number)
- v. The approved requisition will be routed via collaborator to the Chief Accountant at Stores, who will inspect the documentation. Item to follow the procurement process as per the electronic procurement system.

- vi. Once the payment has been processed, proof of payment to be forwarded by DATA office to the designated personnel that initiated the requisition/booking. (GRV to be generated by departments before payment)
- vii. The designated personnel to forward the proof of payment to both the service provider (Bed & Breakfast or Hotel) / Travel Agent Appointed by council and the official for whom accommodation has been reserved for.

Provision made in the Travel and Subsistence policy to serve as the guideline:

7.2 Compensation

7.2.1 Accommodation:

- i. Travel and subsistence policy to serve as a guideline regarding the type of Accommodation and rating that is appropriate as approved by council.
- ii. Where such accommodation is available, the rate for a single room will be payable.
- iii. If a representative stays with a relative or friend, Subsistence and travel policy of Council to be complied with
- iv. The payments for overnight accommodation will be paid directly through Creditors Department to the authorised place of accommodation.
- v. Request for payment of reservation must be submitted within reasonable period before departure to enable the administration to process the reservation.
- vi. Tax/Invoices for accommodation to be submitted to creditors department for completeness of documentation

7.2.2 Personnel of council may not circumvent procurement process and place their own preferred booking and claim reimbursement. Any emergency cases where accommodation is sourced outside the procurement process, permission to be obtained prior from the executive manager of the department or the alternative relevant authority.

7.3 Booking of Airline Tickets

- a) Designated personnel in the department should be provided with the following document or invitation for workshop/meeting/conference to be attended with the following details
 - i. Where the event will take place
 - ii. Date and Starting time
 - iii. Date of closure and time of finish

- b) Arrangements for flights to be centralised around the designated personnel in the department, i.e. PA to the Executive Manager
- c) Deviations for items costing up to R10,000 can be approved by the Executive Manager of the relevant department, Final approval for Deviations above R10 000 to be reviewed by the CFO and approved by the Municipal Manager.
- d) Payments of flights to follow due process as approved
- e) When bookings are made, the following information is required by the designated personnel:
 - I. Approval from Municipal Manager for attendance of the meeting
 - II. Copy of ID of the passenger
 - III. Passenger's cell-phone number, which will be used to forward a confirmation e-mail with flight details from the chosen airline
 - IV. Vote from which expenditure will be paid

7.4 For rental vehicle hire:

- i. Designated personnel in the department to make the necessary arrangement subject to availability of the vehicles. The class of the vehicle to be guided by the Travel and Subsistence Policy of Council

7.5 Catering

Refer to the catering policy as approved by council.



CODE OF CONDUCT FOR SUPPLY CHAIN MANAGEMENT PRACTITIONERS AND OTHER ROLE PLAYERS

In accordance with regulation 46(4) and 46(5) of the Local Government Municipal Finance Management Act, 2003: Municipal Supply Chain Management Regulations, the supply chain management policy of a municipality or municipal entity is required take into account the National Treasury's code of conduct for supply chain management practitioners and other role players. Alternatively a municipality or municipal entity may adopt the National Treasury code of conduct. When adopted, such code of conduct becomes binding on all officials and other role players involved in the implementation of the supply chain management policy of the municipality or municipal entity.

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.

General Principles

Garden Route District 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.

- 1.1 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.
- 1.2 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.

2 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, favor, 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 or as may be set by council;
- (d) must declare to the accounting officer details of any reward, gift, favor, 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.

3 Accountability

- 3.1 Practitioners are accountable for their decisions and actions to the public.
- 3.2 Practitioners should use public property scrupulously.
- 3.3 Only accounting officers or their delegates have the authority to commit the municipality to any transaction for the procurement of goods and / or services.
- 3.4 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.
- 3.5 Practitioners must assist the accounting officer in combating fraud, corruption, favoritism and unfair and irregular practices in the supply chain management system.

- 3.6 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, favoritism or unfair conduct;
 - (ii) any alleged contravention of the policy on inducements, rewards, gifts and favors to municipalities or municipal entities, officials or other role players; and
 - (iii) any alleged breach of this code of conduct.
- 3.7 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 **Garden Route District Council** who must ensure that such declaration is recorded in the register.

4 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.

5 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.

Bid Specification / Evaluation / Adjudication Committees

- 6.1 Bid specification, evaluation and adjudication committees should implement supply chain management on behalf of the council in an honest, fair, impartial, transparent, cost-effective and accountable manner.
- 6.2. 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.
- 6.3 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.
- 6.4 No person should-

- 6.4.1 interfere with the supply chain management system of the council; or
- 6.4.2 amend or tamper with any price quotation / bid after its submission.

6 Combative Practices

- a) Combative practices are unethical and illegal and should be avoided at all cost. They include but are not limited to:
 - (i) Suggestions to fictitious lower quotations;
 - (ii) Reference to non-existent competition;
 - (iii) Exploiting errors in price quotations / bids;
 - (iv) Soliciting price quotations / bids from bidders / contractors whose names appear on the Register for Tender Defaulters.

I, an employee of Garden Route District Municipality , hereby acknowledges the Garden Route District Municipality’s Code of Conduct for Supply Chain Management and commits to abide by it in the spirit to which it is intended for.

- I acknowledge that my integrity can only be affirmed by how I am deemed by others and therefor will uphold the Supply Chain Management Policy of the Municipality to the letter and spirit to which it is intended for.
- I will refrain from any conduct which may be deemed to be fraudulent in nature or could be seen as bringing disrepute to the image of Council.
- I acknowledge my responsibility for continuous professional development in familiarising myself with the changes in the relevant and applicable legislation of Supply Chain Management and any other relevant procurement legislation.

Signature
 Name of Official
 Date of Signature

ANNEXURE C

Supply Chain Process for Infrastructure Procurement and Delivery Management

The Council resolves in terms of section 168 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), in reference to SCM Regulation 3(2), this Policy prescribes the standards and gateways system requirements and principles which municipalities must adhere to when procuring infrastructure related services linking to CIDB and ISO standards and ethos, therefore to adopt the following proposal as the SCM Framework for Infrastructure Procurement and Delivery Management of the Garden Route District Municipality.

Infrastructure Procurement and Delivery Management

Contents

1	Scope	1
2	Terms, definitions and abbreviations	1
	2.1 Terms and definitions	1
	2.2 Abbreviations	2
	General requirements	2
3	3.1 Delegations	2
	3.2 Implementation of the Standard for Infrastructure Procurement and Delivery Management	3
	3.3 Supervision of the infrastructure delivery management unit	3
	3.4 Objections and complaints	3
	3.5 Resolution of disputes, objections, complaints and queries	4
	Control framework for infrastructure delivery management	4
4	4.1 Assignment of responsibilities for approving or accepting end of stage deliverables	4
	4.2 Additional gates	4
	4.3 Additional requirements	5
	4.4 Gateway reviews	5
	4.4.1 Gateway reviews for major capital projects above a threshold	5
	Control framework for infrastructure procurement	6
5	Infrastructure delivery management requirements	6
6	6.1 Institutional arrangements	6
	6.1.1 Committee system for procurement	6
	6.1.2 Actions of an authorised person relating to the award of a contract or an order	12
	6.1.3 Conduct of those engaged in infrastructure delivery	13
	6.1.4 Measures to prevent abuse of the infrastructure delivery system	16
	6.1.5 Awards to persons in the service of the state	16
	6.1.6 Collusive tendering	17
	6.1.7 Placing of contractors under restrictions	17
	6.1.8 Complaints	18
	6.2 Acquisition management	18
	6.2.1 Unsolicited proposal	18
	6.2.2 Tax and rates compliance	19
	6.2.3 Declarations of interest	20
	6.2.4 Invitations to submit expressions of interest or tender offers	20
	6.2.5 Publication of submissions received and the award of contracts	20
	6.2.6 Disposal committee	21
	6.3 Reporting of infrastructure delivery management information	21
	Infrastructure procurement	21
	7.1 Usage of procurement procedures	22
7	7.2 Procurement documents	22
	7.3 Developmental procurement policy	22
	7.4 Payment of contractors	22
	7.5 Approval to utilise specific procurement procedures	22
	7.6 Receipt and safeguarding of submissions	23
	7.7 Opening of submissions	23
	7.8 Use of another organ of state's framework agreement	24
	7.9 Insurances	24
	7.8.1 Contractors shall be required to take out all insurances required in terms of the contract.	24
	7.10 Written reasons for actions taken	25
	7.11 Request for access to information	25

1 Scope

This annexure establishes the Garden Route District Municipality's framework for infrastructure procurement and delivery management in accordance with the provisions of the regulatory frameworks for procurement and supply chain management. It includes the procurement of goods and services necessary for a new facility to be occupied and used as a functional entity but excludes:

- a) the storage of goods and equipment following their delivery to Garden Route District Municipality which are stored and issued to contractors or to employees;
- b) the disposal or letting of land;
- c) the conclusion of any form of land availability agreement;
- d) the leasing or rental of moveable assets; and
- e) public private partnerships.

1.2 This Policy must be read together with the Supply Chain Management Policy, Supply Chain Management Regulations (MFMA), Municipal Finance Management Act No. 56 of 2003, Preferential Procurement Act and Preferential Procurement Regulations of 2017

2 Terms, definitions and abbreviations

2.1 Terms and definitions

For the purposes of this document, the definitions and terms given in the standard and the following apply:

agent: person or organization that is not an employee of the Garden Route District Municipality that acts on the Garden Route District Municipality's behalf in the application of this document

authorised person: the municipal manager or chief executive or the appropriately delegated authority to award, cancel, amend, extend or transfer a contract or order

conflict of interest: any situation in which:

- a) someone in a position of trust has competing professional or personal interests which make it difficult for him to fulfil his duties impartially,
- b) an individual or organization is in a position to exploit a professional or official capacity in some way for his personal or for corporate benefit, or
- c) incompatibility or contradictory interests exist between an employee and the organization which employs that employee

contract manager: person responsible for administering a package on behalf of the employer and performing duties relating to the overall management of such contract from the implementer's point of view

family member: a person's spouse, whether in a marriage or in a customary union according

to indigenous law, domestic partner in a civil union, or child, parent, brother, sister, whether such a relationship results from birth, marriage or adoption

framework agreement: an agreement between an organ of state and one or more contractors, the purpose of which is to establish the terms governing orders to be awarded during a given period, in particular with regard to price and, where appropriate, the quantity envisaged

gate: a control point at the end of a process where a decision is required before proceeding to the next process or activity

gateway review: an independent review of the available information at a gate upon which a decision to proceed or not to the next process is based

gratification: an inducement to perform an improper act

infrastructure delivery: the combination of all planning, technical, administrative and managerial actions associated with the construction, supply, renovation, rehabilitation, alteration, maintenance, operation or disposal of infrastructure

infrastructure procurement: the procurement of goods or services including any combination thereof associated with the acquisition, renovation, rehabilitation, alteration, maintenance, operation or disposal of infrastructure

maintenance: the combination of all technical and associated administrative actions during an item's service life to retain it in a state in which it can satisfactorily perform its required function

operation: combination of all technical, administrative and managerial actions, other than maintenance actions, that results in the item being in use

order: an instruction to provide goods, services or any combination thereof under a framework agreement

organ of state: an organ of state as defined in section 239 of the Constitution of the Republic of South Africa

procurement document: documentation used to initiate or conclude (or both) a contract or the issuing of an order

principal: a natural person who is a partner in a partnership, a sole proprietor, a director a company established in terms of the Companies Act of 2008 (Act No. 71 of 2008) or a member of a close corporation registered in terms of the Close Corporation Act, 1984, (Act No. 69 of 1984)

standard: the latest edition of the Standard for Infrastructure Procurement and Delivery Management as published by National Treasury

working day: any day of a week on which is not a Sunday, Saturday or public holiday

2.2 Abbreviations

For the purposes of this document, the following abbreviations apply

CIDB: Construction Industry Development Board

SARS: South African Revenue Services

3 General requirements

3.1 Delegations

3.1.1 The Garden Route District Municipality hereby delegates all powers and duties to the municipal manager which are necessary to enable the municipal manager to:

- a) discharge the supply chain management responsibilities conferred on accounting officers in terms of Chapter 8 or 10 of the Local Government Municipal Finance Management Act of 2003 and this document;
- b) maximise administrative and operational efficiency in the implementation of this document;
- c) enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of this document; and
- d) comply with his or her responsibilities in terms of section 115 and other applicable provisions of the Local Government Municipal Finance Management Act of 2003 Act.

3.1.2 No departure shall be made from the provisions of this policy without the approval of the municipal manager of Garden Route District Municipality.

3.1.3 The municipal manager shall for oversight purposes:

- a) within 30 days of the end of each financial year, submit a report on the implementation of this policy, to the council of the Garden Route District Municipality;
- b) whenever there are serious and material problems in the implementation of this policy, immediately submit a report to the council of Garden Route District Municipality;
- c) within 10 days of the end of each quarter, submit a report on the implementation of the policy to the mayor; and
- d) make the reports public in accordance with section 21A of the Municipal Systems Act of 2000.

3.2 Implementation of the Standard for Infrastructure Procurement and Delivery Management

3.2.1 Infrastructure procurement and delivery management shall be undertaken in accordance with the all applicable legislation and the relevant requirements of the latest edition of the National Treasury Standard for Infrastructure Procurement and Delivery Management.

Any deviation to the provisions of this standard must be reported to National Treasury and the relevant treasury.

3.2.2 Pre-feasibility and feasibility reports are required as end – of – stage deliverables for stages 3 and 4, respectively , where one or more of the following applies:

- a) The major capital projects is required for:
 - 1) a major public enterprise where the total expenditure exceeds R 1.5 billion, or

- 2) an organ of state to the Municipal Finance Management Act other than a major public enterprise where the total project capital expenditure exceeds R1.0 billion including VAT, or where the expenditure per year for a minimum of three years exceeds R 250 million per annum including VAT;

b) the project is not:

- 1) a building project with or without related site works; or
- 2) a process – based , somewhat repetitive or relatively standardised project where the risk of failing to achieve time , cost and quality objectives is relatively low;

3.2.3 Stage 3 to 9 are required for where the works does not involve the provision of new infrastructure or the rehabilitation, refurbishment, alteration of existing infrastructure. Stages 5 and 6 to be omitted where there is sufficient information to proceed to stage 7 is contained in the stage 4 deliverable.

3.3 Supervision of the infrastructure delivery management unit or equivalent

The Infrastructure Delivery Management Unit shall be directly supervised by the chief financial officer /-person delegated in terms of section 82 of the MFMA.

3.4 Objections and complaints

Persons aggrieved by decisions or actions taken in the implementation of this policy, may lodge within

14 days of the decision or action, a written objection or complaint against the decision or action.

3.5 Resolution of disputes, objections, complaints and queries

3.5.1 The municipal manager shall appoint an independent and impartial person, not directly involved in the infrastructure delivery management processes to assist in the resolution of disputes between the Garden Route District Municipality and other persons regarding:

- a) any decisions or actions taken in the implementation of the supply chain management system;
- b) any matter arising from a contract awarded within the Garden Route District Municipality's infrastructure delivery management system; or
- c) to deal with objections, complaints or queries regarding any such decisions or actions or any matters arising from such contract.

3.5.2 All relevant personnel as and when required so shall assist the person appointed in terms of 3.5.1 to perform his or her functions effectively.

3.5.3 The person appointed in terms of 3.5.1 shall:

- a) strive to resolve promptly all disputes, objections, complaints or queries received; and
- b) submit monthly reports to the municipal manager on all disputes, objections, complaints or queries received, attended to or resolved;

3.5.4 A dispute, objection, complaint or query may be referred to the Western Cape Provincial Treasury if:

- a) the dispute, objection, complaint or query is not resolved within 60 days; or
- b) no response is forthcoming within 60 days.

3.5.5 If the Western Cape Provincial Treasury does not or cannot resolve the matter, the dispute, objection, complaint or query may be referred to the National Treasury for resolution.

4 Control framework for infrastructure delivery management

4.1 Assignment of responsibilities for approving or accepting end of stage deliverables

The responsibilities for approving or accepting end of stage deliverables shall be as stated in Table 1.

4.2 Additional gates

Additional gates may be added only on approval by the municipal manager.

4.3 Additional requirements

Additional requirements may be added only on approval by the municipal manager as the need arises.

4.4 Gateway reviews

4.4.1 Gateway reviews for major capital projects above R 50 million (VAT inclusive)

4.4.1.1 The municipal manager shall appoint a gateway review team in accordance with the provisions of clause 4.1.13.1.2 of the standard to undertake gateway reviews for major capital projects above R 50 million (VAT inclusive) for review of the stage 4 deliverable (concept report or feasibility report) prior to acceptance of the deliverable;

4.4.1.2 The review teams shall comprise of not less than three persons who are not involved in the project associated with the works covered by the end of the stage 4 deliverable, and who are familiar with the various aspects of the subject matter of the deliverable at the end of the stage under review.

4.4.1.3 The review team shall be led by a person who has at least relevant experience and track record in the planning of infrastructure projects and is registered either as a professional engineer in terms of the Engineering Profession Act, a professional quantity surveyor in terms of the Quantity Surveying Profession Act or a professional architect in terms of the Architectural Profession Act. The members of the team should have relevant expertise in key technical areas, cost estimating, scheduling and implementation of similar projects.

4.4.1.4 The relevant treasury may nominate additional persons to serve on the review team.

Table 1: Responsibilities for approving or accepting end of stage deliverables in the control framework for the management of infrastructure delivery

Stage		Person assigned the responsibility for approving or accepting end of stage deliverables	
No	Name		
0	Project initiation	Council accepts the initiation report:	
1	Infrastructure planning	Council / Municipal Manager approves the infrastructure plan	
2	Strategic resourcing	Municipal Manager and the relevant Executive Manager approves the delivery and / or procurement strategy	
3	Pre-feasibility	Executive Manager and Project Manager of the responsible division accepts the pre-feasibility report	
	Preparation and briefing	Executive Manager and Project Manager of the responsible division accepts the strategic brief	
4	Feasibility	Municipal Manager and the relevant Executive Manager accepts the feasibility report	
	Concept and viability	Executive Manager and Project Manager of the responsible division accepts the concept report	
5	Design development	Executive Manager and Project Manager of the responsible division accepts the design development report.	
6	Design documentation	6A Production information	Executive Manager and Project Manager of the responsible division (professional) accepts the parts of the production information which are identified when the design development report is accepted as requiring acceptance.
		6B Manufacture, fabrication and construction information	The project manager accepts the manufacture, fabrication and construction information.
7	Works	The project manager certifies completion of the works or the delivery of goods and associated services.	
8	Handover	The owner or end user accepts liability for the works.	
9	Package completion / Close out	The project manager or supervising agent certifies the defects certificate in accordance with the provisions of the contract. The project manager certifies final completion in accordance with the provisions of the contract. Project manager accepts the close out report.	

5 Control framework for infrastructure procurement

5.1 The responsibilities for taking the key actions associated with the formation and conclusion of contracts including framework agreements above the quotation threshold shall be as stated in Table 2.

5.2 The responsibilities for taking the key actions associated with the quotation procedure and the negotiation procedure where the value of the contract is less than the threshold set for the quotation procedure shall be as follows:

- a) Procurement documentation committee shall grant approval for the issuing of the procurement documents, based on the contents of a documentation review report developed in accordance with the provisions of the standard;
- b) The Bid Adjudication Committee may award the contract if satisfied with the recommendations contained in the evaluation report prepared in accordance with the provisions of the standard.

5.3 The responsibilities for taking the key actions associated with the issuing of an order in

terms of a framework agreement shall be as stated in Table 3.

6 Infrastructure delivery management requirements

6.1 Institutional arrangements

6.1.1 Committee system for procurement

6.1.1.1 General

6.1.1.1.1 A committee system comprising the Specification committee, Bid Evaluation Committee and Bid Adjudication committee shall be applied to all procurement procedures where the estimated value of the procurement exceeds the financial threshold for quotations and to the putting in place of framework agreements.

6.1.1.1.2 The evaluation committee shall, where competition for the issuing of an order amongst framework contractors takes place and the value of the order exceeds the financial threshold for quotations, evaluate the quotations received.

6.1.1.1.3 The persons appointed in writing as technical advisors and subject matter experts may attend any committee meeting.

6.1.1.1.4 No person who is a political officer bearer, a public office bearer including any councillor of a municipality, a political advisor or a person appointed in terms of section 12A of the Public Service Act of 1994 or who has a conflict of interest shall be appointed to a procurement documentation, evaluation or tender committee.

6.1.1.1.5 Committee decisions shall as far as possible be based on the consensus principle i.e. the general agreement characterised by the lack of sustained opposition to substantial issues. Committees shall record their decisions in writing. Such decisions shall be kept in a secured environment for a period of not less than five years after the completion or cancellation of the contract unless otherwise determined in terms of the National Archives and Record Services Act of 1996.

6.1.1.1.6 Committees may make decisions at meetings or, subject to the committee chairperson's approval, on the basis of responses to documents circulated to committee members provided that not less than 50% plus 1 of the members are present or respond to the request for responses. Where the committee chairperson is absent from the meeting, the members of the committee who are present shall elect a chairperson from one of them to preside at the meeting.

6.1.1.2 Procurement documentation committee

6.1.1.2.1 The Various Supply Chain Management Committees and the user department may request the Municipal Manager to appoint a transaction advisor on complex matters which they feel inadequately equipped to oversee:

- a) the persons to review the procurement documents and to develop a procurement documentation review report in accordance with clause 4.2.2.1 of the standard; and
- b) the members of the procurement documentation committee.

6.1.1.2.2 The procurement Specification committee shall comprise of the standing committee members and any additional persons appointed on the basis of their technical expertise one or more persons. The chairperson shall be an employee of Garden Route District Municipality

with requisite skills. Other members shall, where relevant, include a representative of the end user or the department requiring infrastructure delivery.

6.1.1.2.3 No member of, or technical adviser or subject matter expert who participates in the work of the any of the procurement committees or a family member or associate of such a member, may tender for any work associated with the tender which is considered by these committees.

Table 2: Procurement activities and gates associated with the formation and conclusion of contracts above the quotation threshold

Activity		Sub-Activity (see Table 3 of the standard)		Key action	Person assigned responsibility to perform key action
1*	Establish what is to be procured	1.3 PG1	Obtain permission to start with the procurement process	Make a decision to proceed / not to proceed with the procurement based on the broad scope of work and the financial estimates.	Relevant Director
2*	Decide on procurement strategy	2.5 PG2	Obtain approval for procurement strategies that are to be adopted including specific approvals to approach a confined market or the use of the negotiation procedure	Confirm selection of strategies so that tender offers can be solicited	SCM Manager in consultation with the CFO and relevant Director
3	Solicit tender offers	3.2 PG3	Obtain approval for procurement documents	Grant approval for the issuing of the procurement documents	Procurement documentation committee
		3.3 PG4	Confirm that budgets are in place	Confirm that finance is available for the procurement to take place	Relevant Director / CFO
4	Evaluate tender offers	4.2 PG5	Obtain authorisation to proceed with next phase of tender process in the qualified, proposal or competitive negotiations procedure	Review evaluation report, ratify recommendations and authorise progression to the next stage of the tender process	Evaluation committee
		4.7 PG6	Confirm recommendations contained in the tender evaluation report	Review recommendations of the evaluation committee and refer back to evaluation committee for reconsideration or make recommendation for award (below R 10 m – Tender Committee and above R 10 m the Municipal Manager)	Tender committee (below and R10 mil) Municipal Manager (above R10 mil)
5	Award contract	5.3 PG7	Award contract	Formally accept the tender offer in writing and issue the contractor with a signed copy of the contract	Tender committee / Municipal Manager
		5.5 GF1	Upload data in financial management and payment system	Verify data and upload contractor's particulars and data associated with the contract or order	SCM Unit

Table 2 (concluded)

Activity		Sub-Activity		Key action	Person assigned responsibility to perform key action
6	Administer contracts and confirm compliance with requirements	6.4 PG8A	Obtain approval to waiver penalties or low performance damages.	Approve waiver of penalties or low performance damages	Municipal Manager
		6.5 PG8B	Obtain approval to notify and refer a dispute to an adjudicator	Grant permission for the referral of a dispute to an adjudicator or for final settlement to an	Municipal Manager
		6.6 PG8C	Obtain approval to increase the total of prices, excluding contingencies and price adjustment for inflation, or the time for completion at the award of a contract or the issuing of an order up to a specified percentage	Approve amount of time and cost overruns up to the threshold	Municipal Manager
		6.7 PG8D	Obtain approval to exceed the total of prices, excluding contingencies and price adjustment for inflation, or the time for completion at award of a contract or the issuing of an order by more than 15% and up to 20%, respectively	Approve amount of time and cost overruns above a the threshold (15% up to 20%)	0-20% CFO or Municipal Manager with proper motivation from the relevant Director
		6.8 PG8E	Obtain approval to cancel or terminate a contract	Approve amount	Recommended by the Bid Adjudication Committee for approval by Municipal Manger
		6.9 PG8F	Obtain approval to amend a contract	Approve proposed amendment to contract	Recommended by the BAC AND=Committee for approval by Municipal Manger

Table 3: Procurement activities and gates associated with the issuing of an order above the quotation threshold in terms of a framework agreement

Activity		Key action	Person assigned responsibility to perform key action
1 FG1	Confirm justifiable reasons for selecting a framework contactor where there is more than one framework agreement covering the same scope of work	Confirm reasons submitted for not requiring competition amongst framework contractors or instruct that quotations be invited	Municipal Manager or relevant Executive Manager
3 FG2	Obtain approval for procurement documents	Grant approval for the issuing of the procurement documents	Bid Specification committee
4 FG3	Confirm that budgets are in place	Confirm that finance is available so that the order may be issued	Relevant Executive Manager in conjunction with the BTO or CFO
6 FG4	Authorise the issuing of the order	If applicable, review evaluation report and confirm or reject recommendations. Formally accept the offer in writing and issue the contractor with a signed copy of the order	Relevant Executive Manager

6.1.1.3 Evaluation committee

6.1.1.3.1 The municipal manager shall in addition to the standing committee members appoint on a procurement by procurement basis any additional members with the necessary technical expertise relevant to a particular project:

- a) the persons to prepare the evaluation and, where applicable, the quality evaluations, in accordance with clauses 4.2.3.2 and 4.2.3.4 of the standard, respectively; and
- b) to provide technical advice to committee.

6.1.1.3.2 The evaluation committee shall comprise not less than three people. The chairperson shall be an employee of Garden Route District Municipality with requisite skills. Other members shall include a supply chain management practitioner and, where relevant, include an official from the department requiring infrastructure delivery and any other members that may be deemed necessary for the success of the project.

6.1.1.3.3 The evaluation committee shall review the evaluation reports prepared in accordance with sub clause 4.2.3 of the standard and as a minimum verify the following in respect of the recommended tenderer:

- a) the capability and capacity of a tenderer to perform the contract;
- b) the tenderer's tax and municipal rates and taxes compliance status;
- c) confirm that the tenderer's municipal rates and taxes and municipal service charges are not in arrears;
- d) the Compulsory Declaration has been completed; and
- e) the tenderer is not listed in the National Treasury's Register for Tender Defaulters or the List of Restricted Suppliers.

6.1.1.3.4 No tender submitted by a member of, or technical adviser or subject matter expert who participates in the work of the procurement documentation committee or a family member or associate of such a member, may be considered by the evaluation committee.

6.1.1.3.5 The evaluation committee shall disqualify any respondent or tenderer who is disqualified for having engaged in fraudulent or corrupt practices during the tender process and notify legal services for guidance.

6.1.1.4 Bid Adjudication Committee

6.1.1.4.1 The tender committee shall comprise the following persons or their mandated delegate:

- a) Municipal Manager to Appoint the Chair of the Bid Adjudication Committee
- b) All the other Executive Managers

6.1.1.4.2 No member of the evaluation committee may serve on the Bid Adjudication committee. A member of an evaluation committee may, however, participate in the deliberations of a tender committee as a technical advisor or a subject matter expert.

6.1.1.4.3 The tender committee shall:

- a) consider the report and recommendations of the evaluation committee and:

- 1) verify that the procurement process which was followed complies with the provisions of this document;
 - 2) confirm that the report is complete and addresses all considerations necessary to make a recommendation;
 - 3) confirm the validity and reasonableness of reasons provided for the elimination of tenderers; and
 - 4) consider commercial risks and identify any risks that have been overlooked or fall outside of the scope of the report which warrant investigation prior to taking a final decision; and
- b) refer the report back to the evaluation committee for their reconsideration or make a recommendation to the authorised person on the award of a tender, with or without conditions, together with reasons for such recommendation.

6.1.1.4.4 The adjudication committee shall consider proposals regarding the cancellation, amendment, extension or transfer of contracts that have been awarded and make a recommendation to the authorised person on the course of action which should be taken.

6.1.1.4.5 The adjudication committee shall consider the merits of an unsolicited offer and make a recommendation to the municipal manager;

6.1.1.4.6 The adjudication committee shall report to the municipal manager any recommendation made to award a contract to a tenderer other than the tenderer recommended by the evaluation committee, giving reasons for making such a recommendation.

6.1.1.4.7 The adjudication committee shall not make a recommendation for an award of a contract or order if the recommended tenderer or framework contractor has:

- a) made a misrepresentation or submitted false documents in competing for the contract or order;
or
- b) been convicted of a corrupt or fraudulent act in competing for any contract during the past five years.

6.1.1.4.8 The tender committee may on justifiable grounds and after following due process, disregard the submission of any tenderer if that tenderer or any of its directors, members or trustees or partners has abused the delivery management system or has committed fraud, corruption or any other improper conduct in relation to such system. The National Treasury and the Western Cape Provincial Treasury shall be informed where such tenderers are disregarded.

6.1.2 Actions of an authorised person relating to the award of a contract or an order

6.1.2.1 Award of a contract

6.1.2.1 Infrastructure tenders as per the recommended threshold shall be adjudicated over by the Bid adjudication committee and recommendations made to the Municipal Manager for final award.

- a) award the contract after confirming that the report is complete and addresses all considerations necessary to make a recommendation and budgetary provisions are in place;
or
- b) decide not to proceed or to start afresh with the process.

6.1.2.2 The authorised person shall immediately notify the municipal manager if a tender other than

the recommended tender is awarded, save where the recommendation is changed to rectify an irregularity. Such person shall, within 10 working days, notify in writing the Auditor-General, the National Treasury and Western Cape Provincial Treasury, and, in the case of a municipal entity, also the parent municipality, of the reasons for deviating from such recommendation.

6.1.2.3 Issuing of an order

The authorised person shall, deal with content of the contract as per approved service level agreement and the milestones as draw up in the agreed project plan

6.1.3 Conduct of those engaged in infrastructure delivery

6.1.3.1 General requirements

6.1.3.1.1 All personnel and agents of Garden Route District Municipality shall comply with the requirements of the CIDB Code of Conduct for all Parties engaged in Construction Procurement.

They shall:

- a) behave equitably, honestly and transparently;
- b) discharge duties and obligations timeously and with integrity;
- c) comply with all applicable legislation and associated regulations;
- d) satisfy all relevant requirements established in procurement documents;
- e) avoid conflicts of interest; and
- f) not maliciously or recklessly injure or attempt to injure the reputation of another party.

6.1.3.1.2 All personnel and agents engaged in Garden Route District Municipality's infrastructure delivery management system shall:

- a) not perform any duties to unlawfully gain any form of compensation, payment or gratification from any person for themselves or a family member or an associate;
- b) perform their duties efficiently, effectively and with integrity and may not use their position for private gain or to improperly benefit another person;
- c) strive to be familiar with and abide by all statutory and other instructions applicable to their duties;
- d) furnish information in the course of their duties that is complete, true and fair and not intended to mislead;
- e) ensure that resources are administered responsibly;
- f) be fair and impartial in the performance of their functions;
- g) at no time afford any undue preferential treatment to any group or individual or unfairly discriminate against any group or individual;
- h) not abuse the power vested in them;
- i) not place themselves under any financial or other obligation to external individuals or firms

that might seek to influence them in the performance of their duties;

- j) assist Garden Route District Municipality in combating corruption and fraud within the infrastructure procurement and delivery management system;
- k) not disclose information obtained in connection with a project except when necessary to carry out assigned duties;
- l) not make false or misleading entries in reports or accounting systems; and
- m) keep matters of a confidential nature in their possession confidential unless legislation, the performance of duty or the provision of the law require otherwise.

6.1.3.1.2 An employee or agent may not amend or tamper with any submission, tender or contract in any manner whatsoever.

6.1.3.2 Conflicts of interest

6.1.3.2.1 The employees and agents of Garden Route District Municipality who are connected in any way to procurement and delivery management activities which are subject to this policy, shall:

- a) disclose in writing to the employee of the Garden Route District Municipality to whom they report, or to the person responsible for managing their contract, if they have, or a family member or associate has, any conflicts of interest; and
- b) not participate in any activities that might lead to the disclosure of Garden Route District Municipality's proprietary information.

6.1.3.2.2 The employees and agents of Garden Route District Municipality shall declare and address any perceived or known conflict of interest, indicating the nature of such conflict to whoever is responsible for overseeing the procurement process at the start of any deliberations relating to a procurement process or as soon as they become aware of such conflict, and abstain from any decisions where such conflict exists or recuse themselves from the procurement process, as appropriate.

6.1.3.2.3 Agents who prepare a part of a procurement document may in exceptional circumstances, where it is in Garden Route District Municipality's interest to do so, submit a tender for work associated with such documents provided that:

- a) Garden Route District Municipality states in the tender data that such an agent is a potential tenderer;
- b) all the information which was made available to, and the advice provided by that agent which is relevant to the tender, is equally made available to all potential tenderers upon request, if not already included in the scope of work; and
- c) the procurement documentation committee is satisfied that the procurement document is objective and unbiased having regard to the role and recommendations of that agent.

6.1.3.3 Evaluation of submissions received from respondents and tenderers

6.1.3.3.1 The confidentiality of the outcome of the processes associated with the calling for expressions of interest, quotations or tenders shall be preserved. Those engaged in the evaluation process shall:

- a) not have any conflict between their duties as an employee or an agent and their private interest;

- b) may not be influenced by a gift or consideration (including acceptance of hospitality) to show favour or disfavour to any person;
- c) deal with respondents and tenderers in an equitable and even-handed manner at all times; and
- d) not use any confidential information obtained for personal gain and may not discuss with, or disclose to outsiders, prices which have been quoted or charged to Garden Route District Municipality.

6.1.3.3.2 The evaluation process shall be free of conflicts of interest and any perception of bias. Any connections between the employees and agents of Garden Route District Municipality and a tenderer or respondent shall be disclosed and recorded in the tender evaluation report.

6.1.3.3.3 Garden Route District Municipality's personnel and their agents shall immediately withdraw from participating in any manner whatsoever in a procurement process in which they, or any close family member, partner or associate, has any private or business interest.

6.1.3.4 Non-disclosure agreements

Confidentiality agreements in the form of non-disclosure agreements shall, where appropriate, be entered into with agents and potential contractors to protect Garden Route District Municipality's confidential information and interests.

6.1.3.5 Gratifications, hospitality and gifts

6.1.3.5.1 The employees and agents of Garden Route District Municipality shall not, directly or indirectly, accept or agree or offer to accept any gratification from any other person including a commission, whether for the benefit of themselves or for the benefit of another person, as an inducement to improperly influence in any way a procurement process, procedure or decision.

6.1.3.5.2 The employees and agents of Garden Route District Municipality as well as their family members of associates shall not receive any of the following from any tenderer, respondent or contractor or any potential contractor:

- a) money, loans, equity, personal favours, benefits or services;
- b) overseas trips;or
- c) any gifts or hospitality irrespective of value from tenderers or respondents prior to the conclusion of the processes associated with a call for an expression of interest or a tender.

6.1.3.5.3 The employees and agents of Garden Route District Municipality shall not purchase any items at artificially low prices from any tenderer, respondent or contractor or any potential contractor at artificially low prices which are not available to the public.

6.1.3.5.4 All employees and agents of Garden Route District Municipality may for the purpose of fostering inter-personal business relations accept the following:

- a) meals and entertainment, but excluding the cost of transport and accommodation;
- b) promotional material of small intrinsic value such as pens, paper-knives, diaries, calendars, etc;
- c) incidental business hospitality such as business lunches or dinners, which the employee

is prepared to reciprocate;

- d) gifts in kind other than those listed in a) to c) which have an intrinsic value lower than R350 unless they have declared them to council.

6.1.3.5.5 Under no circumstances shall gifts be accepted from prospective contractors during the evaluation of calls for expressions of interest, quotations or tenders that could be perceived as undue and improper influence of such processes.

6.1.3.5.6 Employees and agents of Garden Route district Municipality shall without delay report to the municipal manager or chief financial officer any incidences of a respondent, tenderer or contractor who directly or indirectly offers a gratification to them or any other person to improperly influence in any way a procurement process, procedure or decision.

6.1.3.6 Reporting of breaches

Employees and agents of Garden Route District Municipality shall promptly report to the municipal manager or chief financial officer any alleged improper conduct which they may become aware of, including any alleged fraud or corruption.

6.1.4 Measures to prevent abuse of the infrastructure delivery system

The municipal manager or chief financial officer shall investigate all allegations of corruption, improper conduct or failure to comply with the requirements of this policy against an employee or an agent, a contractor or other role player and, where justified:

- a) take steps against an employee or role player and inform the National Treasury and Western Cape Provincial Treasury of those steps;
- b) report to the South African Police Service any conduct that may constitute a criminal offence;
- c) lodge complaints with the Construction Industry Development Board or any other relevant statutory council where a breach of such council's code of conduct or rules of conduct are considered to have been breached;
- d) cancel a contract if:
 - 1) it comes to light that the contractor has made a misrepresentation, submitted falsified documents or has been convicted of a corrupt or fraudulent act in competing for a particular contract or during the execution of that contract; or
 - 2) an employee or other role player committed any corrupt or fraudulent act during the tender process or during the execution of that contract.

6.1.5 Awards to persons in the service of the state

6.1.5.1 Any submissions made by a respondent or tenderer who declares in the Compulsory Declaration that a principal is one of the following shall be rejected:

- a) a member of any municipal council, any provincial legislature, or 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) an executive member of the accounting authority of any national or provincial public entity; or
- f) an employee of Parliament or a provincial legislature.

6.1.5.2 The notes to the annual financial statements of the Garden Route District Municipality shall disclose particulars of an award of more than R 2000 to a person who is a family member of a person identified in 6.1.5.1 or who has been in the previous 12 months. Such notes shall include the name of the person, the capacity in which such person served and the amount of the award.

6.1.6 Collusive tendering

Any submissions made by a respondent or tenderer who fails to declare in the Compulsory Declaration that the tendering entity:

- a) is not associated, linked or involved with any other tendering entity submitting tender offers; or
- b) has not engaged in any prohibited restrictive horizontal practices including consultation, communication, agreement, or arrangement with any competing or potential tendering entity regarding prices, geographical areas in which goods and services will be rendered, approaches to determining prices or pricing parameters, intentions to submit a tender or not, the content of the submission (specification, timing, conditions of contract etc.) or intention to not win a tender shall be rejected.

6.1.7 Placing of contractors under restrictions

6.1.7.1 If any tenderer which has submitted a tender offer or a contractor which has concluded a contract has, as relevant:

- a) withdrawn such tender or quotation after the advertised closing date and time for the receipt of submissions;
- b) after having been notified of the acceptance of his tender, failed or refused to commence the contract;
- c) had their contract terminated for reasons within their control without reasonable cause;
- d) offered, promised or given a bribe in relation to the obtaining or the execution of such contract;
- e) acted in a fraudulent, collusive or anti-competitive or improper manner or in bad faith towards Garden Route District Municipality; or
- f) made any incorrect statement in any affidavit or declaration with regard to a preference claimed and is unable to prove to the satisfaction of Garden Route District Municipality that the statement was made in good faith or reasonable steps were taken to confirm the correctness of the statements,

The relevant Director shall prepare a report on the matter and make a recommendation to the municipal manager for placing the contractor or any of its principals under restrictions from doing business with the Garden Route District Municipality.

6.1.7.2 The municipal manager may, as appropriate, upon the receipt of a recommendation made in terms of 6.1.7.1 and after notifying the contractor of such intention in writing and giving written reasons for such action, suspend a contractor or any principal of that contractor from submitting a tender offer to Garden Route District Municipality for a period of time.

6.1.7.3 The Senior Supply Chain Manager shall:

- a) record the names of those placed under restrictions in an internal register which shall be accessible to employees and agents of Garden Route District Municipality who are engaged in procurement processes; and

- b) notify the National Treasury and Western Cape Provincial Treasury and , if relevant, the Construction Industry Development Board, of such decision and provide them with the details associated therewith.

6.1.8 Complaints

6.1.8.1 All complaints regarding the Garden Route District Municipality's infrastructure delivery management system shall be addressed to the municipal manager. Such complaints shall be in writing.

6.1.8.2 The relevant Executive shall investigate all complaints regarding the infrastructure procurement and delivery management system and report on actions taken to the municipal manager who will decide on what action to take.

6.2 Acquisition management

6.2.1 Unsolicited proposal

6.2.1.1 The Garden Route District Municipality is not obliged to consider unsolicited offers received outside a normal procurement process but may consider such an offer only if:

- a) the goods, services or any combination thereof that is offered is a demonstrably or proven unique innovative concept;
- b) proof of ownership of design, manufacturing, intellectual property, copyright or any other proprietary right of ownership or entitlement is vested in the person who made the offer;
- c) the offer presents a value proposition which demonstrates a clear, measurable and foreseeable benefit for Garden Route District Municipality;
- d) the offer is in writing and clearly sets out the proposed cost;
- e) the person who made the offer is the sole provider of the goods or service;
and
- f) the municipal manager finds the reasons for not going through a normal tender processes to be sound.

6.2.1.2 The municipal manager may only accept an unsolicited offer and enter into a contract after considering the recommendations of the tender committee if:

- a) the intention to consider an unsolicited proposal has been made known in accordance with Section 21A of the Municipal Systems Act of 2000 together with the reasons why such a proposal should not be open to other competitors, an explanation of the potential benefits for the Garden Route District Municipality and an invitation to the public or other potential suppliers and providers to submit their comments within 30 days after the notice;
- b) the Garden Route District Municipality has obtained comments and recommendations on the offer from the National Treasury and the Western Cape Provincial Treasury;
- c) the Adjudication committee meeting which makes recommendations to accept an unsolicited proposal was open to the public and took into account any public comments that were received and any comments and recommendations received from the National Treasury and the Western Cape Provincial Treasury ; and
- d) the provisions of 6.2.1.3 are complied with.

6.2.1.3 The municipal manager shall, within 7 working days after the decision to award the unsolicited offer is taken, submit the reasons for rejecting or not following the recommendations to the National Treasury, the Western Cape Provincial Treasury and Auditor General. A contract shall in such circumstances not be entered into or signed within 30 days of such submission.

6.2.2 Tax and rates compliance

6.2.2.1 SARS tax clearance

6.2.2.1.1 No contract may be awarded or an order issued where the value of such transaction exceeds R 30 000, unless a tenderer or contractor is in possession of an original valid Tax Clearance Certificate issued by SARS provided that the tenderer is not domiciled in the Republic of South Africa and the SARS has confirmed that such a tenderer is not required to prove their tax compliance status.

6.2.2.1.2 In the case of a partnership, each partner shall comply with the requirements of 6.2.2.1.1.

6.2.2.1.3 No payment shall be made to a contractor who does not satisfy the requirements of 6.2.2.1.2. An employee of Garden Route District Municipality shall upon detecting that a tenderer or contractor is not tax compliant, immediately notify such person of such status.

6.2.2.1.4 Notwithstanding the requirements of 6.2.2.1.1 and 6.2.2.1.3 the following shall apply, unless a person who is not tax compliant indicates to chief financial officer that it intends challenging its tax compliance status with SARS,

- a) a contract may be awarded to a non-compliant tenderer if such a tenderer is able to remedy its tax compliance status within a period not exceeding 10 working days after being duly notified of its non-compliant status;
- b) an order may be awarded to a non-compliant contractor if such a contractor is able to remedy its tax compliance status within a period not exceeding 10 working days after being duly notified of its non-compliant status;
- c) a non-compliant contractor shall be issued with a first warning that payments in future amounts due in terms of the contract may be withheld, before the authorising of any payment due to such contractor;
- d) before authorising a further payment due to a non-compliant contractor who has failed to remedy its tax compliance status after receiving a first warning, a second and final warning shall be issued to such contractor;
- e) no payments may be released for any amounts due in terms of the contract due to a non-compliant contractor if, after a period of 30 calendar days have lapsed since the second warning was issued, the non-compliant contractor has failed to remedy its tax compliance status.

6.2.2.1.5 The Garden Route District Municipality may cancel a contract with a non-compliant contractor if such a contractor fails to remedy its tax compliance status after a period of 30 calendar days have lapsed since the second warning was issued in terms of 6.2.2.1.4 e).

6.2.2.2 Municipal rates and taxes

No contract may be awarded to a tenderer who, of the principals of that tenderer, owes municipal rates and taxes or municipal service charges to any municipality or a municipal entity and are in arrears for more than 3 months.

6.2.3 Declarations of interest

Tenders and respondents making submissions in response to an invitation to submit a tender or a call for an expression of interest, respectively shall declare in the Compulsory Declaration whether or not any of the principals:

- a) are an employee of the Garden Route District Municipality or in the employ of the state; or
- b) have a family member or a business relation with a person who is in the employ of the state.

6.2.4 Invitations to submit expressions of interest or tender offers

6.2.4.1 All invitations to submit tenders where the estimated value of the contract exceeds R50 000 000 including VAT, except where a confined tender process is followed, and expressions of interest shall be advertised on the Garden Route District Municipality's website and on the National Treasury e-Tender Publication Portal. Advertisements shall be placed by the Supply Chain Management Unit.

6.2.4.2 Advertisements relating to construction works which are subject to the Construction Industry Development Regulations issued in terms of the Construction Industry Development Act of 2000 shall in addition to the requirements of 6.2.4.1 be advertised on the CIDB website. Advertisements shall be placed by the Supply Chain Management Unit.

6.2.4.3 Where deemed appropriate by Garden Route District Municipality an invitation to tender and a call for an expression of interest shall be advertised in suitable local and national newspapers and the Government Tender Bulletin as directed by such person.

6.2.4.4 Such advertisements shall be advertised for a period of at least 30 days before closure, except in urgent cases when the advertisement period may be shortened as determined by the municipal manager.

6.2.4.5 Invitations to submit expressions of interest or tender offers shall be issued not less than 10 working days before the closing date for tenders and at least 5 working days before any compulsory clarification meeting. Procurement documents shall be made available not less than 7 days before the closing time for submissions.

6.2.5 Publication of submissions received and the award of contracts

6.2.5.1 The Supply Chain Management Unit shall publish within 7 working days of the award of a contract the details of the award on the Garden Route District Municipality's website

6.2.5.2 Within 7 working days of the award of a contract the information required by National Treasury on the National Treasury e-Tender Publication Portal regarding the successful and unsuccessful tenders.

6.2.5.3 The award of contracts relating to construction works which are subject to the Construction Industry Development Regulations issued in terms of the Construction Industry Development Act of 2000 shall in addition to the requirements of 6.2.5.3 be notified on the CIDB website. The notification shall be made and placed by Supply Chain Management Unit.

6.2.6 Disposal committee

6.2.6.1 The municipal manager shall appoint the members of the disposal committee to decide on how best to undertake disposals in accordance with the provisions of clause 10 of the standard.

6.2.6.2 The disposal panel shall comprise not less than three people. The chairperson shall be an employee of Garden Route District Municipality.

6.2.6.3 The disposal committee shall make recommendations to municipal manager who shall approve the recommendations, refer the disposal strategy back to the disposal committee for their reconsideration, deciding not to proceed or to start afresh with the process.

6.3 Reporting of infrastructure delivery management information

The Supply Chain Management Unit shall submit any reports required in terms of the standard to the National Treasury or Western Cape Provincial Treasury.

6.3.1 The Supply Chain Management Unit shall report to the relevant treasury within one month of the award of a contract or the issuing of an order, all engineering and construction, supply, service and professional service contracts that are awarded , or orders that are issued, should the total of prices including VAT exceed the following thresholds;

Value of contract or order including VAT			
Services contract	Professional services	Supply	Engineering and construction works
R 25 million	R 25 million	R 50 million	R 50 million

7 Infrastructure procurement

7.1 Usage of procurement procedures

The Garden Route District Municipality shall use all applicable Supply Chain Management / procurement administrative and compliance procedures that may be applicable to infrastructure procurement and delivery management.

7.2 Procurement documents

7.2.1 The forms of contract that may be used are as follows:

Applicable contracts listed in Table 10 of Standard for Infrastructure Procurement and Delivery Management (SIPDM) may be made use of.

7.2.2 The Garden Route District Municipality’s preapproved templates (Agreements and contract data) of procurement documents shall be utilised to obviate the need for legal review prior to the awarding of a contract. All modifications to the standard templates shall be approved by legal department prior to being issued for tender purposes.

7.2.3 Disputes arising from the performance of a contract shall be finally settled in a South African court of law.

7.2.4 Additional requirement not stated or included in the standard templates, if any must be added; e.g. use of standard access specifications and health, safety specifications, etc.

7.2.5 The Municipal Declaration and returnable documents contained in the standard shall be included in all tenders for:

- a) consultancy services; and
- b) goods and services or any combination thereof where the total of the prices is expected to exceed R10 m including VAT.

7.3 Developmental procurement policy

If the contract qualifies for any goals that has been set in Garden Route District Municipality's approved Integrated Development Plan (IDP), it must be stated upfront in the specifications for that specific contract.

7.4 Payment of contractors

The Garden Route District Municipality shall settle all accounts within 30 days of invoice or statement as provided for in the contract.

7.5 Approval to utilise specific procurement procedures

7.5.1 Prior approval shall be obtained for the following procurement procedures from the following persons, unless such a procedure is already provided for in the approved procurement strategy:

- a) Municipal Manager or Evaluation Committee shall authorise the use of the negotiated procedure above the thresholds provided in the standard.
- b) Municipal Manager or Evaluation Committee shall authorise the approaching of a confined market except where a rapid response is required in the presence of, or the imminent risk of, an extreme or emergency situation arising from the conditions set out in the standard and which can be dealt with or the risks relating thereto arrested within 48 hours; and
- c) the proposal procedure using the two-envelope system, the proposal procedure using the two-stage system or the competitive negotiations procedure.

7.5.2 The municipal manager must nominate and authorise person to pursue a negotiated procedure in an emergency.

7.6 Receipt and safeguarding of submissions

7.6.1 A dedicated and clearly marked tender box shall be made available to receive all submissions made.

7.6.2 The tender box shall remain locked at all times and the keys shall be under control of the Archive Department. Such personnel shall be present when the box is opened on the stipulated closing date for submissions.

7.7 Opening of submissions

7.7.1 Submissions shall be opened by an opening panel comprising two people, officials in the Supply Chain Management office.

7.7.2 The opening panel shall open the tender box at the stipulated closing time and:

- a) sort through the submissions and return those submissions to the box that are not yet due to be opened including those whose closing date has been extended;
- b) return submissions unopened and suitably annotated where:
 - 1) submissions are received late, unless otherwise permitted in terms of the submission data;
 - 2) submissions were submitted by a method other than the stated method,
 - 3) submissions were withdrawn in accordance with the procedures contained in SANS 10845-3; and.

- 4) only one tender submission is received and it is decided not to open it and to call for fresh tender submissions;
- c) record in the register submissions that were returned unopened;
- d) open submissions if received in sealed envelopes and annotated with the required particulars and read out the name of and record in the register the name of the tenderer or respondent and, if relevant, the total of prices including VAT where this is possible;
- e) record in the register the name of any submissions that is returned with the reasons for doing so;
- f) record the names of the tenderer's representatives that attend the public opening;
- g) sign the entries into the register; and
- h) stamp each returnable document in each tender submission.

7.7.3 Each member of the opening panel shall initial the front cover of the submission and all pages that are stamped in accordance with the requirements of 7.7.2 h).

7.7.4 Respondents and tenderers whose submissions are to be returned shall be afforded the opportunity to collect their submissions.

7.7.5 Submissions shall be safeguarded from the time of receipt until the conclusion of the procurement process.

7.8 Use of another organ of state's framework agreement

The Garden Route District Municipality may make use of another organ of state's framework contract which has been put in place by means of a competitive tender process and there are demonstrable benefits for doing so. The municipal manager shall make the necessary application to that organ of state to do so.

7.9 Insurances

7.9.1 Contractors shall be required to take out all insurances required in terms of the contract.

7.9.2 The insurance cover in engineering and construction contracts for loss of or damage to property (except the works, Plant and Materials and Equipment) and liability for bodily injury to or death of a person (not an employee of the Contractor) caused by activity in connection with a contract shall in general not be less than the value as agreed to with the Municipality's Insurer, unless otherwise directed by the Chief financial officer.

7.9.3 Lateral earth support insurance in addition to such insurance shall be take out on a case by case basis.

7.9.4 The insurance cover in professional services and service contracts for damage to property or death of or bodily injury to employees of the Contractor arising out of and in the course of their employment in connection with a contract shall not be less than the value stated in Table 4 for any one event unless otherwise directed by Chief financial officer.

7.9.5 SASRIA Special Risk Insurance in respect of riot and associated risk of damage to the works, Plant and Materials should be considered on all engineering and construction works.

7.9.6 Professional service appointments shall as a general rule be subject to proof of current professional indemnity insurance being submitted by the contractor in an amount not less than the value agreed with Municipal Insurer in respect of each claim, without limit to the number of claims, unless otherwise directed by the Chief financial officer in relation to the nature of the service that they provide.

7.9.7 Garden Route District Municipality shall take out professional indemnity insurance cover where it is deemed necessary to have such insurance at a level higher than the levels of insurance commonly carried by contractors.

7.9.8 Where payment is to be made in multiple currencies, either the contractor or Garden Route District Municipality should be required to take out forward cover. Alternatively, the prices for the imported content should be fixed as soon as possible after the starting date for the contract.

7.10 W r i t t e n reasons for actions taken

7.10.1 W r i t t e n reasons for actions taken shall be provided by a the relevant Director

7.10.2 The written reasons for actions taken shall be as brief as possible and shall as far as is possible, and where relevant, be framed around the clauses in the:

- a) SANS 10845-3, *Construction procurement - Part 3: Standard conditions of tender*, and, giving rise to the reason why a respondent was not short listed, prequalified or admitted to a data base; or
- b) SANS 10845-4, *Construction procurement - Part 4: Standard conditions for the calling for expressions of interest*;

as to why a tenderer was not considered for the award of a contract or not awarded a contract.

7.10.3 Requests for written reasons for actions taken need to be brief and to the point and may not divulge information which is not in the public interest or any information which is considered to prejudice the legitimate commercial interests of others or might prejudice fair competition between tenderers.

7.11 Request for access to information

7.11.1 Should an application be received in terms of Promotion of Access to Information Act of 2000 (Act2 of 2000), the "requestor" should be referred to the Garden Route District Municipality's Legal Department which will inform the entity requesting the information of the procedures to be followed and the criteria that have to be met for the "requester" to request access to records in the possession or under the control of Garden Route District Municipality.

7.11.2 Access to technical and commercial information such as a comprehensive programme which links resources and prices to such programme should be refused as such information provides the order and timing of operations, provisions for time risk allowances and statements as to how the contractor plans to do the work which identifies principal equipment and other resources which he plans to use. Access to a bill of quantities and rates should be provided in terms of the Act.

ANNEXURE I

**CREDIT CONTROL AND DEBT
COLLECTION POLICY**



CREDIT CONTROL AND DEBT COLLECTION POLICY

Date
Approved: **27 May 2016**

Council
Resolution (DC
No):

DC 1054/05/16

CONTENTS

1. DEFINITIONS.....	4
2. CUSTOMER CARE AND MANAGEMENT	7
2.1 COMMUNICATION AND THE CONVEYANCE OF INFORMATION	7
2.2 MUNICIPAL ACCOUNTS	8
2.3 ENQUIRIES, APPEALS, AND SERVICE COMPLAINTS.....	8
2.4 PAYMENT FACILITIES.....	9
2.5 ALLOCATION OF REVENUE	9
3. CREDIT CONTROL AND DEBT COLLECTION MEASURES	10
3.1 LIABILITY FOR PAYMENT OF MONEY DUE AND PAYABLE TO THE MUNICIPALITY.....	10
3.2 DATE OF PAYMENT OF MONEY DUE	10
3.3 ACTIONS TO BE TAKEN WHERE DEBTORS FALL IN ARREARS OR FAIL TO PAY MONEYS DUE ON OR BEFORE THE DATE OF PAYMENT.....	11
3.4 FEES DUE OTHER THAN THOSE IN RESPECT MUNICIPAL SERVICES AND RENTAL AGREEMENTS	12
3.5 LEVYING OF INTEREST.....	12
3.6 COLLECTION OF DEPOSIT	13
3.7 INSTITUTION OF LEGAL PROCEEDINGS	13
3.8 WRITING OFF OF BAD DEBT	14
4. GENERAL PROVISIONS.....	18
4.1 COLLECTION COSTS.....	18
4.2 DISHONOURED PAYMENTS.....	18
4.3 ACCESS TO PREMISES.....	18
4.4 SIGNING OF NOTICES AND DOCUMENTS	19
4.5 CERTIFICATION OF DOCUMENTS	19
4.6 PRIMA FACIE EVIDENCE	19
4.7 DATA MAINTENANCE	19
4.8 SHORT TITLE.....	19

PREAMBLE

In terms of section 96 of the Local Government: Municipal Systems Act, 2000, a Municipality shall-

- collect all money due and payable to it, subject to the provisions of the Act and any other applicable legislation; and
- for this purpose, implement and maintain a credit control, debt collection policy which is not in conflict with its rates and tariffs policies and which complies with the provisions of the Act.

In order to give effect to the foregoing provisions of the Act, the council of the Garden Route District Municipality will have to adopt a policy relating to credit control, debt collection and as set out hereinafter.

1. DEFINITIONS

For purposes of this policy, and unless inconsistent with the context, any word or phrase to which a specific meaning was ascribed by the Act, will have that meaning and

“account” includes-

- (1) rental agreements;
- (2) fire services
- (3) air quality services
- (4) environmental health levies
- (5) any other levies and money owing to the Municipality;

and **“municipal account”** has a corresponding meaning;

“Act” means the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) as amended from time to time;

“arrears” means any amount due and payable to the Municipality which has not been paid on or before the date of payment;

“council” means the municipal council of the Garden Route District Municipality ;

“date of payment” means the date on which the Municipality’s accounts are due.

“Manager: Financial Services” means a person appointed by the council in that capacity to administer the council’s finances and includes any person –

- (1) who is in an acting capacity in that position;
- (2) to whom the Manager: Financial Services delegated a power, function or duty in respect of such delegated power, function or duty;

“Municipal Manager” means the person appointed in that capacity by the council in accordance with Section 82 of the Local Government Municipal Structures Act No 117 of 1988 as amended by Section 54A of the Local Government Municipal Systems Act No 32 of 2000 and includes any person –

- (a) acting in that position;
- (b) to whom the Municipality delegated a power, function or duty in respect

of such delegated power, function or duty;

“municipal services” means a service that a municipality in terms of its powers and functions provides or may provide to or for the benefit of the local community irrespective of whether

- (a) such a service is provided, or to be provided by the municipality through an internal mechanism contemplated in section 76 or by engaging an external mechanism contemplated in section 76; and
- (b) fees, charges or tariffs are levied in respect of such service or not.

“Municipality” means the Garden Route District Municipality ;

“owner” in respect of immovable property means-

- (1) the person in whom ownership vests;
- (2) in the event of the person in whom the ownership vests being insolvent or deceased, or subject to any legal disqualification, the person under whose control and administration such immovable property vest in his/her capacity as curator, trustee, executor, administrator, judicial manager, liquidator or any other lawful representative;
- (3) in any event where the council is unable to determine the identity of such a person, the person who is entitled to the beneficial use of such immovable property;
- (4) in the event of immovable property in respect of which a lease agreement of 30 years or longer had been concluded, the lessee thereof;
- (5) in respect of –
 - (1) a portion of land demarcated on a sectional title plan and registered in accordance with the Sectional Titles Act, 1986 (Act No. 59 of 1986), the developer or the governing body in respect of the joint property;
 - (2) a portion of land as defined in this Act, the person in whose name that portion is registered in accordance with a title deed registered in a Deeds Registrars Office according the Deeds Registries Act, 1937 (Act No 47 of 1937), including the lawfully appointed representative of such person;
- (6) any persona, including but not limited to:

- (1) a company registered in accordance with the Companies' Act, 1973 (Act No 61 of 1973) as amended, a trust *inter vivos*, a trust *mortis causa*, a close corporation registered in accordance with the Close Corporations Act, 1984 (Act No 69 of 1984) as amended, and a voluntary association;
- (2) any government department;
- (3) any council or governing body established in accordance with any legislation in force in the Republic of South Africa; and
- (4) any embassy or other foreign entity;

“premises” means any portion of land, situated within the area of jurisdiction of the municipality, and of which the outer boundaries are demarcated on:

- (1) a general plan or diagram registered in accordance with the Land Survey Act, 1927 (Act No 9 of 1927) or the Deeds Registries Act, 1937 (Act No 47 of 1937); or
- (5) a sectional title plan registered in accordance with the Sectional Titles Act, 1986 (Act No 95 of 1986);

“standard rate of interest” means a rate of interest two percent higher than the prime rate in the RSA

“interest on overdue accounts” is based on a full month and part of a month shall be deemed to be a full month whilst interest on overdue account will be calculated on total overdue account

2. CUSTOMER CARE AND MANAGEMENT

2.1 COMMUNICATION AND THE CONVEYANCE OF INFORMATION

2.1.1 In order to give effect to the provisions of section 95 (a), (b), and (c) of the Act, the Municipality shall do everything within its power to-

- hold community meetings where representatives of the Municipality and other service providers may consult with the community;
- ensure that users of municipal services and/or any other service are properly informed with regard to the delivery of services and in particular the costs of the provision of services.

In order to achieve these aims-

- there will, amongst others, be public meetings convened during the budget process, in which political parties, ratepayers' associations, residents' associations, community organisations, chambers of commerce, the general public, and any other interested party shall be involved and during which the priorities, principles, and frameworks of budgets will be discussed and analysed;
- (1) identify, within the region, the needs which are legally the responsibility of the Municipality;
 - (2) involve the community in the prioritising of such needs;
 - (3) involve the community in the Municipality's planning of projects and what the Municipality is and other government levels are doing; and
 - (4) inform communities what the levels of payment and non-payment are in respect of municipal services, rates and other money due to the Municipality, and to establish strategies in this regard.
- further public meetings will be held after the drafting of the concept budget at which the implementation of tariffs and the manner in which the budget is to be applied, will be discussed;

2.1.2 Other methods of communication are to include-

- the utilization of municipal accounts as a highly effective method of communication to convey all kinds of information;
- the distribution of a newsletter in which prominence is to be given to customer care and issues relating to debt;
- encouragement to the press and social media service provider to give prominence to the Municipality's customer care and issues relating to debt and to encourage the press to attend council meetings at which these issues are discussed.

2.2 MUNICIPAL ACCOUNTS

In so far as it is possible, the Municipality shall ensure that a person liable for payment of municipal services shall receive monthly statements on which the following shall be reflected:

- all outstanding amounts and the balance brought forward; amounts owing;
- total amount due;

2.3 ENQUIRIES, APPEALS, AND SERVICE COMPLAINTS

2.3.1 Should a person be convinced that his or her account for municipal services, is inaccurate, he or she may direct a request to the Municipality to have that account reviewed.

2.3.2 In the meantime, the person must pay an amount, as determined by the Manager: Financial Services, before the date of payment and until the matter has been resolved.

2.3.3 The Municipal department concerned shall, within one month of receipt of such a request, investigate the matter and inform the person concerned of the outcome of such an investigation.

2.3.4 Failure to pay the amount determined in accordance with paragraph 2.3.2 on or before the date of payment in respect of municipal services, will result in credit control action be taken as spelled out in this policy

2.3.5 A person may appeal against the findings of the Municipality referred to in paragraph 2.3.3.

2.3.6 An appeal in accordance with paragraph 2.3.3 must be made and delivered to the Municipal Manager within 21 days of the appellant becoming aware of the finding referred to in paragraph 2.3.3 and shall-

(1) set out the grounds of the appeal

2.3.7 The Municipal Manager must commence with an appeal within six (6) weeks and decide the appeal within a reasonable period.

2.4 PAYMENT FACILITIES

2.4.1 The Municipality shall provide and maintain strategically situated accessible payment offices and cash points throughout its area of jurisdiction

2.4.2 The following alternative payment facilities shall also be provided or be available:

- electronic bank transfers (A.C.B. system);
- internet transfers;
- direct depositing of money into the Municipality's approved bank account;

2.4.3 Where any of the alternative payment facilities is used, the onus is on the person using such facilities to provide proof of payment, and the Municipality does not accept liability for the non-receipt of such payments, or for incorrect allocations, where such incorrect allocations are due to a mistake on the part of such person.

2.4.4 Where payment of the money due is made by way of a direct deposit into the Municipality's approved bank account, the onus rests on the debtor to notify the Municipality of such deposit in writing or facsimile to reach the Municipality not later than the date of payment of such monies.

2.4.5 Municipal accounts are due and payable on the 15th of the month or the first working day after a weekend or public holiday if the 15th is during a weekend or on a holiday

2.5 ALLOCATION OF REVENUE

In accordance with section 102 of the Act, a Municipality may-

- consolidate any separate accounts of persons liable for payments to the Municipality; and
- credit a payment by such a person against any account of that person.

3. CREDIT CONTROL AND DEBT COLLECTION MEASURES

3.1 LIABILITY FOR PAYMENT OF MONEY DUE AND PAYABLE TO THE MUNICIPALITY

3.1.1 The person responsible for the payment of money due and payable to the Municipality will be the following in the instances mentioned hereafter:

3.1.2 any other services – the person to whom such services were delivered.

3.1.3 Where an account is not paid in full, any lesser amount offered and accepted by the Municipality shall not be deemed to be in full and final settlement of such account, unless the Municipal Manager in writing accepts such lesser amount as being in full and final settlement of the account in question.

3.1.4 The onus rests on the debtor to obtain a statement of his or her accounts so that they may be paid on or before the date of payment.

3.2 DATE OF PAYMENT OF MONEY DUE

3.2.1 Municipal Services, Rental Agreements, Sundry debtors

- (1) Moneys payable in respect of municipal services are due and payable on the date indicated as such on the account delivered each month in respect of those services and such payment must be made on or before the 15th day of the month after the month in which the account is rendered or such future date as the Council may determine from time to time.
- (2) Payment of amounts due to the Municipality, and fees due in respect of municipal services, must be made on the date indicated on the account rendered to such debtor in respect of such amount owed, which date will be no more than 30 days after the rendering of the particular service.
- (3) Where the last date of payment of any amount owing to the Municipality falls on a day on which the offices of the Municipality are closed, the final date for payment will be deemed to be the first subsequent day on which the offices are open.

3.3 ACTIONS TO BE TAKEN WHERE DEBTORS FALL IN ARREARS OR FAIL TO PAY MONEYS DUE ON OR BEFORE THE DATE OF PAYMENT

3.3.1 FEES AND LEVIES IN ARREARS IN RESPECT OF MUNICIPAL SERVICES

3.3.1.1 Interest shall be levied and be payable on all amounts in arrears.

3.3.2.2 If a person is unable to pay fees in arrears in respect of municipal services, the Municipality may enter into an agreement with such a person in terms of which he or she is permitted to pay the fees in arrears in monthly installments and that such the person regularly pays all future accounts in respect of municipal services;the person acknowledges that interest on such amounts in arrears shall be payable at the prescribed rate of interest and he or she agrees to pay such interest;

- the person acknowledges that should he or she at any time fail to comply with the provisions of such an agreement, the agreement shall be deemed to be null and void; no further negotiations with that person shall be possible, and immediate steps shall be taken to have the electricity and water supplies to the premises in question disconnected or restricted, after which legal proceedings shall follow.

3.3.2.3 When a person is served with an account of which the amount due in respect of municipal services is exceptionally high and it is the result of –

- an act or omission on the part of the Municipality; or
- and provided that such amount in arrears is legally due and payable by that person, the Municipality may, in the discretion of the Manager: Financial Services, enter into an agreement with that person in terms of which he or she is permitted to pay the amount owing by way of monthly installments, provided that where such a high account is the result of an act and/or omission on the part of the Municipality, no interest shall be payable in respect of that outstanding amount.

3.3.2.4 If fees, or any portion thereof, due in respect of municipal services remain unpaid for a period exceeding 30 days calculated from the date of payment, and an agreement has not been entered into with the debtor, the Manager: Financial Services must,

hand the account thus due and payable to a debt collector or attorney for collection, if, in his opinion, there is a fair chance that the debt may indeed be collected; (for purposes hereof a debt collector will be deemed to include any official of the council who is vested with the authority to collect debts)

or

institute legal proceedings against the debtor for the recovery of the debt.

3.3.2 ARREARS RENTAL AGREEMENTS

3.3.2.1 Where agreements provide for interest payable on rentals in arrears, interest will be levied in accordance with the provisions contained in such lease or loan agreements.

3.3.2.2 Where instalments due to the Municipality are not paid on or before the date of payment, a letter of demand is sent to the person involved in which he or she is requested to pay such arrears, together with interest, if any, within 21 days of the date of such notice.

3.3.2.3 An agreement to pay the arrears by way of monthly instalments may at any time be entered into with the person so in arrears, subject, however, to the terms and conditions contained in paragraph 3.3.2.2, which terms shall apply *mutatis mutandis*.

3.3.2.4 Where no agreement has been concluded to pay arrears by way of monthly instalments, and such amounts still remain in arrears after more than 30 days calculated from the date of payment, the Manager: Financial Services shall take the steps as set out in paragraph 3.3.2.4.

3.4. FEES DUE OTHER THAN THOSE IN RESPECT MUNICIPAL SERVICES AND RENTAL AGREEMENTS

The provisions of paragraphs 3.3.2.2 in respect of agreements in arrears are applicable *mutatis mutandis*.

3.5 LEVYING OF INTEREST

3.5.1 Interest at the standard rate shall be levied and collected in respect of all amounts in arrears due and payable to the Municipality.

3.5.2 Interest is levied from the day following the date of payment in respect of such amounts in arrears as have not been paid by such date of payment.

3.6 COLLECTION OF DEPOSIT

- 3.6.1 When a person applies for municipal services and before such services are provided, a deposit may be collected from that person to serve as security or partial security for the payment for municipal services provided to that person.
- 3.6.2 A deposit as envisaged in paragraph (3.6.1) is utilised to extinguish or reduce debts owed by a person to the Municipality for municipal services rendered, in the event of such person disappearing and being difficult to trace, or being declared insolvent or who, for whatever reason, refuses to meet his or her obligations towards the Municipality.
- 3.6.3 The amount of the deposit is determined as per specific agreement for municipal services.
- 3.6.4 When a person, having paid a deposit to the Municipality, requests in writing that the municipal services provided to him or her be terminated and that the deposit thus kept by the Municipality be refunded to him or her, such deposit or any portion thereof which has not been utilised in accordance with paragraph 3.7.2, shall be refunded to such person.
- 3.6.5 The Municipality is not liable for the payment of interest on deposits held by the Municipality.

3.7 INSTITUTION OF LEGAL PROCEEDINGS

- 3.7.1 The institution of legal proceedings includes, but is not limited to-
- (1) the suing of a debtor for payment of amounts in arrears;
 - (2) the attachment of rent payable in respect of a property;
 - (3) the attachment of a debtor's remuneration;
 - (4) the attachment and sale in execution of movable things;
 - (5) the attachment and sale in execution of immovable property;
 - (6) the evacuation of a tenant from a rented property in the event of rental due to the Municipality in respect of such leased property.
- 3.7.2 The institution of legal proceedings is undertaken with due consideration of all legal requirements and in compliance with the applicable regulations and procedural

rules.

3.7.3 Discretionary powers vest in the Manager: Financial Services to decide whether

–

- (1) an account should be handed over to a debt collector or an attorney for collection and if
- (2) legal proceedings should be instituted against a debtor

In the exercise of his powers the Manager: Financial Services determines as a sole consideration whether it will be cost-effective to hand over the account for collection and/or to institute legal proceedings against the debtor or not.

3.7.4 The Manager: Financial Services shall be empowered to determine which of the judicial measures listed in paragraph 3.8.1 will be the most appropriate and effective in respect of each and every debtor against whom legal proceedings are to be instituted in accordance with this policy of the Council.

3.8 WRITING OFF OF BAD DEBT

STEPS TO BE TAKEN BEFORE WRITING OFF DEBT

Before consideration is given for the write-off of any debt the following steps should be taken:

(1) CREDIT CONTROL AND DEBT COLLECTION POLICY ACTIONS

All the applicable actions as contained in the Credit Control and Debt Collection Policy of the Municipality should have been executed and implemented.

(2) ESTATE NOTICES MONITORING

Estate notices in the Government Gazette must be checked regularly to enable the municipality to institute claims against insolvent and deceased estates of persons owing money to the Municipality.

(3) TRACING OF DEBTORS

In the event that the debtor's address is not known, all reasonable steps must be taken to trace the debtor. A reasonable effort to trace the debtor will include, but is not limited to, the following:

(a) Utilising all the information available (such as vehicle registration number, school attended by children, etc.) to locate the debtor;

(b) Utilising the telephone directory for the last town or city in which the debtor lived to locate the debtor and/or his/her relatives; and

(c) Contacting the following institutions or persons in order to locate the debtor:

- The Vehicle Registration Authorities;
- The Department of Home Affairs; and
- Officials and/or colleagues at the debtor's last place of employment.

The Manager Financial Services shall consider all other economically viable avenues for debt recovery, including the use of tracing agents, factoring of debts, recourse against sureties, guarantors or lessees, etc.

3.8.1 **PREVENTION OF PRESCRIPTION OF DEBT**

(a) Prevention:

Proceedings out of the appropriate court having jurisdiction for the recovery of a debt must be commenced as soon as is appropriate in order to prevent prescription of the debt. A summons process for payment of the debt must be successfully concluded as soon as possible to prevent prescription of the debt in terms of the Prescription Act.

(b) Prescription Act, 1969 (Act No. 68 of 1969):

Section 10 (1) of the Prescription Act provides that a debt shall be extinguished by prescription after the lapse of the period which in terms of the relevant law applies in respect of the prescription of such debt. The Municipality cannot legally enforce payment of a debt once the debt has prescribed, but the period of prescription is interrupted:-

(i) By the service on the debtor of any process whereby the creditor claims payment of the debt. "Process" means a Summons or Notice of Motion, which must actually be served on the debtor and not simply issued by the court, and does NOT include a registered letter of demand

(ii) the debtor acknowledges liability, whether expressly or tacitly payment of a portion of the debt can constitute a tacit

acknowledgement of liability.

The completion of prescription may also be delayed in certain circumstances.

- (c) In terms of Section 11 of the Prescription Act, 1969 (Act 68 of 1969), the periods of prescription of debts are as follows:
- (i) **Thirty years** in respect of -
 - any debt secured by a mortgage bond;
 - any judgment debt;
 - any debt in respect of any taxation imposed or levied by or under any law; and
 - any debt owed to the State in respect of any share of the profits, royalties or any similar consideration payable in respect of the right to mine minerals or other substances.
 - (ii) **Fifteen years** in respect of any debt owed to the State and arising out of an advance or loan of money or a sale or lease of land by the State to the debtor, unless a longer period applies in respect of the debt in question in terms of paragraph (i) above.
 - (iii) **Six years** in respect of a debt arising from a bill of exchange or other negotiable **instrument** or from a notaries contract, unless a longer period applies in respect of the debt in question in terms of paragraph (i) or (ii) above.
 - (iv) **Three years** in respect of all other debts, save where an Act of Parliament provides otherwise.

3.8.2 GENERAL

Should all the above efforts prove to be unsuccessful and the debtor cannot be traced or it would be uneconomical to take the matter any further, only then must a submission be made requesting the write-off of the debt. This submission must detail all steps taken and the Municipality must maintain audit trails in such instances, and document the reasons for the abandonment of the actions or claims in respect of the debt.

3.8.3 WRITE OFF DEBTS OWING TO THE MUNICIPALITY

(1) GENERAL CONDITIONS

The Municipality will consider debts for write-off in the following general circumstances:

- (a) When debts have prescribed, as contemplated in paragraph 3.8.1 above;
- (b) When debts have not been recovered from the deceased, where their estates have been finalized, and recovery of the debts from the heirs is not possible;
- (c) When debts are owed by debtors who cannot be traced, notwithstanding compliance with the provisions in paragraph 3.3 above;
- (d) When no source documentation is available to substantiate or prove the claims, provided that the Manager Financial Services must have satisfied him/herself that all reasonable steps have been taken to locate the source documents;
- (e) When the debtor has emigrated without paying the debts, leaving no assets available for attachment and the debtors' whereabouts are unknown;
- (f) When it is not economical to pursue the debt further.

Note: Unless affordable arrangements can be made with tracing agents or attorneys, the costs associated with the tracing of a debtor and subsequent legal costs occasioned thereby, could exceed the amount claimed. It would therefore not be in the Municipality's interest to attempt recovery of debts where the prospects of recovery are remote, and where the possibility exists that the costs associated with recovery may exceed the debt.

(2) SPECIFIC CONDITIONS

The Municipality will consider debts for write-off in the following specific circumstances:

2.1 Sundry Debt:

Debt owed to Council arising from auxiliary services rendered by Council will be regarded as irrecoverable in the following instances:

- If the debt has prescribed;
- In circumstances contemplated in 3.8.3 (i) (a) to (f) above

3.8.4 FINAL ACTION

Whenever all the legal avenues, procedures and steps listed above have been exhausted, the arrear amounts should be classified as irrecoverable and should be written off by the person to whom the authority to do so has been delegated under the Municipality's system of delegations

Immediately after 30 June each year, or more regularly if requested by Council, the Manager Financial Services must present to the Council a report listing the following:

- (a) For noting – details of the debts that was written off during the year ending 30 June under delegated authority, together with the reasons for the write offs; and
- (b) For consideration – details of any debt, not included under (a) above, which is believed to be irrecoverable, together with the reasons for this conclusion. The council shall then approve the write-off of such arrears, if it is satisfied with the reasons provided.

3.8.5 BAD DEBTS RECOVERED

The approval of Council for the write-off of any debt does not mean that actions to recover the money will be terminated, however, further actions will be instituted depending on the costs involved and if debt is recovered it will be recorded in the financial records of Council as recovered.

4. GENERAL PROVISIONS

4.1 COLLECTION COSTS

All legal costs and any other expenses incurred by the Municipality in order to recover monies owing by a debtor to the Municipality, shall be debited against that debtor's account and/or collected by an attorney.

Collection commission and other expenses incurred by the municipality in order to recover monies owing by a debtor to the municipality, is not recoverable from the debtor.

4.2 DISHONoured PAYMENTS

Should any payment made to the Municipality by means of a negotiable instrument be dishonoured by a bank at a later stage, the Manager: Financial Services may

–

- (1) impose costs and administration fees on the account of that debtor at a rate to be determined by the council from time to time; and
- (2) after payment tendered by a debtor is dishonoured for a third time by a bank, notify that person in writing that all future payments may only be made in cash.

4.3 ACCESS TO PREMISES

An occupier of premises in the area of jurisdiction of the Municipality must give an authorised representative of the Municipality or of a service provider access at all reasonable hours to the premises.

4.4 SIGNING OF NOTICES AND DOCUMENTS

A notice or document issued by the Municipality pursuant to a by-law promulgated by the Municipality and signed by a staff member of the Municipality is deemed to have been properly issued and shall be accepted by the court as evidence of that fact upon the mere submission thereof.

4.5 CERTIFICATION OF DOCUMENTS

Any order, notice or other document which needs to be certified by the Municipality, is deemed to have been sufficiently certified if it is signed by the Municipal Manager or a duly authorised official of the Municipality to whom such powers were delegated by means of a decision of the Municipality's council or pursuant to a by-law.

4.6 PRIMA FACIE EVIDENCE

In lawsuits initiated by the Municipality, the mere submission of a certificate reflecting the amount due and payable to the Municipality and signed by the Municipal Manager or a suitably qualified official authorised thereto by the Municipal Manager, shall be accepted by the court as *prima facie* evidence that the amount is due.

4.7 DATA MAINTENANCE

Should the client contact the municipality at any time, his/her details as reflected on the financial system should be verified and checked and adjusted accordingly.

4.8 SHORT TITLE

This policy is called the Credit Control, Debt Collection Policy of the Garden Route District Municipality.

ANNEXURE J

**BANKING, CASH MANAGEMENT
AND INVESTMENT POLICY**



BANKING, CASH MANAGEMENT & INVESTMENT POLICY

Date Approved: **27 May 2016**

Council Resolution (DC DC 1054/05/16
No):

CONTENTS

1.	Definitions	3
2.	Objectives and Scope of Policy	4
3	Legal Provisions	5
4	Principles of Sound Management	5
5	Cash Collection	6
6	Receipt of Payments	6
7	Payment to creditors	8
8	Investments denominated in Foreign Currencies Prohibited	10
9	Payment of Commission	10
10	Management of Inventory	11
11	Contract Management	12
12	Cash Flow Projections	12
13	Investment Ethics	14
14	Investment Principles	14
15	Credit Rating	16
16	Permitted Investments	16
17	Call Deposits and Fixed Deposits	16
18	Restrictions on Terms of Investments	17
19	Cession of Investments	17
20	Supply Chain Management	17
21	Control Over Investments	17
22	Reports	18
23	Banking Arrangements	18
24	Raising Debt	19
25	Related Policies	19
26	Review of Policy	20
27	Responsibility of implementation	20

1 Definitions

For the purpose of this policy:

“Act”- means the Local Government Municipal Finance Management Act, 2003 (Act 56 of 2003)

“Accounting Officer”- is the person appointed by Council in terms of Section 82 of the Municipal Structures Act, 1998 as amended by Section 54 A of the Municipal Systems Act, 2000 [Act No. 32 of 2000

“Council” - means the Garden Route District Municipal Council or any of the Council's committees or officials acting under powers, functions and duties delegated to them in terms of any existing act or ordinance or by-law in force within the area of jurisdiction to the Council

“Councillor”- shall mean a member of the municipal council of Garden Route District Municipality;

“Chief Financial Officer” - shall mean the head of the Financial Services Department as contemplated in Section 80 of the MFMA;

“Official” – shall mean all persons in the employment of Garden Route District Municipality

“Investments”- means:

- a) The placing or deposit of funds with a financial institution' or
- b) The acquisition of monetary and non-monetary assets with funds not immediately required with the primary aim of preserving those funds.

“Investment Manager”- means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Market Control Act, 1989 (Act 55 of 1989 and Stock Exchanges Control Act, 1985 9Act 1 of 1985, contracted by a municipality or municipal entity to –

- a) advise on investments
- b) manage investments on its behalf ; or
- c) advise it on investments and manage investments on its behalf

“Investee”- means an institution with which an investment is placed, or its agent;

“Municipality”- means the Garden Route District Municipality

2. Objective and Scope of Policy

- 2.1 The council and staff of the municipality have an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.
- 2.2 The municipality therefore has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.
- 2.3 This policy is intended to provide a framework for ensuring the proper management and investment of its cash resources so as to ensure:
 - 2.3.1 That the net current asset requirements of the municipality are effectively managed;
 - 2.3.2 That sufficient cash resources are available to finance the capital and operating budgets of the municipality;
 - 2.3.3 That the highest possible return on investments is gained without unnecessary risk, during periods when excess funds are not immediately required;
 - 2.3.4 That in so doing, the primary aim of preserving and ensuring the safety of deposits is promoted;
 - 2.3.5 That there is effective control over the management of bank accounts
 - 2.3.6 That investments are diversified.
- 2.4 This policy shall apply to the management of all of the cash resources of the Municipality and to all investments made by it.

3. Legal Provisions

The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of:

3.1 The Local Government: Municipal Finance Management Act No. 56 of 2003 (“the MFMA”) and

3.2 any Regulations made thereunder, including, in particular, the Municipal Investment Regulations published under GN R308 in Government Gazette 27431 of 1 April 2005 (“the Investment Regulations”).

4. Principles of Sound Cash Management

In order to promote sound cash management, the Municipality shall adhere to the following principles:

- 4.1 It shall collect revenue when it is due and bank it promptly;
- 4.2 It shall make payments, including transfers to other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the creditor's normal terms for account payments;
- 4.3 It shall avoid pre-payment for goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;
- 4.4 It shall accept discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;

- 4.5 It shall and pursue apply its debt collection policy to ensure that amounts receivable by the municipality are collected and banked promptly;
- 4.6 It shall accurately forecast its cash flow requirements;
- 4.7 It shall synchronise the inflow and outflow of cash;
- 4.8 It shall recognise the time value of money by economically, efficiently and effectively managing cash;
- 4.9 It shall take any other action as may promote the efficient utilisation of cash resources, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or under utilised assets; and
- 4.10 It shall avoid bank overdrafts.

5. Cash Collection

- 5.1 All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis.
- 5.2 The Municipality shall endeavour to apply its Credit Control and Debt collection Policy rigorously in order to promote the collection of moneys due to it. This includes charging interest and recovering other costs when appropriate and setting target dates when these are payable.

6. Receipt of Payments

- 6.1 The receipt of all monies collected by the council shall be acknowledged forthwith by the issue of a numbered official receipt, as provided in this section.
- 6.2 When money is received over the counter:
 - 6.2.1 Every payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by the issue of a numbered official receipt or cash ticket; and
 - 6.2.2 Every receipt form which is cancelled will be reattached in the correct place,

in the receipt book. Where computer generated receipts are used, the original receipt must be filed for audit purposes.

6.3 When money is received by Post:

6.3.1 The Registry Clerk shall record all payment remittances as and when received in the cheque register in the presence of a witness;

6.3.2 Post-dated cheques received in the council's mail must also be recorded in the cheque register, which shall be regarded as the register of remittances received by post;

6.3.3 The cheque register together with all remittances received must be sent to a designated official in the finance section;

6.3.4 The designated official on receipt of the cheque register together with the remittances will code all remittances and submit it to the cashier for receipting;

6.3.5 The cashier will receipt all remittances and issue official receipts to the designated official;

6.3.6 The designated official will record all receipts in the cheque register and return same to registry. The Registry Clerk must ensure that all receipts are recorded in the cheque register;

6.3.7 All documents relating to remittances received in the mail must be filed for audit purposes;

6.3.8 A separate register for post dated cheques will be maintained by the Cashier and all postdated cheques must be stored safely in the registry strong room; and

6.3.9 The Cashier will ensure that all postdated cheques, which become due, are promptly receipted and recorded in the postdated cheque register.

6.4 When money is received by electronic transfer, such transfers must be immediately recorded and receipts must be issued.

7. Payments to Creditors

- 7.1 The chief financial officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favourable to the municipality, that is, payment is to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the municipality. This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the chief financial officer before any payment is made, but shall in any event be subject to the provisions of Section 65 of the MFMA.
- 7.2 Notwithstanding 7.1, in the case of small, micro and medium enterprises, where such a policy may cause financial hardship to the contractor, then the following shall apply:
- 7.2.1 if the invoice for the goods or services is received by the municipality before the fifteenth day of the month in which the goods are delivered or the service rendered, the chief financial officer may in his discretion authorise payment thereof to be effected at the end of such month;
- 7.2.2 if the invoice for the goods or services is received by the municipality after the fifteenth day but before the last day of the month in which the goods are delivered or the services rendered, the chief financial officer may in his discretion authorise payment thereof to be effected on the fifteenth day of the following month;
- 7.2.3 if the amount to be paid is less than R 20 000-00 (Twenty Thousand Rand) and the invoice for the goods or service in question is received by the municipality by no later than 12 noon of the Wednesday of the week in which the goods are delivered or the services rendered, the chief financial officer

may in his discretion authorize payment thereof to be effected on the Friday of that week.

- 7.3 The Chief Financial Officer shall make full use of any extended terms of payment offered by suppliers and not settle any accounts earlier than such extended due date, except if he or she determines that there are financial incentives for the municipality to do so.
- 7.4 The Chief Financial Officer shall not ordinarily process payments for accounts received more than once in each calendar month, such processing to take place on or about the end of the month concerned, except when payment is to be effected in circumstances contemplated in 7.2.1, 7.2.2 or 7.2.3
- 7.5 Special payments to creditors (that is to say, payments made in circumstances not contemplated elsewhere in this section 6) shall only be made with the express approval of the chief financial officer, who shall be satisfied that there are compelling reasons for making such payments.
- 7.6 Credit statements must be reconciled monthly.
- 7.7 Payments must be made only on receipt of an official order, certified goods received note and official company invoice.
- 7.8 All payments, other than petty cash disbursements, shall be made through the municipality's bank account(s).
- 7.9 The chief financial officer shall, in consultation with the municipal manager and with due regard to the council's policy on banking and investments, and subject to 6.10, determine the rules and procedures relating to the approval of payments and jointly with the municipal manager decide on appropriate signatories.
- 7.10 Only the Municipal Manager or the Chief Financial Officer, or any other senior official of the Municipality acting on the written authority of the Municipal Manager, may withdraw money or authorize the withdrawal of money from any of the Municipality's bank accounts, and shall do so only for the purposes prescribed in Section 11 of the MFMA.

- 7.11 Notwithstanding the above, payments shall be effected by means of electronic transfers with the normally accepted control measures being applied
- 7.12 All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the chief financial officer. Such vouchers shall be authorised in terms of such rules and procedures as are determined from time to time by the chief financial officer.
- 7.13 The maximum amount and nature of petty disbursements, shall be generally determined from time to time by the chief financial officer, subject, however, to the provisions of the Municipality's Supply Chain Management Policy.
- 7.14 No cash float shall be operated without the authority of the chief financial officer, who may prescribe such procedures relevant to the management of such float as are considered necessary.
- 7.15 The chief financial officer shall be responsible for the payment of all salaries and remuneration benefits to employees and councillors, and for the determination of the payment system to be used.
- 7.16 Payments to creditors shall in any event be made in accordance with the provisions of the MFMA, and in particular, with Section 65 thereof.

8. Investments denominated in foreign currencies prohibited

8.1 A municipality or municipal entity may make an investment only if the investment is denominated in Rand and is indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

9. Payment of commission

Every financial institution with which the municipality makes an investment must issue a certificate to the accounting officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment, including councilors, officials or related spouses or family members.

10. Management of Inventory

- 10.1 The chief financial officer shall be responsible for the proper administration of all stores.
- 10.2 If sub-stores are established under the control of any head of department, such head of department shall be similarly responsible for the proper administration of such sub-store, and in doing so shall comply with the stock level policies as determined from time to time by the chief financial officer, acting in consultation with the head of department concerned.
- 10.3 No sub-store may be established without the prior written consent of the chief financial officer.
- 10.4 Each head of department shall ensure that such department's inventory levels do not exceed normal operational requirements in the case of items which are not readily available from suppliers, and emergency requirements in the case of items which are readily available from suppliers.
- 10.5 A stock register, reflecting the undermentioned detail must be kept and updated daily:
- 10.5.1 Item description;
 - 10.5.2 Stores code number;
 - 10.5.3 Transaction date;
 - 10.5.4 On goods received –
 - 10.5.4.1 Goods delivery note number;
 - 10.5.4.2 Number of items received; and
 - 10.5.4.3 Value of items received.
 - 10.5.5 On goods issued-
 - 10.5.5.1 Requisition number; and

10.5.5.2 Number of items issued.

10.5.5.3 Balance of items in stock.

- 10.6 Stock counts must be affected monthly and an annual report reflecting stock shortage and surpluses must be submitted to council as at 30 June of each financial year. All surpluses and shortages must be explained by the accountable head of department.
- 10.7 Each head of department shall periodically review the levels of inventory held, and shall ensure that any surplus items be made available to the chief financial officer for sale at a public auction or by other means of disposal, as provided for in the municipality's supply chain management policy.

11. Contract Management

Subject to the provisions of the Municipality's Supply Chain Management Policy:

- 11.1 all buying contracts shall be administered by the chief financial officer, and all payments relating to such contracts shall be authorised by the chief financial officer or the head of department concerned; and
- 11.2 all other contracts, including building, engineering and other civil contracts shall be administered by the head of department concerned, and all payments relating to such contracts shall be authorised by such head of department. The head of department concerned shall ensure that all payment certificates in regard to contracts are properly examined and are correct in all respects before being submitted to the chief financial officer for payment.

12. Cash Flow Projections

- 12.1 The chief financial officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a monthly basis, or more frequently, if considered necessary.

- 12.2 Provision must be made in the cash flow estimates for the operating and capital requirements of the municipality.
- 12.3 The operating requirements must include provisions for:
 - 12.3.1 Monthly salary and allowances payments;
 - 12.3.2 Bulk purchases of electricity and water;
 - 12.3.3 Interest on long term loans;
 - 12.3.4 Maintenance of assets;
 - 12.3.5 General expenditure (payments to current creditors); and
 - 12.3.6 Expected daily and monthly incomes.
- 12.4 The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when (if applicable) either long-term or short-term debt must be incurred. Heads of departments shall in this regard furnish the chief financial officer with all such information as is required, in good time and in the format required by the Chief Financial Officer.
- 12.5 The Chief Financial Officer shall report to the executive committee or the executive mayor, as the case may be, on a monthly basis and to every ordinary council meeting the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flows for the month or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate.
- 12.6 For purposes of such report, the cash flow estimates shall be divided into calendar months, and in reporting the chief financial officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report.

12.7 Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

13 Investment Ethics

13.1 The Chief Financial Officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance, including, in particular, the Investment Regulations.

13.2 In making such investments the Chief Financial Officer shall at all times have only the best interests of the municipality in mind, and shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.

13.3 No official or councillor of the Municipality may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the Municipality has made or may potentially make an investment.

14 Investment Principles

14.1 When money is available for investment, it shall be invested in accordance with the provisions contained in this policy.

14.2 After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer must determine the best manner in which to invest it. As rates vary according to money market perceptions, quotations must be requested telephonically, within term limitations, and these must be set out on a schedule.

14.3 In order to limit exposure, where large sums of money are available for investment, the Chief Financial Officer shall ensure that:

14.3.1 they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality, so that not more than a third of available funds are invested with any one institution; and

- 14.3.2 As far as it is practically and legally possible, the municipality's investments are so distributed that more than one investment category is covered.
- 14.4 Although the objective of the chief financial officer in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. It can be accepted as a general rule that the larger the return, the greater the risk.
- 14.5 When investments are placed with smaller registered institutions, the Chief Financial Officer shall ensure that the Municipality is not exposed to undue risk, and shall ensure that the creditworthiness and performance of the institution are satisfactory. Information from which the creditworthiness of financial institutions can be determined must be obtained and analysed at least annually
- 14.6 Every financial institution with which the municipality makes an investment must issue a certificate to the chief financial officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.
- 14.7 The Municipality may not borrow money for reinvestment, as this would mean interest rates would have to be estimated in advance, which can be seen as speculation with public funds.
- 14.8 Money kept in current accounts should be kept at minimum levels, as it may be more beneficially invested in other accounts such as call deposits.
- 14.9 If the Chief Financial Officer invests with financial institutions, he or she must ensure that such institutions are registered in terms of the Banks Act 94 of 1990 and that they are approved financial institutions - as approved by the Reserve Bank, from time to time.

15. Credit Ratings

- 15.1 It is of utmost importance that the investments only be placed with creditworthy institutions with a credit rating of A1 and better for short term (0 – 12 months) and credit ratings AA and AAA ratings for long term (more than 12 months)

- 15.2 Fitch and or CA ratings to be obtained of all investment institutions before a financial institution may be considered for investing funds.
- 15.3 Ratings must be updated at least annually or when there has been structural change in the market or at the particular institution.
- 15.4 The optimal combination of the most favorable rated institution and the institution offering the best returns for the investment sought, should be the determining factor when choosing the institution

16 Permitted Investments

- 16.1 Monetary investments: The Municipality may invest funds only in investment types permitted under Regulation 6 of the Investment Regulations.
- 16.2 Non-monetary investments: Any non-monetary investments will require approval by Council prior to execution.

17 Call Deposits and Fixed Deposits

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

18 Restriction on Term of Investments

No investment with a term exceeding twelve months shall be made without the prior approval of the executive mayor or the executive committee, as the case may be.

19 Cession of Investments

The cession of any investment of the Municipality as security shall be subject to the provisions of Section 48 of the MFMA.

20 Supply Chain Management Policy

The Municipality shall comply with its Supply Chain Management Policy to the extent that it is applicable to the implementation of any aspect of this policy.

21 Control over Investments

21.1 The Chief Financial Officer shall ensure that proper records are kept of all investments made by the Municipality.

21.2 Such records shall include an investment register in which the following information shall be recorded:

21.2.1 Name of institution

21.2.2 Capital invested

21.2.3 Date invested

21.2.4 Interest rate

21.2.5 Maturation date

21.2.6 Interest received

21.2.7 Capital repaid; and

21.2.8 Balance invested (other categories).

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

21.4 The investment register must be examined on a fortnightly basis to identify investments falling due within the next two weeks.

21.5 The Chief Financial Officer must ensure that interest, correctly calculated, is received on due date.

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

21.6.1 Fixed deposit letter or investment certificate

21.6.2 Receipt for capital invested,

21.6.3 Copy of electronic transfer or cheque requisition

21.6.4 Excel schedule of comparative investment figures,

21.6.5 Commission certificate indicating no commission was paid on the investment; and

22.6.6 Interest rate quoted.

22 Reports

The Municipal Manager shall ensure that reports are submitted to the Mayor as required under Regulation 9 of the Investment Regulations.

23 Banking Arrangements

23.1 The Municipal Manager is responsible for the management of the Municipality's bank accounts, but may delegate this function to the Chief Financial Officer.

23.2 The Municipal Manager and Chief Financial Officer are authorised at all times to sign cheques or electronic transfers and any other documentation associated with the management of such accounts.

23.3 The Municipal Manager is authorised to appoint, in consultation with the chief financial officer, two or more additional signatories in respect of such accounts, and to amend such appointments from time to time.

23.4 All bank accounts and investments must be in the name of the municipality.

23.5 The selection of the Municipality's Bankers shall be carried out in accordance with the Municipality's Supply Chain Management Policy.

24 Raising of Debt

24.1 The municipal manager is responsible for the raising of debt, but may delegate this function to the chief financial officer, who shall then manage this responsibility in consultation with the municipal manager. All debt shall be raised in strict compliance with the requirements of the MFMA and only with the prior approval of the council.

24.2 The raising of debt shall be governed by the municipality's borrowing policy.

25 Related Policies

25.1 This policy must be read in conjunction with the following budget-related policies of the Municipality:

25.1.1 The Credit Control and Debt Collection Policy;

25.2.2 The Supply Chain Management Policy;

25.2.3 The Budgeting Process Policy;

25.2.4 The Borrowing Policy;

26 Review of Policy

This policy is to be reviewed annually.

27 Responsibility for Implementation

The Municipal Manager shall be responsible for the implementation of this policy, provided that the Municipal Manger shall delegate such powers to the Chief Financial Officer as may be required to enable the Chief Financial Officer to perform such duties as are imposed on him or her in terms of this policy, and may delegate such other powers as he or she may deem fit to the Deputy Chief Financial Officer or any Deputy Manger in the Finance Department.

28 Commencement

This policy shall come into force on the first day of July 2019

Reviewed by Council: Resolution number:

ANNEXURE K
BORROWING POLICY



BORROWING POLICY

Date Approved: **27 May 2016**

Council Resolution (DC DC 1054/05/16
No):

TABLE OF CONTENTS

1. PURPOSE	3
2. OBJECTIVES	3
3. DEFINITIONS	3
4. SCOPE OF THE POLICY	4
5. LEGISLATIVE FRAMEWORK AND DELEGATION OF AUTHORITY	4
6. CONSIDERATIONS.....	4
7. DEBT REPAYMENT PERIOD.....	5
8. SECURITY.....	5
9. OVERDRAFT.....	5
10.SHORT-TERM DEBT.....	5
11.DISCLOSURE	6
12.APPROVAL OF LOANS BY THE MUNICIPALITY	6
13.PROVISION FOR REDEMPTION OF LOANS	7
14.NON REPAYMENT OR NON-SERVICING OF LOAN.....	7
15.PROHIBITED BORROWING PRACTICES.....	7
16.INTERNAL CONTROL.....	7
17.NATIONAL TREASURY REPORTING AND MONITORING REQUIREMENTS.....	8
18.OTHER REPORTING AND MONITORING REQUIREMENTS	8
19.POLICY REVIEW.....	8
ANNEXURES.....	9

LOCAL GOVERNMENT MUNICIPAL FINANCE MANAGEMENT ACT, NO 56 OF 2003

1. PURPOSE

To establish a borrowing framework policy for the Municipality and set out the objectives, statutory requirements and guidelines for the borrowing of funds.

2. OBJECTIVES

To manage interest rate and credit risk exposure. Maintain debt within specified limits and ensure adequate provision for the repayment of debt.

To ensure compliance with Legislation and Council policy, governing the borrowing of funds.

3. DEFINITIONS

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

“municipal debt” means –

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

“borrower” will be the Garden Route District Municipality

“lender”, in relation to a municipality or municipal entity, means a person who provides debt finance to a municipality or municipal entity;

“short-term debt”, in relation to a municipality or municipal entity, means debt that is repayable over a period not exceeding one year;

“long-term debt”, in relation to a municipality or municipal entity, means debt repayable by the municipality or municipal entity over a period exceeding one year;

“security”, in relation to a municipality or municipal entity, means any mechanism intended to secure the interest of a lender or investor, and includes any of the mechanisms mentioned in section 48(2) of the Act

“**financing agreement**” includes any loan agreement, lease, installment, purchase contract or a hire purchase arrangement under which a Council undertakes to repay a long-term debt over a period.

4. SCOPE OF THE POLICY

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.

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.

Prudence: Borrowings shall be made with care, skill, prudence and diligence. The standard of prudence to be used shall be the “prudent person” standard and shall be applied in the context of managing overall debt.

Officials are required to adhere to:

- a) written procedures and these guidelines
- b) exercise due diligence
- c) prepare all reports timeously
- d) ensure strict compliance with all Legislation and Council policy

5. LEGISLATIVE FRAMEWORK AND DELEGATION OF AUTHORITY

The relevant legislation and regulations in terms of which borrowing decisions are governed is the Local Government Municipal Finance Management Act, No 56 of 2003.

6. CONSIDERATIONS

The Municipality from time to time, will use certain of its surplus funds to fund its Capital programme. The utilisation of surplus funds enables the Municipality to reduce its reliance on external debt financing, thereby allowing it to borrow only funds from external sources when favourable market conditions prevail.

6.1 Factors to be considered when borrowing:

- the type and extent of benefits to be obtained from the borrowing.
- the length of time the benefits will be received.
- the beneficiaries of the acquisition or development.
- the impact of interest and redemption payments on both current and forecasted income.
- the current and future capacity of the income base to pay for borrowings and the rate of growth of the income base.
- likely movements in interest rates for variable rate borrowings.
- other current and projected sources of funds.
- Competing demands for funds
- Timing of money markets interest rate movements and the long term rates on the interest rate curve
- 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
- Municipality may only borrow funds, in terms of the Municipal Finance Management Act, for the purpose of acquiring assets, improving facilities or infrastructure to provide service delivery

6.2 Potential lenders include:

- The Development Bank of Southern Africa
- Registered Banks in South Africa

7. DEBT REPAYMENT PERIOD

Whilst the period for which loan debt may be received will vary from time to time according to the requirements of the various Lenders, presently the typical debt repayment period for loans in the current economic climate is between 10 to 15 years. Cognisance is taken of the useful lives of the underlying assets to be financed by the debt, and, moreover, careful consideration is taken of the interest rates on the interest yield curve. Should it be established that it is cost effective to borrow the funds on a shorter duration (as opposed to the life of the asset) as indicated by the interest yield curve, the loan will be negotiated to optimise the most favourable and cost effective benefit to the Municipality.

8. SECURITY

The Municipal Finance Management Act provides that the Municipality may provide security for any of its debt obligations, including the giving of a lien, pledging, mortgaging or ceding an asset, or giving any other form of collateral. It may cede as security any category of revenue or rights of future revenue. Some Lenders may require the Municipality to agree to restrictions on debt that the Municipality may incur in future until the secured debt is settled.

9. OVERDRAFT

Garden Route District Municipality has a bank overdraft facility. However, while in a sound financial position, this facility be not utilised.

10. SHORT TERM DEBT

The Municipal Finance Management Act provides that the 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 capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long term debt commitments.

The Municipality must pay off short term debt within the same financial year and may not renew or refinance its short term debt. The Municipality may, in terms of the Municipal Finance Management Act, incur short term debt only if the Chief Financial Officer has made a prior written finding that the debt is either within prudential limits on short term debt as previously approved by Municipality, or is necessary due to an emergency that could not reasonably have been foreseen and cannot await Council approval.

The Garden Route District Municipality is in the fortunate position that due to its sound financial position it is not necessary to raise any short term loans.

11. DISCLOSURE

Any official involved in the securing of loans by the Municipality must, when interacting with a prospective lender or when preparing documentation for consideration by a prospective Investor disclose all relevant information that may be requested or that may be material to the decision of the prospective Lender or Investor. Reasonable care must be taken to ensure the accuracy of any information disclosed. Whilst this is a standard and acceptable business practice, it is also in compliance with section 49 of the Municipal Finance Management Act.

12. APPROVAL OF LOANS BY THE MUNICIPALITY

Section 46 of the Municipal Finance Management Act stipulates that the Municipality may incur long-term debt only if a resolution of the Council, signed by the mayor, has approved the debt agreement and the Accounting Officer has signed the agreement or other document which acknowledges the debt. At

least 21 days prior to the meeting of the Council at which approval for the debt is to be considered, the Municipality must make public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided. The Public, the National Treasury and Provincial Treasury must be invited to submit written comments or representations to the council in respect of the proposed debt. A copy of the information statement must be submitted to Council at least 21 days prior to the meeting to discuss the proposed loan, together with particulars of –

- i. the essential repayment terms, including the anticipated debt repayment schedule; and
- ii. the anticipated total cost in connection with such debt over the repayment period.

13. PROVISION FOR REDEMPTION OF LOANS

Garden Route District Municipality may borrow from Institutions and 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. These sinking funds may also be invested directly with the Lender's Bank. 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. Use can also be made of guaranteed endowment policies to facilitate the payment on maturity date.

14. NON-REPAYMENT OR NON-SERVICING OF LOAN

Garden Route District Municipality must honour all its loan obligations timeously. Failure to effect prompt payment will adversely affect the raising of future loans at favourable costs of borrowing. In addition to the timeous payment of the loans, the Municipality must adhere to the covenants stipulated in the loan agreements.

15. PROHIBITED BORROWING PRACTICES

In the past some Municipalities have borrowed funds with the sole purpose of investing them to earn a return. The motive was clearly speculative. The cost of debt is almost always more expensive than the return that the Municipality can derive by investing in permitted investments. Consequently, as a principle, Garden Route District Municipality does not borrow for investment purposes, but depending on the shape of the interest yield curve may borrow in advance of its capital cash flow needs in a given financial year to take advantage of an inverse interest yield curve. Foreign Borrowing is permitted in terms of section 47 of the Municipal Finance Management Act, whereby the debt is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

16. INTERNAL CONTROL

The internal control procedures involve Internal Audit and Performance Management, and the Auditor General reviewing and testing the systems of the Finance Department on a regular basis. In order to prevent losses arising from fraud, misrepresentations, error, conflict of interest or imprudent action, a system of internal controls governs the administration and management of the portfolio.

Controls deemed most important include:-

- Control of collusion, separation of duties.
- Custodial safekeeping of loan agreements and contracts.
- Clear delegation of duties.
- Checking and verification by senior officials of all transactions.
- Documentation of transactions and repayments.
- Code of ethics and standards
- Electronic Funds Transfer limits and a detailed procedure manual for the system.

17. NATIONAL TREASURY REPORTING AND MONITORING REQUIREMENTS

The Municipality submits numerous returns to National Treasury. It is mainly coordinated by the Accounting Division. One such report deals with the Municipality's external interest paid each month. Another return, prepared on a quarterly basis, requires the Municipality to itemise all its external borrowings for the quarter ended.

18. OTHER REPORTING AND MONITORING REQUIREMENTS

Regular reporting mechanisms are in place in order to access the borrowings portfolio and to ensure compliance with policy objectives, guidelines and applicable laws.

Quarterly activities:

- National Treasury Borrowings Return General
- Report actual borrowings (in compliance with Section 71 of the Municipal Finance Management Act) to the mayor and Provincial Treasury

Annually:-

- Preparation of Annual Budget
- Preparation of Annual Cash Flow
- Forecast Preparation of Annual Financial Statements

- Confirmation of Lender balances at financial year end obtaining written certification of loan balances at year end
- Completion of credit rating questionnaire
- Regular reviews by Auditor General

□

19. POLICY REVIEW

The CFO will for the purposes of ensuring that this policy is aligned to the legislation, consider if and when necessary to amend the policy. In the event of the policy not being amended during the budget process, the approved policy will remain applicable.

ANNEXURES

EXTRACTS FROM THE LOCAL GOVERNMENT MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003 - CHAPTER 6: DEBT

SHORT-TERM DEBT

45 (1) A municipality may incur short-term debt only in accordance with and subject to the provisions of this Act. A municipality may incur short-term debt only when necessary to bridge

–

- (a) shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year; or
- (b) capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

(2) A municipality may incur short term debt only if - a resolution of the municipal council, signed by the mayor, has approved the debt agreement: and the accounting officer has signed the agreement or other document which creates or acknowledges the debt.

(3) For the purpose of subsection (2) (a.) a municipal council may - approve a short term debt individually ; or approve an agreement with a lender for a short-term credit facility to be accessed as and when required , including a line of credit or bank overdraft facility , provided that –

- (i) the credit limit must be specified in the resolution of the council ;
- (ii) the terms of agreement , including the credit limit , may be changed only by a resolution of the council ; and
- (iii) if the council approves a credit facility that is limited to emergency use , the accounting office must notify the council in writing as soon as practical of the amount , duration and any debt incurred in terms of such a credit facility , as well as options for repaying such debt.

(4) A municipality - must pay off short-term debt within the financial year; and may not renew or refinance short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

(5) (a) No lender may willfully extend credit to a municipality for the purpose of renewing or refinancing short-term debt that must be paid off in terms of subsection (4)(a). If a

lender willfully extends credit to a municipality in contravention of paragraph (a), the municipality is not bound to repay the loan or interest on the loan.

(6) Subsection (5)(b) does not apply if the lender –

(a) relied in good faith on written representations of the municipality as to the purpose of the borrowing; and

(b) did not know and had no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt

LONG-TERM DEBT

46. (1) A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of this Act, including section 19, and only for the purpose of–

(a) 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, including costs referred to in subsection (4) ; or

(b) re-financing existing long-term debt subject to subsection (5).

(2) A municipality may incur long-term debt only if –

(a) a resolution of the municipal council, signed by the mayor, has approved the debt agreement; and

(b) the accounting officer has signed the agreement or other document which creates or acknowledges the debt .

(3) A municipality may incur long-term debt only if the accounting officer of the municipality

has in accordance with subsection 21A of the Municipal Systems Act– at least 21 days prior to the meeting of the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided; and

(ii) invited the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt ; and

(b) has submitted a copy of the information statement to the municipal council at least 21 days prior to the meeting of the council, together with particulars of –

(i) the essential repayment terms, including the anticipated debt repayment schedule;
and

(ii) the anticipated total cost in connection with such debt over the repayment period.

(4) Capital expenditure contemplated in subsection (1)(a) may include - financing costs, including - capitalised interest for a reasonable initial period; costs associated with security arrangements in accordance with section 48; discounts and fees in connection with the financing; fees for legal, financial, advisory, trustee, credit rating and other services directly connected to the financing; and costs connected to the sale or placement of debt, and costs for printing and publication directly connected to the financing costs of professional services directly related to the capital expenditure; and (c) such other costs as may be prescribed.

(5) A municipality may borrow money for the purpose of re-financing existing long-term debt, provided – (a) the existing long-term debt was lawfully incurred;

(b) the re-financing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;

(c) the net present value of projected future payments (including principal and interest payments) after re-financing is less than the net present value of projected future payments before re-financing and

(d) the discount rate used in projecting net present value referred to in paragraph (c), and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed.

(6) A municipality's long-term debt must be consistent with its capital budget referred to in section 17(2).

CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONG-TERM DEBT

47. A municipality may incur debt only if –

(a) the debt is denominated in Rand and is not indexed to, or affected by, fluctuations in the value the Rand against any foreign currency;

(b) section 48 (3) has been complied with, if security is to be provided by the municipality

SECURITY

48. (1) A municipality may, by resolution of its council, provide security for –
- (a) any of its debt obligations;
 - (b) any debt obligations of a municipal entity under its sole control; or
 - (c) contractual obligations of the municipality undertaken in connection with capital expenditure by other persons on property, plant or equipment to be used by the municipality or such other person for the purpose of achieving the objects of local government in terms of section 152 of the Constitution.
- (2) A municipality may in terms of subsection (1) provide any appropriate security including by - giving a lien on, or pledging, mortgaging, ceding or otherwise hypothecating an asset or right, or giving any other form of collateral;
- (b) undertaking to effect payment directly from money or sources that may become available and to authorise the lender or investor direct access to such sources to ensure payment of the secured debt or performance of the secured obligations, but this form of security may not affect compliance with section 8 (2)
 - (c) undertaking to deposit funds with the lender, investor or third party as security;
 - (d) agreeing to specific payment mechanisms or procedures to ensure exclusive or dedicated payment to lenders or investors, including revenue intercepts, payments into dedicated accounts or other payment mechanisms or procedures;
 - (e) ceding as security any category of revenue or rights for future revenue;
 - (f) undertaking to have disputes resolved through mediation, arbitration or other dispute resolution mechanisms;
 - (g) undertaking to retain revenues or specific charges, fees, tariffs or funds at a particular level or at a level sufficient to meet its financial obligations;
 - (h) undertaking to make provision in its budgets for the payment of its financial obligations, including capital and interest;
 - (i) agreeing to restrictions on debt that the municipality may incur in future until the secured debt is settled or the secured obligations are met; and

(j) agreeing to such other arrangements as the municipality may consider necessary and prudent.

(3) A council resolution authorising the provision of security in terms of subsection (2)(a) - must determine whether the asset or right with respect to which the security is provided, is necessary for providing the minimum level of basic municipal services; and

(b) if so, must indicate the matter in which the availability of the asset or right for provision of that minimum level of basic municipal services will be protected.

(4) If the resolution has determined that the asset or right is necessary for providing the minimum level of basic municipal services, neither the party to whom the municipal security is provided, nor any successor or assignee of such party, may, in the event of a default by the municipality, deal with asset or right in a manner that would preclude or impede the continuation of that minimum level of basic municipal services.

(5) A determination in terms of subsection (3) that an asset or right is not necessary for providing the minimum level of basic municipal services is binding on the municipality until the secured debt has been paid in full or the secured obligations have been performed in full, as the case may be.

DISCLOSURE

49. (1) Any person involved in the borrowing of money by a municipality must, when interacting with a prospective lender or when preparing documentation for consideration by a prospective investor -disclose all information in that person's possession or within that person's knowledge that may be material to the decision of that prospective lender or investor; and take reasonable care to ensure the accuracy of any information disclosed.

(2) A lender or investor may rely on written representations of the municipality, if the lender or investor did not know and had no reason to believe that those representations were false or misleading.

MUNICIPAL GUARANTEES

50. A municipality may not issue any guarantee for any commitment or debt of any organ of state or person, except on the following conditions:

(a) The guarantee must be within limits specified in the municipality's approved budget:

(b) a municipality may guarantee the debt of a municipal entity under its sole control only if the guarantee is authorised by the council in the same manner and subject to the same conditions applicable to a municipality in terms of this Chapter if it incurs debt

(c) a municipality may guarantee the debt of a municipal entity under its shared control or of any other person, but only with the approval of the National Treasury, and then only if-

(i) the municipality creates, and maintains for the duration of the guarantee, a cash- backed reserve equal to its total potential financial exposure as a result of such guarantee; or

(ii) the municipality purchases and maintains in effect for the duration of the guarantee, a policy of insurance issued by a registered insurer, which covers the full amount of the municipality's potential financial exposure as a result of such guarantee.

NATIONAL AND PROVINCIAL GUARANTEES

Neither the national nor a provincial government may guarantee the debt of a municipality or municipal entity except to the extent that Chapter 8 of the Public / New Finance Management Act provides for such guarantees.

ANNEXURE L

PREFERENTIAL PROCUREMENT

POLICY



PREFERENTIAL PROCUREMENT POLICY

Adopted by Council: 00/00/18 COUNCIL RESOLUTION DC 00/00/18



Garden Route District Municipality, the leading, enabling and inclusive district, characterised by equitable and sustainable development, high quality of life and equal opportunities for all.

In order to achieve its vision, the Garden Route District Council accepted the mission below. The Garden Route District Municipality as a category C local authority strives, to deliver on our mandate through:

- Unlocking resources for equitable, prosperous and sustainable development.
- Provide the platform for coordination of bulk infrastructure planning across the district.
- Provide strategic leadership towards inclusive / radical / rigorous socio-economic transformation to address social, economic and spatial injustice.
- Redress inequalities, access to ensure inclusive services, information and opportunities for all citizens of the district.
- Initiate funding mobilisation initiatives/ programmes to ensure financial sustainability.
- Coordinate and facilitate social development initiatives.

Foreword:

Section 217 of the Constitution of the Republic of South Africa -

1. *When an organ of state in the national, provincial or Local sphere of Government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost effective.*
2. *Subsection (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for –*
 - a) *Categories of preference in allocation of contracts; and*
 - b) *The protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination*
3. *National legislation must prescribe a framework within which the policy referred to in subsection (2) must be implemented.*

Section 2 of Preferential Procurement Policy Act of 2000 –

1. *An organ of state must determine its preferential procurement policy and implement it within the following framework:*
 - (a) *A preference point system must be followed*
 - (b)
 - i. *for contracts with a Rand value above a prescribed amount a maximum of 10 points may be allocated for specific goals as contemplated in paragraph (d) provided that the lowest acceptable tender scores 90 points for price*
 - ii. *For contracts with a Rand value equal to or below a prescribed amount a maximum of 20 points may be allocated for specific goals as contemplated in paragraph (d) provided that the lowest acceptable tender scores 80 points*
 - (c) *Any other acceptable tenders which are higher in prices must score fewer points, on pro rata basis, calculated on their tender prices in relation to the lowest acceptable tender, in accordance with prescribed formula*
 - (d) *The specific goals may include –*
 - i. *Contracting with persons or categories of persons from designated sectors on the basis of race, gender or disability*
 - ii. *Implementing the programmes of the Reconstruction and Development Programme as published in Government Gazette No. 16085 dated 23 November 1994*
 - (e) *Any specific goal for which a point may be awarded must be clearly specified in the invitation to submit a tender*
 - (f) *The contract must be awarded to the tenderer who scores the highest points, unless objective criteria in addition to those contemplated in paragraphs (d) and (e) justify the award to another tenderer; and*
 - (g) *Any contract awarded on account of false information furnished by the tenderer in order to secure preference in terms of this Act, may be cancelled at the sole discretion of the organ of state without prejudice to any other remedies the organ of state may have.*
 - (h) *Any Goals contemplated in subsection (1)(e) must be measurable, quantifiable and monitored for compliance*

Exemption

The minister may, on request, exempt an organ of state from any or all the provisions of this Act if-

- (a) It is in the interest of national security*
- (b) The likely tenderers are international suppliers; or*
- (c) It is in the public interest*

In Accordance with the Garden Route District Council's Supply Chain Management Policy, Section 3(4)

The desired outcome of the policy is to provide mechanism to ensure sound, sustainable and accountable Supply Chain Management with the Garden Route District Municipality while promoting the following Regional Economic and development objectives:

- 1) to stimulate and promote local economic development in a targeted and focused manner as per Regional Economic Development Strategy and Regional Economic Policy;*
- 2) to promote resource efficiency and reduce the negative environmental impact of daily operations of the Garden Route District;*
- 3) to facilitate creation of employment and business opportunities for the people of the Garden Route District with particular reference to Preferential Procurement Policy Framework Act, 2000, Preferential Procurement Regulations, 2017, and setting specific B-BEEE rating targets for all procurement above a range as determined by council over a period of the contract.*
- 4) to promote the competitiveness of regional businesses within approved Regional Economic Development Strategy in line with relevant Framework Act;*

In Accordance with the Garden Route District Council's Supply Chain Management Policy, section 35

35. Proudly South African Campaign / Proudly Garden Route Campaign

*(1)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:*

- a) Preferential procurement framework Policy Act, 2000: Preferential Procurement Regulations, 2017, Regulation 8, Local production and Content and any subsequent circulars relating to designated sectors and local content thresholds*
- b) In the absence of designated sector for a particular commodity by the Department of Trade and Industry or National Treasury, Garden Route District may include as a specific condition of tender , that locally produced services or goods or locally manufactured goods with a stipulated minimum threshold for local production and content will be considered*
- c) Any prequalification criteria in the acquisition of goods or services that seeks to address localisation and empowerment local entities; must be in accordance with an approved Local Economic Development Strategy or Policy of Council that is in line with relevant regulatory framework or statute.*

(2) The district to develop and support Proudly Garden Route Brand and products to the extent , that all things being equal, preference is given to procuring local goods and services in accordance to section 35(1)(b) and Section 35(1)(c); in alignment to section 3(4) of the Policy. The aim is in support of the regional economic strategy and developing a vibrant economy within the Garden Route economic

corridor.

Conclusion:

In order for council to realise its vision and mission, key strategies and policies must be put in place to translate the vision into a tangible reality.

Preferential procurement policy should be applied in within the ambit of to the Regional Economic and Development Strategy of the Garden Route and Klein Karoo. Its application and implementation should be transparent, measurable, fulfil sector specific objectives of regional economic and development strategy for transformation and empowerment with an underlying premise of value for money.

Successful implementation requires an organization wide approach, with each department given an economic transformation and empowerment agenda for implementation. Departmental Demand Management plan that translates into a Procurement Plan should have set targets for empowerment, economic transformation and upliftment of the previously disadvantaged for each department.

Economic Development and Planning Department to partake in the process of setting targets for the organization with clear guidelines for their measurement. Tangible results can only be achieved if the Economic Transformation and Empowerment Agenda is a tone set from the top with each Head of Department being directly accountable on this key performance indicator.

1. Definitions

In this Policy, unless the context indicates otherwise, any word or expression to which a meaning have been assigned in the Act must bear the meaning so assigned-

1.1 "Act"	means the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
1.2. "B-BBEE"	means broad-based black economic empowerment as defined in section 1 of the Broad-Based Black Economic Empowerment Act
1.3. "B-BBEE status level of contributor"	means the B-BBEE status of an entity in terms of a code of good practice on black economic empowerment issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act
1.4. "black designated groups"	has the meaning assigned to it in the codes of good practice issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act
1.5. "black people"	has the meaning assigned to it in section 1 of the Broad-Based Black Economic Empowerment Act
1.6. "Broad-Based Black Economic Empowerment Act"	means the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003)
1.7. "Co-operative"	means a co-operative registered in terms of Section 7 of the Co-operatives Act, 2005 (Act No. 14 of 2005)
1.8. "designated group"	1.8.1. black designated groups; 1.8.2. black people; 1.8.3. women; 1.8.4. people with disabilities; 1.8.5. small enterprises, as defined in section 1 of the National Small Enterprise Act, 1996 (Act No. 102 of 1996); or 1.8.6. emerging enterprises which are enterprises, owned, managed and controlled by people listed in 1.8.1 – 1.8.4, persons and which is overcoming business impediments arising from the legacy of apartheid;
1.9. "designated sector"	means a sector, sub-sector or industry or product designated in terms of regulation 8(1)(a) of Preferential procurement Regulation of 2017
1.10. "EME"	means an exempted micro enterprise in terms of a code of good practice on black economic empowerment issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act

1.11. “functionality”	means the ability of a tenderer to provide goods or services in accordance with specifications as set out in the tender documents
1.12. “military veteran”	has the meaning assigned to it in section 1 of the Military Veterans Act, 2011 (Act No. 18 of 2011)
1.13. “National Treasury”	has the meaning assigned to it in section 1 of the Public Finance Management Act, 1999 (Act No. 1 of 1999)
1.14. “people with disabilities”	has the meaning assigned to it in section 1 of the Employment Equity Act, 1998 (Act No. 55 of 1998)
1.15. “price”	includes all applicable taxes less all unconditional discounts
1.16. “proof of B-BBEE status level of contributor	<p>Means:</p> <p>1.16.1.the B-BBEE status level certificate issued by an authorised body or person</p> <p>1.16.2.a sworn affidavit as prescribed by the B-BBEE Codes of Good Practice; or</p> <p>1.16.3.any other requirement prescribed in terms of the Broad-Based Black Economic Empowerment Act</p>
1.17. “QSE”	means a qualifying small business enterprise in terms of a code of good practice on black economic empowerment issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act
1.18. “Rand value”	means the total estimated value of a contract in Rand, calculated at the time of the tender invitation
1.19. “rural area”	<p>means-</p> <p>1.19.1.a sparsely populated area in which people farm or depend on natural resources, including villages and small towns that are dispersed through the area; or</p> <p>1.19.2.an area including a large settlement which depends on migratory labour and remittances and government social grants for survival, and may have a traditional land tenure system</p>
1.20. “stipulated minimum threshold	means the minimum threshold stipulated in terms of regulation 8(1)(b)
1.21. “the Regulation”	means the Preferential Procurement Regulation, 2017
1.22. “township”	means an urban living area that any time from the late 19th century until 27 April 1994, was reserved for black people, including areas developed for historically disadvantaged individuals post 27 April 1994

1.23. “treasury”	has the meaning assigned to it in section 1 of the Public Finance Management Act, 1999 (Act No. 1 of 1999)
1.24. “youth”	has the meaning assigned to it in section 1 of the National Youth Development Agency Act, 2008 (Act No. 54 of 2008)

2. Application, Objectives & General Requirements

2.1. This Policy complies with the framework of the PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT, 2000.

2.2. This Policy was developed in terms of the PREFERENTIAL PROCUREMENT REGULATIONS, 2017.

2.3. This Policy applies to the Garden Route District Municipality and the objectives are to:

2.3.1. Provide clarity on the municipality’s approach to procurement, particularly with regards to requirements of preferential procurement;

2.3.2. Provide access to contracts for historical disadvantaged individuals;

2.3.3. Promote participation by SMMEs;

2.3.4. Promote capacity development and skills transfer;

2.3.5. Promote Local Economic Development and endeavour to ensure the attainment of the award of at least 40% of all procurement within the boundaries of the Garden Route District Municipality.

2.3.6. To redress inequalities of the past and promote broader inclusion of the previously marginalised into the mainstream of the formal economy with a targeted approach of at least 30% of procurement be earmarked to companies with a BBBEE level 1

2.4. General requirements

2.4.1. Any specific goal required for consideration in the bidding process must be clearly determined by the Bid Specification Committee and be defined in the bid documentation, taking into account prescriptions of the Construction Industry Development Board [CIDB] in respect of construction related contracts.

2.4.2. Outputs required will be quantified and will form part of the contractual arrangement upon awarding of the contract.

3. Identification of preference point system, designated sector, pre-qualification criteria, objective criteria and sub-contracting

3.1. The Municipality must-

3.1.1. determine and stipulate in the tender documents-

(i) the preference point system applicable to the tender as envisaged in Section 6 or 7; or

(ii) if it is unclear which preference point system will be applicable, that either the 80/20 or 90/10 preference point system will apply and that the lowest acceptable tender will be used to determine the applicable preference point system;

- 3.1.2. determine whether pre-qualification criteria are applicable to the tender as envisaged in Section 4;
- 3.1.3. determine whether the goods or services for which a tender is to be invited, are in a designated sector for local production and content as envisaged in Section 8;
- 3.1.4. determine whether compulsory sub-contracting is applicable to the tender as envisaged in Section 9; and
- 3.1.5. determine whether objective criteria are applicable to the tender as envisaged in Section 11.

4. Pre-qualification criteria for preferential procurement

4.1. If the Municipality decides to apply pre-qualifying criteria to advance certain designated groups, the Municipality must advertise the tender with a specific tendering condition that only one or more of the following tenderers may respond-

4.1.1. a tenderer having a stipulated minimum B-BBEE status level of contributor;

4.1.2. an EME or QSE;

4.1.3. a tenderer sub-contracting a minimum of 30% to-

- (i) an EME or QSE which is at least 51% owned by black people;
- (ii) an EME or QSE which is at least 51% owned by black people who are youth;
- (iii) an EME or QSE which is at least 51% owned by black people who are women;
- (iv) an EME or QSE which is at least 51% owned by black people with disabilities;
- (v) an EME or QSE which is 51% owned by black people living in rural or underdeveloped areas or townships;
- (vi) a cooperative which is at least 51% owned by black people;
- (vii) an EME or QSE which is at least 51% owned by black people who are military veterans;
- (viii) an EME or QSE.
- (ix) a local emerging enterprise

4.1.4. Local emerging contractors, registered with the CIDB, from designated sector individuals/communities who will be assisted with targeted contract opportunities.

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

5. Tenders to be evaluated on functionality

5.1. The Municipality must state in the tender documents if the tender will be evaluated on functionality.

5.2. The evaluation criteria for measuring functionality must be objective.

5.3. The tender documents must specify-

5.3.1. the evaluation criteria for measuring functionality;

- 5.3.2. the points for each criteria and, if any, each sub-criterion; and
- 5.3.3. the minimum qualifying score for functionality.
- 5.4. The minimum qualifying score for functionality for a tender to be considered further-
- 5.4.1. must be determined separately for each tender; and
- 5.4.2. may not be so-
- (i) low that it may jeopardise the quality of the required goods or services;
or
- high that it is unreasonably restrictive.
- 5.5. Points scored for functionality must be rounded off to the nearest two decimal places.
- 5.6. A tender that fails to obtain the minimum qualifying score for functionality as indicated in the tender documents is not an acceptable tender.
- 5.7. Each tender that obtained the minimum qualifying score for functionality must be evaluated further in terms of price and the preference point system and any objective criteria envisaged in Section 11.
6. **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**

6.1. The following formula must be used to calculate the points out of 80 for price in respect of a tender with a Rand value equal to or above R30 000 and up to a Rand value of R50 million, inclusive of all applicable taxes:

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

Where-

P_s = Points scored for price of tender under consideration;

P_t = Price of tender under consideration; and

P_{min} = Price of lowest acceptable tender.

6.2. The following table must be used to calculate the score out of 20 for B-BBEE:

B-BBEE Status Level of Contributor Number of Points

B-BBEE Status Level of Contributor	Number of Points
1	20
2	18
3	14
4	12
5	8
6	6
7	4
8	2
Non-compliant contributor	0

- 6.3.** A tenderer must submit proof of its B-BBEE status level of contributor.
- 6.4.** A tenderer failing to submit proof of B-BBEE status level of contributor or is a non-compliant contributor to B-BBEE may not be disqualified, but-
- 6.4.1.** may only score points out of 80 for price; and
- 6.4.2.** scores 0 points out of 20 for B-BBEE.
- 6.5.** A tenderer may not be awarded points for B-BBEE status level of contributor if the tender documents indicate that the tenderer intends sub-contracting 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 sub-contractor is an EME that has the capability to execute the sub-contract.
- 6.6.** The points scored by a tenderer for B-BBEE in terms of section 6.2 must be added to the points scored for price under sub-section (1).
- 6.7.** The points scored must be rounded off to the nearest two decimal places.
- 6.8.** Subject to section 6.9 and section 11, the contract must be awarded to the tenderer scoring the highest points.
- 6.9.** If the price offered by a tenderer scoring the highest points is not market-related, the municipality may not award the contract to that tenderer.
- 6.10.** The Municipality may-
- 6.10.1.** negotiate a market-related price with the tenderer scoring the highest points or cancel the tender;
- 6.10.2.** if the tenderer does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the second highest points or cancel the tender;
- 6.10.3.** if the tenderer scoring the second highest points does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the third highest points or cancel the tender.
- 6.11.** If a market-related price is not agreed as envisaged in section 6.10.3, the Municipality must cancel the tender.

7. 90/10 preference point system for acquisition of goods or services with Rand value above R50 million

- 7.1.** The following formula must be used to calculate the points out of 90 for price in respect of a tender with a Rand value above R50 million, inclusive of all applicable taxes:

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

Where-

P_s = Points scored for price of tender under consideration;

P_t = Price of tender under consideration; and

Pmin = Price of lowest acceptable tender.

7.2. The following table must be used to calculate the points out of 10 for B-BBEE:

B-BBEE Status Level of Contributor Number of Points

B-BBEE Status Level of Contributor	Number of Points
1	10
2	9
3	6
4	5
5	4
6	3
7	2
8	1
Non-compliant contributor	0

7.3. A tenderer must submit proof of its B-BBEE status level of contributor.

7.4. A tenderer failing to submit proof of B-BBEE status level of contribution or is a non-compliant contributor to B-BBEE may not be disqualified, but-

7.4.1. may only score points out of 90 for price; and

7.4.2. scores 0 points out of 10 for B-BBEE.

7.5. A tenderer may not be awarded points for B-BBEE status level of contributor if the tender documents indicate that the tenderer intends sub-contracting 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 sub-contractor is an EME that has the capability to execute the sub-contract.

7.6. The points scored by a tenderer for B-BBEE contribution in terms of Sub-Section (2) must be added to the points scored for price under Sub-Section (1).

7.7. The points scored must be rounded off to the nearest two decimal places.

7.8. Subject to sub-section (9) and section 11, the contract must be awarded to the tenderer scoring the highest points.

7.9. If the price offered by a tenderer scoring the highest points is not market-related, the Municipality may not award the contract to that tenderer.

7.10. The Municipality may-

7.10.1. negotiate a market-related price with the tenderer scoring the highest points or cancel the tender;

- 7.10.2.** if the tenderer does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the second highest points or cancel the tender;
- 7.10.3.** if the tenderer scoring the second highest points does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the third highest points or cancel the tender.
- 7.11.** If a market-related price is not agreed as envisaged in section 7.10.3., the Municipality must cancel the tender.

8. Local production and content

- 8.1.** The Department of Trade and Industry may, in consultation with the National Treasury-
- 8.1.1.** designate a sector, sub-sector or industry or product 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, taking into account economic and other relevant factors; and
- 8.1.2.** stipulate a minimum threshold for local production and content.
- 8.2.** The Municipality must, in the case of a designated sector, advertise the invitation to tender with a specific condition that only locally produced goods or locally manufactured goods, meeting the stipulated minimum threshold for local production and content, will be considered.
- 8.3.** The National Treasury must inform the Municipality of any designation made in terms of section 8(1) through a Circular.
- 8.4.** If there is no designated sector, The Municipality may include, as a specific condition of the tender, that only locally produced services or goods or locally manufactured goods with a stipulated minimum threshold for local production and content, will be considered.
- 8.5.** The threshold referred to in Section 8.4 must be in accordance with the standards determined by the Department of Trade and Industry in consultation with the National Treasury.
- 8.6.** A tender that fails to meet the minimum stipulated threshold for local production and content is an unacceptable tender.

9. Sub-contracting as condition of tender

- 9.1.** If feasible to sub-contract for a contract above R30 million, The Municipality must apply sub-contracting to advance designated groups.
- 9.2.** If The Municipality applies sub-contracting as contemplated in Sub-Section (1), the Municipality must advertise the tender with a specific tendering condition that the successful tenderer must sub-contract a minimum of 30% of the value of the contract to-
- 9.2.1.** an EME or QSE;
- 9.2.2.** an EME or QSE which is at least 51% owned by black people;
- 9.2.3.** an EME or QSE which is at least 51% owned by black people who are youth;

- 9.2.4.** an EME or QSE which is at least 51% owned by black people who are women;
 - 9.2.5.** an EME or QSE which is at least 51% owned by black people with disabilities;
 - 9.2.6.** an EME or QSE which is 51% owned by black people living in rural or underdeveloped areas or townships;
 - 9.2.7.** a cooperative which is at least 51% owned by black people;
 - 9.2.8.** an EME or QSE which is at least 51% owned by black people who are military veterans; or
 - 9.2.9.** more than one of the categories referred to in sub-sections 2.1 – 2.8.
- 9.3.** The Municipality must make available the list of all suppliers registered on a database approved by the National Treasury to provide the required goods or services in respect of the applicable designated groups mentioned in sub-Section (2) from which the tenderer must select a supplier.

10. Criteria for breaking deadlock in scoring

- 10.1.** 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.
- 10.2.** 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.
- 10.3.** If two or more tenderers score equal total points in all respects, the award must be decided by the drawing of lots.

11. Award of contracts to tenderers not scoring highest points

- 11.1.** A contract may be awarded to a tenderer that did not score the highest points only in accordance with section 2(1)(f) of the Act.
- 11.2.** If The Municipality intends to apply objective criteria in terms of section 2(1)(f) of the Act, the Municipality must stipulate the objective criteria in the tender documents.

12. Conditions

- 12.1.** Only a tenderer who has completed and signed the declaration part of the tender documentation may be considered.
- 12.2.** The Municipality must, when calculating comparative prices, take into account any discounts which have been offered unconditionally.
- 12.3.** A discount which has been offered conditionally must, despite not being taken into account for evaluation purposes, be implemented when payment is processed.
- 12.4.** Points scored must be rounded off to the nearest 2 decimals places.
- 12.5.** A trust, consortium or joint venture will qualify for points for their B-BBEE status level as a legal entity, provided that the entity submits their B-BBEE status level certificate.

- 12.6.** A trust, consortium or joint venture will qualify for points for their B-BBEE status level as an unincorporated entity, provided that the entity submits their consolidated B-BBEE scorecard as if they were a group structure and that such a consolidated B-BBEE scorecard is prepared for every separate tender.
- 12.7.** When the Municipality is in need of a service provided by only Higher Education institutions, such services must be procured through a tendering process from the identified Higher Education institutions.(limited Bidding)
- 12.8.** Higher Education institutions referred to in sub-Section (12.7) will be required to submit their B-BBEE status in terms of the specialized scorecard contained in the B-BBEE Codes of Good practice.

13. Declarations

- 13.1.** A tender must, in the manner stipulated in the document, declare that-
- 13.1.1.** the information provided is true and correct;
 - 13.1.2.** the signatory to the tender document is duly authorised; and
 - 13.1.3.** documentary proof regarding any tendering issue will, when required, be submitted to the satisfaction of the Municipality.

14. Sub-contracting after award of tender

- 14.1.** A person awarded a contract may only enter into a sub-contracting arrangement with the approval of the Municipality.
- 14.2.** A person awarded a contract in relation to a designated sector, may not sub-contract in such a manner that the local production and content of the overall value of the contract is reduced to below the stipulated minimum threshold.
- 14.3.** A person awarded a contract may not sub-contract 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 sub-contracted to an EME that has the capability and ability to execute the sub-contract.

15. Cancellation of tender

- 15.1.** The Municipality may, before the award of a tender, cancel a tender invitation if-
- 15.1.1.** due to changed circumstances, there is no longer a need for the goods or services specified in the invitation;
 - 15.1.2.** funds are no longer available to cover the total envisaged expenditure;
 - 15.1.3.** no acceptable tender is received; or
 - 15.1.4.** there is a material irregularity in the tender process.
- 15.2.** The decision to cancel a tender invitation in terms of Sub-Section (1) must be published in the same manner in which the original tender invitation was advertised.

15.3. The Municipality may only with the prior approval of the relevant Treasury cancel a tender invitation for the second time.

16. Remedies

16.1. Upon detecting that a tenderer submitted false information regarding its B-BBEE status level of contributor, local production and content, or any other matter required in terms of these Regulations which will affect or has affected the evaluation of a tender, or where a tenderer has failed to declare any sub-contracting arrangements, the Municipality must-

16.1.1. inform the tenderer accordingly;

16.1.2. give the tenderer an opportunity to make representations within 14 days as to why-

- i. the tender submitted should not be disqualified or, if the tender has already been awarded to the tenderer, the contract should not be terminated in whole or in part;
- ii. if the successful tenderer sub-contracted a portion of the tender to another person without disclosing it, the tenderer should not be penalised up to 10 percent of the value of the contract; and
- iii. the tenderer should not be restricted by the National Treasury from conducting any business for a period not exceeding 10 years with any organ of state; and

16.1.3. if it concludes, after considering the representations referred to in sub-section (1)(b), that-

(i) such false information was submitted by the tenderer-

- (aa) disqualify the tenderer or terminate the contract in whole or in part; and
- (bb) if applicable, claim damages from the tenderer; or

(ii) the successful tenderer sub-contracted a portion of the tender to another person without disclosing, penalise the tenderer up to 10 percent of the value of the contract.

16.2. The Municipality must-

16.2.1. inform the National Treasury, in writing, of any actions taken in terms of Sub-Section (1);

16.2.2. provide written submissions as to whether the tenderer should be restricted from conducting business with any organ of state; and

16.2.3. submit written representations from the tenderer as to why that tenderer should not be restricted from conducting business with any organ of state.

16.3. The National Treasury may request The Municipality to submit further information pertaining to Sub-Section 1 within a specified period.

16.4. The National Treasury must-

16.4.1. after considering the representations of the tenderer and any other relevant information, decide whether to restrict the tenderer from doing business with any Municipality for a period not exceeding 10 years; and

16.4.2. maintain and publish on its official website a list of restricted suppliers.

17. Circulars and guidelines

17.1. The National Treasury may issue-

17.1.1. a circular to inform Municipality of any matter pertaining to these Regulations; or

17.1.2. a guideline to assist Municipality with the implementation of any provision of these Regulations.

18. Short title and commencement

18.1. This Policy is called the Garden Route District Municipality Preferential Procurement Policy and took effect upon Council approval, May 2018, and should be reviewed annually.

ANNEXURE M
PETTY CASH POLICY

GARDEN ROUTE DISTRICT MUNICIPALITY



PETTY CASH POLICY

TABLE OF CONTENTS

	PAGE
1 INTRODUCTION.....	3
2 REGULATORY FRAMEWORK.....	3
3 OBJECTIVES.....	3
4 DEFINITIONS.....	3
5 RESPONSIBILITY AND ACCOUNTABILTY.....	3
6 PETTY CASH POLICY.....	4
6.1 General Policy.....	4
6.2 Establishing and Operating a Petty Cash Float.....	5
6.3 Security of Petty Cash Floats.....	5
6.4 Completing a Cash Purchase Claim Form.....	6
6.5 Sub-Advances to Staff Members.....	6
6.6 Out-of Pocket Payments.....	6
6.7 Reimbursement of Petty Cash Floats.....	7
6.8 Shortages.....	7
6.9 Procedure where a Petty Cash Float is repaid/cancelled.....	8

1. INTRODUCTION

The accounting officer of a municipality is responsible for the management of the expenditure of the municipality in an effective and controlled manner. Therefore the Garden Route District Municipality adopts the following petty cash policy.

2. REGULATORY FRAMEWORK

Legislation – Municipal Finance Management Act 56 of 2003

3. OBJECTIVES

Compliance with the regulatory framework in terms of the relevant legislation is required.

4. DEFINITIONS

Accounting Officer:	The person appointed by council in terms of section 82 of Act 117 of 1998, also known as the Municipal Manager, and defined in terms of section 60 of Act 56 of 2003 (MFMA)
Chief Financial Officer:	The person designated in terms of section 80 (2) (a) of Act 56 of 2003 (MFMA), and includes any person acting in that position or to whom authority is delegated
Petty Cash:	A relatively small amount of cash kept at hand for making immediate payments for miscellaneous small payments
Petty Cash Float:	The total sum of Petty Cash which has been granted to a Petty Cash Officer.
Petty Cash Officer:	An employee made responsible for the day-to-day operating of the Petty Cash Float
Reconciliation:	Is the process of comparing information, for example cash spent compared with the relevant documentation and receipts.
Sub-advances:	A relatively small amount of cash, made available by the Petty Cash Officer on request , to buy miscellaneous small items.

5. RESPONSIBILITY AND ACCOUNTABILITY

The key responsibilities in terms of the MFMA (Section 65) are:

Accounting Officer (Municipal Manager) –

- (1) The accounting officer of a municipality is responsible for the management of the expenditure of the municipality.
- (2) The accounting officer must, for the purposes of subsection (1), take all reasonable steps to ensure-
 - (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds;

- (b) that the municipality has and maintains a management, accounting and information system which-
 - (i) recognizes expenditure when it is incurred;
 - (ii) accounts for creditors of the municipality, and
 - (iii) accounts for payments made by the municipality.
- (c) that the municipality has and maintains a system of internal control in respect of creditors and payments;
- (d) that payments by the municipality are made-
 - (i) directly to the person to whom it is due unless agreed otherwise for reasons as may be prescribed; and
 - (ii) either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit;

The Municipal Manager delegates authority to the Chief Financial Officer.

6. PETTY CASH POLICY

6.1 General Policy

- (a) The use of a petty cash float (a float may not exceed R2,000.00) is strictly confined to individual cash purchases of up to a maximum of R750.00, unless otherwise authorized by the Chief Financial Officer;
- (b) The expenditure with regard to petty cash shall not be deliberately split into more than one transaction to avoid the said limit;
- (c) A petty cash float is not to be used for any of the following:
 - (i) the cashing of cheques;
 - (ii) loans to any person whatsoever;
 - (iii) payment of personal remuneration to any person whatsoever, whether for fees, salaries, wages, travel allowance as part of remuneration, honorarium or other reason.
 - (iv) for instalment invoices such as rental of equipment or open orders, even if the amount falls within the specified limit;
 - (v) any purchase violating the true meaning of petty cash transactions, or petty cash purchases from a trade creditor that does not exist on the Supply Chain Management Supplier database. This will be regarded as a deviation from the accepted accounting practices in the use of petty cash, and will constitute a serious offence under the Disciplinary Code, unless authorized by the Chief Financial Officer.
- (d) Other cash floats may also be established for the purpose of providing change for a cash register, or any other purpose approved by the Chief Financial Officer. Use of such floats is restricted to the purpose for which they were established.
- (e) The accounting officer, or delegated official, may conduct internal audits to evaluate compliance with this policy.

6.2 Establishing and Operating a Petty Cash Float

- (a) To establish a new petty cash float or increase an existing advance, a written application must be made to the Chief Financial Officer by the relevant Manager of a department.
- (b) A request for the establishment of an advance will indicate the position of a senior employee to be held responsible for the control over the petty cash float within the relevant department.
- (c) The employee mentioned under 6.2 (b) will be responsible for the security and that leave arrangements are in place to ensure safe custody of funds in the office.
- (d) The minimum security arrangement that will be acceptable is that the float will be kept in a locked box which will be kept in a locked filing cabinet or safe.
- (e) When an advance is approved, the Chief Accountant: Creditors will advise the relevant department accordingly, and request that the designated employee mentioned under 6.2 (b) collect the advance.

6.3 Security of Petty Cash Floats and Documentation

- (a) The cash on hand and used petty cash vouchers are to be kept in a locked box for which there are to be two keys. One key is to be retained by the petty cash officer (on their person) normally responsible for petty cash, and the other by the senior employee mentioned under 6.2 (b) in a sealed envelope in the office safe or other secure place, to be used only in an emergency.
- (b) The locked petty cash box must be kept in a secure place when not in use and should be removed and returned by the responsible employee only. At no stage should staff other than the responsible employee/s have access to the storage place of the petty cash box.
- (c) Under no circumstances are keys to be left in the lock of the petty cash box, cabinet or safe.
- (d) If the responsible petty cash officer is either going on leave or is leaving the municipality's employment, the petty cash float is to be reconciled and signed by the departing-as well as the replacement staff member, to indicate their agreement as to its balance.

6.4 Completing Petty Cash Vouchers and the Petty Cash Reconciliation and Register

- (a) Petty cash stationery is available from the Expenditure section. The form consists of two parts:
 - (i) Petty Cash Voucher
 - (ii) Petty Cash Reconciliation and Register
 - (iii) Receipt for cash advance (Only when appropriate-refer to paragraph on Advances)
(the same form as in (i) above)
- (b) All details entered on the Petty Cash Voucher must appear on the Petty Cash Reconciliation and Register sheet.
- (c) Original receipts and other valid documentation as required must be attached as proof of payment, with the signature of the designated officer on this documentation. The receipt and invoice must be in a formal business format.

6.5 Sub-advances to staff members

- (a) If it is necessary to make an initial sub-advance to a staff member, a receipt for the cash advance must be completed (Petty Cash Voucher). The receipt for the cash advance form must be completed as follows:
 - (i) description and *estimated* cost of the goods/services purchased;
 - (ii) purchaser's signature;
 - (iii) correct vote number with an adequate budget to be charged;
 - (iv) signature of the petty cash officer.
- (b) On completion of the purchase, the recording-, documentation- and authorization requirements will be as stated in the above paragraph: Completing a Petty Cash Voucher.
- (c) All sub-advances will be accounted for within 24 hours, by submitting original receipts and other applicable documentation required, attached as proof of payment (with the approval signature on the documentation). Where this cannot be achieved, the buyer will be liable to pay back the advance without any delay or, if not possible, alternatively be for the immediate recovery from the individual's salary.
- (d) No more than one advance will be made to any one individual at a time.

6.6 Out-of Pocket Payments

- (a) Where a staff member has made a purchase from own funds and seeks reimbursement from petty cash, supporting documentation must be provided to substantiate the claim.
- (b) The responsibility to ensure that the purchase will be in accordance with all the prescriptions of this policy will be the sole responsibility of the purchaser of such item(s).
- (c) The recording-documentation-and authorization requirements will be as stated in paragraph 6.4

6.7 Reimbursement of Petty Cash Floats

- (a) A petty cash float is operated on the basis that expenditure from the float is reimbursed **not more than twice monthly**. Such reimbursement requires:-
 - (i) returning the cash level of the petty cash float to its original level, and;
 - (ii) charging the expenditure which has been incurred to the correct expenditure vote.
- (b) Accordingly, **at any point in time**, the sum of the cash on hand, i.e. remaining unspent, plus the cash advances for unfinalized purchases, plus the completed cash purchase claim forms, updated on the Petty Cash Reconciliation and Register form, shall equal the level of the petty cash advanced.
- (c) Completed Petty Cash Reconciliation and Register forms, with attached cash register slips etc. must be submitted to the Expenditure section for reimbursement, after the relevant documentation has been authorized by the relevant head of the department.
- (d) Reimbursement of claims where supporting documentation as prescribed in this policy is absent/ missing, will be declined.
- (e) The prescribed forms as mentioned in 6.4 (a) (i) to (iii) above, as well as other relevant forms attached to it, must be completed in full.

- (f) The most recently completed Petty Cash Reconciliation and Register form must record the reconciliation of the petty cash float. The Chief Accountant: Creditors will decline reimbursement of claims where this is not supplied.
- (g) A petty cash float must never be reimbursed with funds derived from any other source whatsoever.

6.8 Shortages

- (a) Any shortages in respect of a petty cash float must be reimbursed immediately by the responsible petty cash officer.
- (b) Where a petty cash float is stolen, the incident must be reported promptly to the Chief Financial Officer in the required format, after a case has been logged at the South African Police Services

6.9 Procedure where a Petty Cash Float is repaid/cancelled

When an advance is no longer required, a departmental memorandum must be submitted, signed by the manager of the relevant department, to the Chief Accountant: Creditors, with the balance of cash on hand and completed and authorized forms. The most recently completed Petty Cash Reconciliation and Register form will record the reconciliation of the petty cash float.

The Cashier will issue a receipt to the person delivering the cash.

6.10 Short title and commencement

This Policy is called the Garden Route District Municipality Petty Cash Policy and takes effect upon Council approval, May 2019, and should be reviewed annually.

ANNEXURE N
MFMA NATIONAL TREASURY
CIRCULAR NO 98



Municipal Budget Circular for the 2020/21 MTREF

CONTENTS

1. INTRODUCTION	2
2. THE SOUTH AFRICAN ECONOMY AND INFLATION TARGETS	2
3. KEY FOCUS AREAS FOR THE 2020/21 BUDGET PROCESS	3
3.1 DIVISION OF REVENUE OUTLOOK	3
3.2 LOCAL GOVERNMENT CONDITIONAL GRANTS AND ADDITIONAL ALLOCATIONS	3
3.3 CHANGES TO THE STRUCTURE OF LOCAL GOVERNMENT ALLOCATIONS	4
3.4 ADDRESSING UNFUNDED BUDGETS IN LOCAL GOVERNMENT	5
3.5 MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCOA)	5
3.2.1 <i>Release of Version 6.4 of the Chart</i>	5
3.2.2 <i>Budgeting, transacting and reporting in an mSCOA environment</i>	5
3.2.3 <i>Changing of the Core Financial System</i>	6
3.2.4 <i>Submission of Borrowing Monitoring and Investment Monitoring Data Strings</i>	7
3.2.5 <i>Cash Flow Reconciliation</i>	7
4. THE REVENUE BUDGET	7
4.1 MAXIMISING THE REVENUE GENERATION OF THE MUNICIPAL REVENUE BASE	8
4.2 SETTING COST REFLECTIVE TARIFFS	8
4.3 BULK ELECTRICITY TARIFFS	10
4.4 LEVYING OF SURCHARGES	10
5. FUNDING CHOICES AND BUDGETING ISSUES	11
5.1 EMPLOYEE RELATED COSTS	12
5.2 REMUNERATION OF COUNCILORS	12
5.3 BUDGETING FOR WATER UNDER INVENTORY	12
5.4 BUDGETING FOR DEBT IMPAIRMENT IN MSCOA	13
6. CONDITIONAL GRANT TRANSFERS TO MUNICIPALITIES	13
6.1 NON-COMPLIANCE OF IN YEAR MONITORING	13
6.2 STOPPING AND REALLOCATION IN TERMS OF THE DIVISION OF REVENUE ACT	13
6.3 INVOICE VERIFICATION AGAINST CONDITIONAL GRANT EXPENDITURE/COST REIMBURSEMENT	14
7. PREPARATION OF MUNICIPAL BUDGETS FOR 2020/21 MTREF	15
7.1 SCHEDULE A1 VERSION TO BE USED FOR THE 2020/21 MTREF	15
7.2 ASSISTANCE WITH THE COMPILATION OF BUDGETS	16
7.3 VERIFICATION PROCESS AND PERIOD OF 2020/21 MTREF BUDGETS	17
8. BUDGET PROCESS AND SUBMISSIONS FOR THE 2020/21 MTREF	18
8.1 SUBMITTING BUDGET DOCUMENTATION AND SCHEDULES FOR 2020/21 MTREF	18
8.2 EXPECTED SUBMISSIONS FOR 2020/21 MTREF	18
8.3 RETIREMENT OF THE BUDGET REFORM RETURNS (APPENDIX B)	19
8.4 PUBLICATIONS FROM THE MSCOA CLASSIFICATION FRAMEWORK	19
8.5 PUBLICATION OF BUDGETS ON MUNICIPAL WEBSITES	20
ANNEXURE A – CASH FLOW RECONCILIATION	22
<i>Funding segment</i>	22
ANNEXURE B – AMENDMENTS TO THE A1 SCHEDULE TO CATER FOR WATER UNDER INVENTORY IN LINE WITH GRAP 12	26
ANNEXURE C – PROCESS MAP FOR INVOICE VERIFICATION/COST REIMBURSEMENT	28

1. Introduction

The purpose of the annual budget circular is to guide municipalities with their compilation of the 2020/21 Medium Term Revenue and Expenditure Framework (MTREF). This circular is linked to the Municipal Budget and Reporting Regulations (MBRR); and strives to support the budget preparation processes of municipalities so that the minimum requirements of the MBRR promulgated in 2009 are achieved.

In 2010, the National Treasury introduced the local government budget and financial reform agenda. Since then several projects to further this agenda have been introduced. The recent implementation of the municipal Standard Chart of Accounts (*mSCOA*) and the accompanying “game changers” signals a smarter way forward to strengthening local government finances.

Among the objectives of this budget circular is to demonstrate how municipalities should undertake the annual budget preparation in accordance with the budget and financial reform agenda and the associated “game changers”.

Municipalities are reminded to refer to the previous annual budget circulars for guidance on budget preparation issues that are not covered in this circular.

2. The South African economy and inflation targets

In the 2019 Medium Term Budget Policy Statement (MTBPS) tabled by the Minister of Finance on 30 October 2019, he stated that, he is tabling the 2019 MTBPS in a difficult global and domestic environment. The global growth forecast for 2019 is the lowest since the 2008 financial crisis, weighed down by mounting trade tensions and political uncertainty. Economic activity in two engines of the world economy, namely China and India, is also slowing this year. Policy makers have taken a number of steps to support growth, but there is a risk that these measures will create new vulnerabilities, as interest rates in advanced economies decline. About a quarter of government bonds in these countries have negative yields.

In South Africa, economic growth has continued to stagnate and weaknesses in the world economy are likely to amplify our own challenges. The discussion paper termed the Economic transformation, inclusive growth, and competitiveness released by the National Treasury has proposed a number of economic reforms that might boost GDP growth over the medium and longer term, and support increased investment and job creation. These measures have been broadly agreed on within government. The next step is to implement the reforms urgently. Nevertheless, the economy has continued to weaken with the economic growth projected to grow at 1.2 per cent in the 2020/21 financial year, while long term estimates have fallen prompting government to review its outer year’s estimates.

In addition to low growth, South Africa’s biggest economic risk is Eskom. Ongoing problems with the utility’s operations continue to disrupt the supply of electricity to households and businesses. Government has allocated significant resources to assist Eskom. With the immediate financial restraints lifted, the focus must be on operational problems and restructuring Eskom into three separate entities. Doing so will mark the beginning of a transition to a competitive, transparent and financially viable electricity sector.

South Africa’s public finances deteriorated over the past decade; a trend that accelerated in recent years as low growth led to large revenue shortfalls. For 10 years, the country has run large budget deficits. This has put us deeply in debt, to the point where interest payments have begun crowding out social and economic spending programmes. This cannot be sustained.

Government proposed a range of expenditure reductions to restore the public finances to a sustainable position, some of which are likely to be painful. We owe it to future generations to ensure that we are good stewards of our country's resources and that they do not have to pay for faults in our decision-making.

The following macro-economic forecasts must be considered when preparing the 2020/21 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2018 - 2022

Fiscal year	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate		Forecast	
CPI Inflation	4.7%	4.3%	4.9%	4.8%	4.8%

Source: Medium Term Budget Policy Statement 2019.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

3. Key focus areas for the 2020/21 budget process

3.1 Division of Revenue outlook

Municipal governments face multiple pressures over the period ahead with local government expected to expand access to free basic service to poor households, while ensuring that those who can afford to pay for services do so.

The 2020 MTEF includes large reductions in planned transfers to municipalities. The implication of these reductions is that municipalities will be required to reprioritise projects. Larger reductions in grants are mainly affecting urban municipalities which have the capacity to offset the effects of these cuts from their own revenue investments.

A notable revision is that of the Public Transport Network Grant (PTNG) which has funded 13 cities over the past decade, yet only six have launched operations. In the 2020 MTEF, the grant will be allocated only to 10 cities and these cities will be required to reduce their costs and to demonstrate their effectiveness to receive PTNG funding.

3.2 Local government conditional grants and additional allocations

The proposed division of revenue is still biased towards prioritising funding services for poor communities. Allocations to local government subsidise the cost of delivering free basic services to the less fortunate and the poorest of the poor households, and the infrastructure needed to deliver those services, as well as the maintenance of the infrastructure to ensure the sustainable delivery of these services.

The 2019 Medium Term Budget Policy Statement (MTBPS) projects transfers for local government for the 2020 MTREF at R397 billion, of which 62.2 per cent comprise unconditional allocations while the remainder is conditional grant funding. The allocations for local government over the medium term represent 8.6 per cent of non-interest expenditure and a slight decrease from the 8.9 per cent realised in the 2018 budget.

The equitable share and the allocation of the general fuel levy to local government constitutes unconditional funding. Municipalities are reminded that this funding allocation is formula driven and designed to fund the provision of free basic services to disadvantaged communities. Conditional grant funding must be utilised for the intended purpose within the timeframes, as specified in the annual Division of Revenue Bill. Monies not spent must be returned to the fiscus and requests for roll-overs will only be considered in extenuating circumstances.

The annual Division of Revenue Bill will be published in February 2020 after the budget speech by the Minister of Finance. The grant allocations will be specified in this Bill and municipalities must reconcile their budgets to the numbers published therein.

Municipalities are advised to use the indicative numbers presented in the 2019 Division of Revenue Act to compile their 2020/21 MTREF. In terms of the outer year allocations (2021/22 financial year), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as proposed in the 2019 Division of Revenue Act for 2021/22. The DoRA is available at <http://www.treasury.gov.za/documents/national%20budget/2019/default.aspx>

3.3 Changes to the structure of local government allocations

The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the MTEF period.

Large urban municipalities continue to underinvest in infrastructure, primarily because of poor programme and project preparation practices, leading to long delays, higher costs and breakdowns in service delivery. While public and private capital funding is available, these weaknesses translate into low levels of effective demand from the municipalities.

To address these problems, from 2020/21 government will introduce dedicated grant funding for large urban municipalities. Eligible municipalities will receive co-financing on a declining basis over three years. Financing will be conditional on establishing a municipal project preparation fund and an infrastructure delivery management system, and achieving targets for programmes and projects under preparation. Funding for this new facility will be reprioritised from existing allocations to municipalities.

Government is also working with municipalities to increase their revenue raising potential. The Municipal Fiscal Powers and Functions Amendment Bill, which will be tabled shortly, will standardise the regulation of development charges. Development charges are the mechanism by which municipalities recover the capital costs of connecting new developments to infrastructure for water, roads, electricity and other services. Currently, these charges are frequently below cost, so municipalities effectively subsidise the provision of infrastructure to businesses and other developments, reducing their ability to subsidise infrastructure directly for lower-income residents.

The change could increase municipal revenues for capital spending by an estimated R20 billion a year. Several efforts are also under way to improve the effectiveness of transfers to rural municipalities. The possibility of using municipal infrastructure grant funds to buy waste management vehicles, which must be purchased through a contract facilitated by the National Treasury to minimise costs, is being investigated to expand services in rural areas. Funds may be reprioritised between water and sanitation grants to accelerate the completion of regional bulk water schemes.

The Department of Energy will complete an electrification master plan to guide the future allocation of funds between the Eskom, municipal, and non-grid components of the Integrated National Electrification Programme. The Department of Transport will establish a national database for all road traffic and condition data to inform the prioritisation and monitoring of road maintenance across all roads.

3.4 Addressing unfunded budgets in local government

A revised strategy to address municipal financial performance failures has been endorsed by the Budget Council and Budget Forum (the respective intergovernmental forums for provincial and local government finances). This strategy is based on an analysis of performance failures in governance, financial management, institutional capabilities and service delivery. As part of this strategy, municipalities must ensure that their budgets are adequately funded.

The number of councils adopting unfunded budgets, where realistically anticipated revenue is insufficient to cover planned spending sustainably, increased from 74 in 2016/17 to 126 in 2019/20. The National Treasury, alongside provincial treasuries, has provided extensive advice and support to ensure that municipalities plan affordable expenditure and collect all the revenue owed to them. All municipalities are able to table a funded budget. This is easier for transfer-dependent municipalities as they have more predictable revenue and can plan their spending accordingly.

The 126 municipalities with unfunded budgets were required to table special adjustments budgets to align their spending plans with projected revenues and ensure they have plans in place to pay their creditors (including Eskom and the water boards). Those municipalities that did not table funded adjustments budgets by 15 November 2019 had their December 2019 tranche of the local government equitable share withheld as the MFMA requires that a municipality must table a funded budget.

Municipalities who are finding it difficult to table funded and sustainable budgets should contact National or their respective provincial treasury for assistance to reprioritise their budgets.

3.5 Municipal Standard Chart of Accounts (*mSCOA*)

3.2.1 Release of Version 6.4 of the Chart

On an annual basis, the *mSCOA* chart is reviewed to address implementation challenges and correct chart related errors. Towards this end, Version 6.4 is released with this circular (see Annexure A). Version 6.4 of the chart will be effective from 2020/21 and must be used to compile the 2020/21 MTREF and is available on the link below:

<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx>

3.2.2 Budgeting, transacting and reporting in an *mSCOA* environment

The *mSCOA* Regulations¹ prescribes the uniform recording and classification of municipal budget and financial information at a transaction level. All municipalities and municipal entities had to comply with the Regulations by 01 July 2017.

This standard classification framework enforces the link between planning (IDP) and the budget through the project segment and enables annual reporting and performance management linked to strategic service delivery objectives.

By now, all municipalities should:

- Have acquired, upgraded and maintain the hardware, software and licences required to be and remain *mSCOA* compliant;

¹ The Minister of Finance promulgated the Municipal Regulations on a Standard Chart of Accounts in government gazette Notice No. 37577 on 22 April 2014.

- Budget, transact and report on all six (6) legislated *m*SCOA segments and directly on the core financial system and submit the required data strings directly from this system to the Local Government Portal;
- Lock down the budget adopted by Council on the core municipal financial system before submitting the budget (ORGB) data string to the local government portal;
- Closed the core financial system at month-end as required in terms of the MFMA before submitting the monthly data string to the local government portal; and
- Generate regulated Schedules (A, B, C) directly from the core municipal financial systems.

If your municipality has not achieved the above level of implementation as yet, then the implementation of *m*SCOA in your municipality should be accelerated. Towards this end:

- A road map must be provided to the National and respective provincial treasury to indicate how the municipality will become *m*SCOA compliant;
- The municipality's *m*SCOA Project Steering Committee (chaired by the Accounting Officer) must meet at least monthly (if not more often) to track the progress against the road map and take corrective action where required;
- The National Treasury (in the case of non-delegated municipalities) and respective provincial treasury (in the case of delegated municipalities) should be invited to the *m*SCOA Project Steering Committee meeting; and
- Progress against the road map should be presented at the Mid-Year Budget and Performance and Budget Benchmark engagements.

3.2.3 Changing of the Core Financial System

Municipalities are reminded to follow the required due diligence processes in terms of MFMA Circulars No. 80 and 93 and *m*SCOA Circulars No. 5 and 6 when they procure a core financial system.

In addition, if a municipality enters into a contract with a system vendor for the maintenance of the procured system that will impose financial obligations on the municipality beyond the three years covered in the MTREF budget, then the provisions of Section 33 of the MFMA should be adhered to.

Service level agreements (SLA) with system vendors must also be managed properly. Penalties, including the termination of the SLA in cases of persistent non-compliance, should be imposed if the agreed upon milestones are not met by the system vendor. Likewise, if a system vendor has delivered on the services agreed upon in the SLA, then the municipality should pay all money owing to the system vendor within 30 days of receiving the relevant invoice or statement, as per the requirements of Section 65(2)(e) of the MFMA.

The National Treasury will conduct independent audits on all municipal core financial systems in 2020 to determine to what extent these systems comply with the functionality requirements and 15 business processes required in terms of *m*SCOA. These results will also inform the new transversal tender for the procurement of municipal financial and internal control systems in 2021. Until these audits have been concluded and the results have been released, municipalities should exercise caution when changing their financial system to avoid purchasing a system that do not comply with the necessary *m*SCOA functionality requirements.

Municipalities are advised to use their internal audit function to ensure that the correct process was followed. Internal audit must ensure that the municipality has complied with the requirements of MFMA Circulars No. 80 and 93, *m*SCOA Circulars No. 5 and 6 and Section 33 of the MFMA when they procure a core financial system and/or enter into an SLA with a

system vendor. The reports on these matters of internal audit must be tabled to the audit committee and at municipal council for consideration.

3.2.4 Submission of Borrowing Monitoring and Investment Monitoring Data Strings

Chapter 3 of the *mSCOA* Regulations provides that the Minister of Finance may determine minimum business processes and system requirements through issuing a gazette. MFMA Circular No. 80 provided guidance on these requirements for all categories of municipality (A, B and C). The Request for Proposal (RFP) issued on 4 March 2016 for the appointment of service providers for an integrated financial management and internal control system for local government (RT25-2016 published in Tender Bulletin No. 2906), provided further guidance on the requirements applicable to a specific category of municipality.

It should be noted that National Treasury will expand the requirements applicable to categories B and C municipalities in 2020 to include business processes and system functionality relating to investment, borrowing or performance management. The expanded requirements will provide the basis for the new transversal contract for the appointment of service providers for an integrated financial management and internal control system for local government that might be issued in 2021, as well as the minimum business and system requirements that will be gazetted at a future date, as envisaged in the Regulation.

In the interim, categories B and C municipalities that have not procured investment, borrowing or performance management modules, will have to prepare and submit their quarterly Investment Monitoring and Borrowing Monitoring data strings to the Local Government Portal manually.

3.2.5 Cash Flow Reconciliation

The cash flow information presented on Table A7 of Budget Schedule A and Table B7 of Adjustments Budget Schedule B did not reconcile to the corresponding data strings for the past two financial years. One of the contributing factors to this was that there were errors in the linkages in the segment item: asset and liabilities on the Local Government Database. National Treasury has now corrected these linkages in the segment item: asset and liabilities.

It was further noticed that a number of municipalities do not use the movement accounts correctly in the *mSCOA* chart which distorts the figures reported in the cash flow tables. Guidance on the use of movement accounts is provided in **Annexure A**.

4. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. Even as demand for services rises, weak economic growth has put stress on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, water boards and other creditors. There is a need for municipalities to focus on collecting revenues owed to them, and eliminate wasteful and non-core spending. Municipal budgets will be scrutinised to ensure that municipalities adequately provide to service their debt obligations. Municipalities must ensure that expenditure is limited to the maximum revenue collected and not spend on money that they do not have.

Municipalities are reminded that the local government equitable share allocation is mainly to fund the costs of free basic services and to subsidise the administrative costs of the smaller and more rural municipalities. The increasing unemployment and growth in the number of

persons per household means that the revenue foregone in respect of free basic services will likely increase and it will become even more difficult to collect revenue. The household budget will be under pressure and trade-offs will be applied as it may be unaffordable to pay all household expenses with regularity.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore, municipalities are required to **justify all increases in excess of the projected inflation target for 2020/21** in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition, municipalities should include a detail of their revenue growth assumptions for the different service charges in the budget narrative.

4.1 Maximising the revenue generation of the municipal revenue base

Reference is made to MFMA Circular No. 93, item 3.1. The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their 2020/21 MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this has been identified as a fundamental reason for municipalities not attaining their desired collection rates.

It is therefore essential that municipalities pay attention to reconciling the valuation roll data to that of the billing system to ensure that revenue anticipated from property rates are accurate. Municipalities are encouraged to undertake this exercise as a routine practice. The list of exceptions derived from this reconciliation will provide an indication of where the municipality may be compromising its revenue generation in respect of property rates. A further test would be to reconcile this with the deeds office registry. In accordance with the MFMA Circular No. 93, municipalities are once more requested to submit the required information to the National Treasury by no later than 7 February 2020.

The above information must be submitted on a CD or USB to the National Treasury, for attention:

For couriered documents
Ms Linda Kruger National
Treasury
40 Church Square
Pretoria, 0002

For posted documents
Ms Linda Kruger
National Treasury
Private Bag X115
Pretoria, 0001

4.2 Setting cost reflective tariffs

Cost reflective tariff setting is a requirement of Section 74(2) of the Municipal Systems Act, 2000 (Act No.32 of 2000) which states that tariffs must “*reflect the costs reasonably associated with rendering the service*”. This is meant to assist municipalities to generate sufficient revenue to fully recover their costs, deliver services to customers sustainably and invest in infrastructure that promotes local economic development.

The starting point for sound tariff setting is a credible budget. A credible budget is one that ensures the funding of all approved items and is anchored in sound, timely and reliable information on expenditure and service delivery (FFC, 2011). Credible budgets are critical for local government to fulfil its mandate to sustainably provide services. **If the budget is not credible then tariffs will not result in financial sustainability even if they are set using a sound methodology.**

A credible expenditure budget reflects the costs necessary to provide a service efficiently and effectively:

- An *effective* budget is one that is adequate to deliver a service of the necessary quality on a sustainable basis.
- An *efficient* budget is one that delivers services at the lowest possible cost.

In many cases, municipal budgets have costs that are bloated in some areas (high governance and administration costs are one commonly cited example) but inadequate in other areas (inadequate allowance for maintenance is an example). This means that a budget may be both ineffective and inefficient. Before embarking on the tariff setting process, a municipality must assess its budget to determine its efficiency and effectiveness. Ideally, a budget should be zero-based, at least periodically. This would typically require an assessment of what infrastructure is in place and what is needed to operate and maintain this infrastructure.

There are several tools and methodologies to support municipalities in setting tariffs. The common observation is that these tools and methodologies are not aligned. This creates confusion on the approach to be applied. Research has further identified that many municipalities set tariffs through an incremental method and not a scientific method. As a result, many municipalities do not recover the cost of providing that service.

Against this background an exercise was undertaken to bring certainty when setting tariffs. A tool and guide has been developed by National Treasury for this purpose and caters for all categories of municipalities. It also assists those municipalities that lack credible data which is the corner stone for setting a proper tariff. The emphasis is on setting tariffs for the four trading services namely water, sanitation, electricity and solid waste. The methodology follows an approach to tariff setting consistent with existing methodologies developed by SALGA, the NERSA Cost of Supply Framework for electricity, and the DWS Norms and Standards for water services.

The National Treasury Municipal Costing Guide is available on the link below on the National Treasury website.

<http://mfma.treasury.gov.za/Guidelines/Documents/Forms/AllItems.aspx?RootFolder=%2fGuidelines%2fDocuments%2fMunicipal%20Costing%20Guide&FolderCTID=0x0120004720FD2D0551AE409361D6CB3E122A08>

Setting cost reflective tariffs is the start to improved budgeting and financial sustainability.

How will reducing Non-Revenue Water and Non-Revenue Electricity bring down the tariffs required?

Many municipalities have very high levels of Non-Revenue Water (NRW), and some also have high levels of Non-Revenue Electricity (NRE). NRW and NRE can be broken down into 'technical' and 'non-technical' losses*.

Technical losses are related to physical losses out of the system. In the case of water, this is

due to pipe bursts and leakages or due to overflows on storage tanks. In the case of electricity, these are due to resistive losses and other similar effects. The cost of real losses sits in the bulk portion of the bulk purchases cost or if a municipality is performing the bulk water function internally, a portion of the costs associated with bulk water treatment and supply. If a municipality reduces its real losses, it will lose less water and electricity from the system and the cost of purchasing water and electricity or treating bulk water will be reduced.

Non-technical losses refer to losses due to theft or to metering inaccuracies. In these cases, there is no physical loss of water or electricity; someone is using the water or electricity and simply not paying for it. Reducing non-technical losses will have no effect on the cost of supplying a service but it will have an effect on the volumes sold. Since the tariff is calculated as the revenue required divided by the volume sold, increasing the volume sold will reduce the tariff required.

Reducing technical losses will thus reduce the tariffs required because the cost of supplying the service will be reduced. Reducing non-technical losses will reduce the tariffs required because the volumes sold will be increased.

Note that the International Water Association (IWA) uses the term 'real losses' and not technical losses, and 'apparent losses' in place of 'non-technical losses'.

4.3 Bulk electricity tariffs

Final electricity bulk price increases for 2020/21 are uncertain at this stage. Although the National Energy Regulator of South Africa (NERSA) has approved a Multi-Year Price Determination (MYPD) for the period from 1 April 2019 to 31 March 2022, Eskom has submitted an urgent application to the courts to revise the bulk tariffs allowed under the MYPD. In their most recent MYPD decision, NERSA allowed for tariff increases of 9.41 per cent in 2019/20, 8.1 per cent in 2020/21 and 5.22 per cent in 2021/22 (for national financial years). However, Eskom disagrees with the way NERSA accounted for the R23 billion per year in fiscal support from government in determining Eskom's allowable revenue for this MYPD period. Eskom has requested that the court to allow revised tariff increases of between 16.6 and 16.72 per cent in 2020/21 and 2021/22. The application has been made on an urgent basis, and a decision could be handed down as soon as early in February 2020.

The difference between municipal and national financial years means that in 2020/21, bulk tariff increases for municipalities will be slightly lower than the figures cited above for increases applicable in the national financial year. NERSA has not yet published guidance on the exact tariffs for the 2020/21 municipal financial year. National Treasury's advice to municipalities is to prepare scenarios for electricity bulk price increases in 2020/21 of between about 7 per cent and 15 per cent (to account for the difference in financial years and the potential outcomes of the court case).

Municipalities should also note that if a court decision is made in February 2020 to allow a higher bulk electricity tariff increase, the decision is likely to be too late for National Treasury to make any changes to the equitable share allocations which will be tabled in the Division of Revenue Bill on 19 February 2020.

4.4 Levying of surcharges

Municipal Surcharges are regulated through the Municipal Fiscal Powers and Functions Act (MFPFA) and Local Government Municipal Systems Act (MSA). Section 8 of the MFPFA gives power to the Minister of Finance to prescribe compulsory national norms and standards for imposing "municipal surcharges". Municipal surcharges are defined as: "a charge in excess of the municipal base tariff that a municipality may impose on fees for a municipal service provided by or on behalf of a municipality, in terms of section 229(1)(a) of the Constitution;".

Section 75A of MSA empowers municipalities to “levy and recover fees, charges or tariffs in respect of any function or service of the municipality”. Municipalities must also adopt and implement a tariff policy on the levying of fees for municipal services in terms of section 74 of the Systems Act. The tariff policy should then guide the exercise of power given under section 75A. In section 74(2)(f) the Act provides that the tariff policy must reflect at least the following principles:

“provision may be made in appropriate circumstances for a surcharge on the tariff for a service;”.

Furthermore, Section 9 of the MFPFA requires a municipality to comply with processes in section 75A (2), (3) and (4) of the Systems Act in levying a surcharge.

In terms of the process, the Minister of Finance determines the norms and standards that municipalities must comply with in the exercise of their powers in terms of section 75A of the Systems Act. Approval for surcharges is done by the municipality in terms of section 75A of the Systems Act but subject to the norms and standards prescribed by the Minister of Finance in terms of the MFPFA.

The Minister of Finance has not yet prescribed the norms and standards (the power to prescribe is discretionary). The absence of norms and standards does not prevent municipalities from including surcharges in their tariffs as the power to impose a surcharge is given in the Municipal Systems Act. However, if a municipality decide to levy a surcharge, an approval is done by the municipal council in terms of section 75A of the Municipal Systems Act which gives power to municipalities to levy and recover fees, charges or tariffs in respect of any function or service of the municipality.

A surcharge is normally treated as part of the tariff. When a municipality determines a base tariff, it can include a surcharge (added as a separate variable). The municipal base tariff and a surcharge (if applicable) collectively becomes the tariff for a municipal service (such as electricity). The collective tariff must be approved by the municipal council and published for public comments in terms of section 75A of the Municipal Systems Act (MSA). It must also be subjected to the prescribed budget processes in terms of the MFMA.

In the case of electricity, NERSA only approves the base tariff. However, the final tariff that is published for public comments in terms of MSA and MFMA should include the surcharge if the municipality opted to levy it and is approved by the municipal council.

5. Funding choices and Budgeting issues

The Circular clearly outlines that, as a result of the economic landscape and weak tariff setting, municipalities are under pressure to generate revenue. The ability of customers to pay for services is declining and this means that less revenue will be collected. Therefore, municipalities must consider the following when compiling their 2020/21 MTREF budgets:

- improving the effectiveness of revenue management processes and procedures;
- paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as per the Cost Containment Regulations that was issued on 07 June 2019;
- ensuring value for money through the procurement process;
- the affordability of providing free basic services to all households; and
- curbing consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.

Accounting officers are reminded of their responsibility in terms of section 62(1)(a) of the MFMA to use the resources of the municipality effectively, efficiently and economically. Failure to do this will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings promulgated on 30 May 2014.

5.1 Employee related costs

The *Salary and Wage Collective Agreement* for the period 01 July 2018 to 30 June 2021 is still in operation, therefore municipalities need to budget for their employee related costs in line with the multi-year wage agreement, and also ensure the agreement is correctly implemented and applied as per clauses of the agreement.

5.2 Remuneration of councilors

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. Any overpayment to councillors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councillor(s) concerned.

5.3 Budgeting for water under inventory

GRAP 12, paragraph .07 defines inventory as follows:

“Inventories are assets:

- (a) in the form of materials or supplies to be consumed in the production process,*
- (b) in the form of materials or supplies to be consumed or distributed in the rendering of services,*
- (c) held for sale or distribution in the ordinary course of operations, or*
- (d) in the process of production for sale or distribution.”*

In terms of this definition water should be treated as inventory and should be budgeted and accounted for accordingly. Annexure B to MFMA Circular No. 70 (Municipal Budget Circular for the 2014/15 MTREF) included guidance on the treatment of non-revenue water and electricity. To date the National Treasury has allowed municipalities to either budget for bulk purchasing of water as a direct expense in the Statement of Financial Performance as an interim measure or to account for water under inventory.

Municipalities were cautioned in MFMA Circular No. 93 for the 2019/20 MTREF that the A1 Schedule for the 2020/21 MTREF will be amended in line with the prescripts of GRAP 12. The draft amendments to the A1 Schedule to cater for water under inventory in line with GRAP 12 is attached to the budget circular as **Annexure B**. The amendments are circulated for comments and will be implemented with effect from the 2021/22 MTREF.

In terms of the *mSCOA* definition **“Inventory consumed water”** water stock should be treated as follows:

Water stock must be accounted for as inventory. This will include water purchased and not yet sold at reporting date insofar as it is stored (controlled) in reservoirs and pipes at year end. Water stock also includes any water purification costs incurred for non-purchased water. Pre-purified, non-purchased water should not be capitalised as part of inventory. The cost of water purchased and not yet sold at reporting date comprises the purchase price, import duties, and other taxes (other than those subsequently recoverable by the municipalities from the taxing

authorities, such as VAT) and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Importantly, trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Substantial changes to the A1 schedule were required to accommodate this approach to account for water under inventory.

5.4 Budgeting for debt impairment in mSCOA

Municipalities are incorrectly using the line item for bad debts written-off under the Item Expenditure segment when budgeting for debt impairment. It should be highlighted that bad debts written-off is not the same as debt impairment. Debt impairment is the provision that the municipality makes for non-payment while bad debt written-off is the irrecoverable debts written off during the financial year as approved by Council per type of service. Therefore, municipalities are advised to use impairment loss under the Item Gains and Losses segment for debt impairment. This provides a breakdown for the different categories that can be impaired, for example, trade and other receivables from exchange transactions: water.

6. Conditional Grant Transfers to Municipalities

6.1 Non-compliance of in year monitoring

In terms of Section 74(1) of the Municipal Finance Management Act, 2003 (Act No. 56. of 2003) (MFMA), municipalities must submit to the transferring officers, National and Provincial treasuries documents and monthly grant reports as may be prescribed or required. Furthermore, section 12(2) of the Division of Revenue Act, 2019 (Act No. 16 of 2019) (DoRA) states that the municipality, as part of the report required in terms of section 71 of the MFMA, report on the matters referred to in subsection (4) and submit a copy of that report to the relevant provincial treasury, the National Treasury and the relevant Transferring Officer.

There are municipalities that have not been complying with the reporting requirements as stipulated above. Municipalities are reminded that non-submission of monthly reports translates to non-compliance with the MFMA and DoRA. The National Treasury and Transferring Officer will be implementing stringent measures to municipalities that do not comply with the prescripts. This includes, but is not limited to, the stopping and reallocation of conditional grants funding away from municipalities that are non-compliant. Municipalities are encouraged to comply with the reporting requirements in order to avoid withholding or stopping of an allocation. Reporting for conditional grants will also be extended in future to include the information from National Transferring Officers in the mSCOA format.

In terms of performance reporting on conditional grants, municipalities and Transferring Officers are urged to pay particular attention to the contents of money spent against conditional grants. Government is not realizing full value for money against the substantial investments it makes through grants. While financial reporting has become a routine matter on reporting, output/outcome based reporting has become important and it requires attention by all stakeholders. Workshops must be initiated across all government institutions to ensure value for money on conditional grants.

6.2 Stopping and reallocation in terms of the Division of Revenue Act

National Treasury as part of its in-year monitoring on conditional grants has through the Minister of Finance approved requests from the transferring officers to publish a gazette on stopping and reallocations between grants early in the beginning of the year, 2019/20. The gazette addresses shifting of allocations from underperforming local municipalities to their respective district municipalities, correction of errors against allocations made during the main budget and the conversion of allocations between schedules.

Integrated National Electrification Programme

The Department of Energy (DoE) is stopping and re-allocating funds from the Masilonyana Local Municipality (LM) to Lejweleputswa District Municipality (DM) under the Integrated National Electrification Programme (INEP 5B). The Masilonyana LM and the Lejweleputswa DM have entered into a Memorandum of Understanding wherein it was agreed that the district municipality will implement the electrification project on behalf of the local municipality with the assistance of the Municipal Infrastructure Support Agent (MISA) to verify the work done.

Conversion of allocations

According to Section 21(2)(a) of the 2019 DoRA, National Treasury may, after consultation with the relevant transferring officer, receiving officer and provincial treasury, convert any portion of an allocation listed in Part B of Schedule 5 to one listed in Part B of Schedule 6 if it is satisfied that the conversion shall prevent under-expenditure or improve the level of service delivery in respect of the allocation in question or convert any portion of an allocation listed in Part B of Schedule 6 to one listed in Part B of Schedule 5.

Neighbourhood Development Partnership Grant

The Neighbourhood Development Partnership Programme within the National Treasury is converting funds under the Neighbourhood Development Partnership Grant (NDPG) due to anticipated underspending. The 2019/20 NDPG 5B allocations for West Rand DM and Emfuleni LM will be converted from Part B of Schedule 5 to Part B of Schedule 6.

The Municipal Emergency Housing Grant

An amount of R149.1 million is allocated to Eastern Cape and KwaZulu-Natal municipalities after the Department of Human Settlements (DHS) declared a disaster in municipalities in these provinces. The allocation is done through the Municipal Emergency Housing Grant (MEHG) for the emergency relief to fund the temporary shelters following various disaster incidents namely fire and severe rain that caused damages and affected home owners. Funding for the MEHG remains unallocated in the Division of Revenue Act it only gets allocated upon disaster declaration.

Correction of errors in the Division of Revenue Act

According to Section 16(2) of the 2019 DoRA, for purposes of correcting an error or omission in an allocation or framework published, the National Treasury must on its initiative and after consultation with the relevant transferring officer by notice in the Gazette amend the affected allocation or framework.

The Magareng, Emthanjeni and Prince Albert local municipalities in the Northern Cape and Western Cape province respectively had their 2019/20 MIG erroneously allocated in the Section 16 gazette. The MIG allocation for the Prince Albert LM did not take into account the final sport allocation of R3.6 million which was allocated to the Magareng (R2 million) and the Emthanjeni (R1.6 million) local municipalities.

6.3 Invoice Verification against conditional grant expenditure/ Cost reimbursement

National Treasury has over the past two years introduced a system of monitoring all invoices that are paid by municipalities against the transferred conditional grants. The process involves a team of various stakeholders to be periodically placed in municipalities and facilitate verification on all issued invoices to check whether the work done is compliant to the conditional grant framework. This initiative was necessitated by the extent of unauthorized,

irregular and unrecognized expenditure that was being recorded by municipalities through the Auditor General's report. This process will also reduce and ultimately seek to eliminate the extent of misuse of conditional grant allocations.

A selected number of municipalities are earmarked on an annual basis to be supported through this process and transfers are only made to these municipalities once the team is satisfied after verification of the invoices has taken place. These processes assist against the transfer of funds for projects that are not ready for implementation, but at the same time recognizes municipalities that are spending well and incentivizes them for the good work.

Furthermore, in instances where a local municipality is unable to deliver the current year's projects, this process allows for the funds be rechanneled through their district municipalities as part of the District Development Model launched in November 2019. The District Development Model allows for government to allocate funding to the district for implementation on behalf of the local municipality until such time that capacity is built within the local municipality to implement projects on their own.

A process map for invoice verification/or cost reimbursement is attached as **Annexure C**.

7. Preparation of Municipal Budgets for 2020/21 MTREF

7.1 Schedule A1 version to be used for the 2020/21 MTREF

National Treasury has released Version 6.4 of the Schedule A1 (the Excel Formats) which is aligned to Version 6.4 of the *m*SCOA classification framework and must be used when compiling the 2020/21 MTREF budget. Refer to Annexure B for the changes to this version of the Schedule A1.

ALL municipalities **MUST** prepare their 2020/21 MTREF tabled and adopted budgets using the A1 schedule version 6.4.

It is imperative that all municipalities prepare their 2020/21 MTREF budgets **in their financial systems and that the Schedule A1 be produced directly from their financial system**. Vendors have demonstrated their budget modules to the National Treasury and provincial treasuries. All financial systems have this functionality to assist and prepare budgets and to generate the prescribed Schedule A1 directly from the financial system. Therefore, there is no reason why the 2020/21 MTREF budget must be done manually which has been found to create alignment problems.

Municipalities **must** start early enough to capture their tabled budget (and later the adopted budget) in the budget module provided and **must** ensure that they produce their Schedule A1 directly out of the budget module.

Ultimately the aim is to get to a point where all municipalities budget and transact directly in and report from their core financial system. This will result in one version of the **'truth'** where the financial performance reported to Council will not differ from the financial performance information submitted to and published by National and provincial treasuries. This will also reduce the reliance on consultants and system vendors to prepare municipal reports.

The National Treasury has indicated in MFMA Circular No. 93 that in future all A1 Schedules must be submitted in PDF format only. Some vendors have expressed concerns regarding the layout of some of the worksheets and the presentation thereof in PDF. Given the fact that the *m*SCOA classification framework makes it possible to generate the financial data required in the A1 schedule directly from the data strings and to promote the *m*SCOA approach for additional data needed and prescribed in the MBRR from sub-systems, the National Treasury will only accept a prescribed data string containing the supporting data, populated and

uploaded by each municipality (refer to the attachment to this MFMA Budget Circular No 98 on the website for the layout of the data string) from the **2020/21 MTREF**. The publication in the 2020/21 MTREF of non-financial data will be done using the supporting data uploaded from these data strings.

The National Treasury will no longer gather supporting data from the MBRR A1 Schedules, but will expect each municipality to submit the prescribed supporting data strings containing the required data using the LG Upload Portal.

The detail of supporting data strings is available as attachments to this circular.

Version 6.4 of Schedule A1 is available on the following link and is accompanied a comparison between mSCOA vs 6.3 and vs 6.4, highlighting changes made.

<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx>

The Municipal Budget and Reporting Regulations, formats and associated guides are available on National Treasury's website at:

7.2 Assistance with the compilation of budgets

If municipalities require advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape	Matjatji Mashoeshoe	012-315 5553	Matjatji.Mashoeshoe@treasury.gov.za
Buffalo City	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Free State	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
Gauteng	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
Johannesburg & Tshwane	Kevin Bell Willem	012-315 5725	Kevin.Bell@treasury.gov.za
	Voigt	012-315 5830	WillemCordes.Voigt@treasury.gov.za
KwaZulu-Natal	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
eThekweni	Johan Botha Una	012-315 5171	Johan.Botha@treasury.gov.za
	Rautenbach	012-315 5700	Una.Rautenbach@treasury.gov.za
	Abigail Maila		Abigail.Maila@treasury.gov.za
Limpopo	Willem Voigt	012-315 5830	WillemCordes.Voigt@treasury.gov.za
	Sifiso Mabaso	012-315 5952	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
	Musa Mnguni	012 315 5072	Musa.Mnguni@treasury.gov.za
Northern Cape	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
	Phumelele Gulukunqu	012 315 5539	Phumelele.Gulukunqu@treasury.gov.za
North West	Willem Voigt	012-315 5830	WillemCordes.Voigt@treasury.gov.za
	Makgabo Mabotja	012-315 5156	Makgabo.Mabotja@treasury.gov.za
Cape Town George	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
	Willem Voigt &	012-315 5830	WillemCordes.Voigt@treasury.gov.za
	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Technical issues with Excel formats	Elsabe Rossouw	012-315 5534	gdataqueries@treasury.gov.za

National and provincial treasuries, will undertake a completeness check on the data string submissions and will analyse the supporting data strings. Where municipalities have not provided complete supporting information, the municipality will be informed and will be required to make the necessary corrections and resubmit the data strings.

7.3 Verification process and period of 2020/21 MTREF budgets

As the *mSCOA* reporting requirements state that a budget must be locked into the financial system by latest 30 June before the start of the new municipal financial year, in the previous timeframes provided, there was no opportunity to evaluate the adopted budget to be funded and complete BEFORE the start of the municipal financial year. The traditional verification period from July to September can no longer be applied as the municipalities are already transacting against the adopted and locked budget. Amending an unfunded and incomplete budget in an adjusted budget is also not the solution as the National Treasury only considers an adjusted budget in the third and fourth quarter of the financial year for analysis and publication purposes.

The verification period of all municipal budget will therefore be brought forward to the period 31 May to 30 June. In this one-month period, the National and provincial treasuries will be required to evaluate all municipal budgets for completeness and for being fully funded. Any adjustment that need to be made must be done before the start of the municipal financial year on 1 July.

Municipal managers are reminded that the annual budget must be accompanied by a quality certificate and council resolution, as well as a budget locking certificate (in the case of adopted budgets) in accordance with the format specified in Regulation 31 of Schedule A of the Municipal Budget and Reporting Regulations.

The National Treasury would like to emphasise that where municipalities have not adhered to the Municipal Budget and Reporting Regulations, ***they will be required to go back to the municipal Council and table a complete budget document aligned to the requirements of the Municipal Budget and Reporting Regulations and the Municipal Standard Chart of Accounts Regulations. In addition, where municipalities have adopted an unfunded budget, they will be required to correct the budget to ensure they adopt and implement a funded budget.***

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year monitoring reports for both the parent municipality and its entity or entities. The following must be compiled:

- An annual budget, adjustments budget and monthly financial reports for the parent municipality in the relevant formats;
- An annual budget, adjustments budget and monthly financial reports for the entity in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial reports for the parent municipality and all its municipal entities in the relevant formats.

The budget and data strings that the municipality submits to National Treasury must be a consolidated budget for the municipality (including entities). The budget of each entity must be submitted on the D schedule.

Annually during the budget verification process, it is noted that municipalities have challenges to align the audited years, which results in amendments to the Schedule A. Municipalities

must ensure that the audited figures and adjusted budget figures captured on the Schedule A aligns to the annual financial statements and Schedule B respectively.

8. Budget process and submissions for the 2020/21 MTREF

8.1 Submitting budget documentation and schedules for 2020/21 MTREF

To facilitate oversight of compliance with the Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that, **immediately** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in electronic formats. If the annual budget is tabled to council on **31 March 2020**, the final date of submission of the electronic budget documents and corresponding *m*SCOA data strings is **Wednesday, 01 April 2020**.

Section 24(3) of the MFMA, read together with regulation 20(1) of the Municipal Budget and Reporting Regulations, requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury **within ten working days** after the council has approved the annual budget. E.g. if the council approves the annual budget on **29 May 2020**, given the new timeframe for the evaluation of the municipal budgets, the adopted budget data strings and documentation must be submitted by the latest **Monday, 1 June 2020**.

Municipalities are no longer expected to submit hard copies of budget related documents to National Treasury from the 2020/21 MTREF.

8.2 Expected submissions for 2020/21 MTREF

- The budget documentation as set out in the Municipal Budget and Reporting Regulations (MBRR). The budget document must include the main Tables (A1 - A10) and the supporting tables in the A1 schedule must be submitted in the prescribed *m*SCOA data string in the format indicated in an attachment as part of this circular.
- the draft and final service delivery and budget implementation plan in electronic PDF format;
- the draft and final integrated development plan;
- the council resolution for the tabled and adopted budgets;
- signed Quality Certificate as prescribed in the Municipal Budget and Reporting Regulations for the tabled and adopted budgets;
- schedules D specific for the entities; and
- A budget locking certificate immediately at the start of the new municipal financial year on 1 July.

Budget related documents and schedules must be uploaded by approved registered users using the LG Upload Portal at: <https://lguploadportal.treasury.gov.za/>.

Please note that the LG Upload Portal does not have the same size restrictions previously encountered but requires all documents to:

1. be in PDF format only; and
2. each PDF file must NOT contain multiple document e.g. council resolution and quality certificate within the budget document. Each document type must be identified and uploaded separately.

Any problems experienced in this regard can be addressed with Elsabe Rossouw at Elsabe.Rossouw@treasury.gov.za.

In addition to the above-mentioned budget documentation, metropolitan municipalities must submit the draft Built Environment Performance Plan (BEPP) tabled in council by 31 March 2020 to Yasmin.coovadia@treasury.gov.za. If the BEPP documents are too large to be sent via email (exceeds 4MB) please submit to yasmin.coovadia@gmail.com or send to Yasmin Coovadia via Dropbox; any problems experienced in this regard can be addressed with Yasmin.Coovadia@treasury.gov.za. Hard copies of the BEPP may be sent to Yasmin Coovadia, National Treasury, 3rd floor 40 Church Square, Pretoria, 0002 or Private Bag X115, Pretoria, 0001. (Yasmin to confirm if she still needs hard copies.)

8.3 Retirement of the Budget reform returns (Appendix B)

Municipalities must conclude all reporting for 2018/19 up to restated audit outcomes on the Appendix B (old electronic returns) to lgdatabase@treasury.gov.za before we can retire the returns.

Ensure that each municipality also submit the pre-audit and audited data strings in the *m*SCOA classification framework as data strings and that the figures are aligned to the Appendix B returns. Pre-audit and audited outcomes will only be submitted in the *m*SCOA data strings prescribed from 2019/20 onwards.

8.4 Publications from the *m*SCOA classification framework

The 2019 MTREF and the preliminary Quarter 1 Section 71 results for the 2019/20 financial year that has recently been published, have exposed that the credibility of the *m*SCOA data strings is a concern. At the core of the problem is:

- The incorrect use of the *m*SCOA and municipal accounting practices by municipalities;
- A large number of municipalities are not budgeting, transacting and reporting directly in/from their core financial systems. Instead they prepare their budgets and reports on excel spreadsheet and then import the excel spreadsheets into the system. Often this manipulation of data leads to unauthorised, irregular, fruitful and wasteful (UIFW) expenditure and fraud and corruption as the controls that are built into the core financial systems are not triggered and transactions are processed that should not be processed; and
- Municipalities are not locking their adopted budgets and their financial systems at month-end to ensure prudent financial management. To enforce municipalities to lock their budgets and close their financial system at month-end in 2020/21, the Local Government Database and Reporting System will lock all submission periods within the reporting period at the end of each quarter. The published period will NOT be opened again to ensure consistency between publications. System vendors were also requested to build this functionality into their municipal financial systems.

To improve the credibility of these data string, National and provincial treasuries are analysing the accuracy of the data strings and the use of the six regulated segments. The National Treasury has developed tools to analyse the segment/chart use and trained budget analysts from both National and provincial treasuries on the use thereof.

The data strings are also verified against the Council adopted budget (A1 Schedule), adjustments budget (B Schedule) and monthly performance against the budget (C Schedule) to ensure that these figures reconcile.

Quality improving focus areas for the 2020/21 MTREF:

- Pay specific attention to the funding of the capital budget and expenditure. The total capital expenditure must balance with the total funding used. Currently the expenditure is much higher than the funding reported.
- Opening balances, especially for capital projects, will always be DEFAULT projects as it will remain a system activity governed by council decision. In the current publications, capital expenditure is highly overstated due to incorrect use of opening balances for capital projects and presents a very inflated view of the actual capital expenditure.
- The cash flow data supplied by municipalities is not credible. This is partly due to the different ways in which the vendors treat actual cash collected but also is a result of the National Treasury not giving clear guidance on the procedures and processes to follow to get credible cash flow figures. In this budget circular signals have been given as to the treatments the National Treasury wants all municipalities to follow to get credible figures from the *m*SCOA data strings. The National Treasury will implement these guidelines in March 2020 in time for the receipt of the 2020/21 MTREF budget data strings. It will affect the third and fourth quarter Section 71 publications of 2019/20 as well.
- It is imperative that vendors assist municipalities to populate SA30 / SC30 when submitting cash flow figures. The detail that is required to ring fence functions and to determine actual cash collections are in the mentioned MBRR supporting worksheets and not in A7 / C7 which is a summarised version. When transferring payments made from sub-system to the general ledger, please ensure that these transfers are done using the prescribed 6 segments at the detailed level prescribed in SA30 / SC30.
- Municipalities are not using the FUND, REGION and COSTING segment correctly. In many instances these segments are simply defaulted and hence the true power of the *m*SCOA classification framework cannot be demonstrated.
- The National Treasury is currently developing Municipal Money Phase II. The first step is to interactively show all capital projects municipalities have budgeted for and are reporting on monthly to all citizens. It has become apparent that many municipalities are not using the correct GPS coordinates when reporting on the capital projects. Many are simply using the GPS coordinates of the municipal building or using 0 coordinates. Special attention must be given to the correct location and the proper description of projects as citizens will now be able to drill down and follow what is happening in their own wards.

8.5 Publication of budgets on municipal websites

In terms of section 75 of the MFMA, all municipalities are required to publish their tabled budgets, adopted budgets, annual reports (containing audited annual financial statements) and other relevant information on the municipality's website. This will aid in promoting public accountability and good governance.

All relevant documents mentioned in this circular are available on the National Treasury website, <http://mfma.treasury.gov.za/Pages/Default.aspx>. Municipalities are encouraged to visit it regularly as documents are regularly added / updated on the website.

Link to all previous circulars

<K:\CD - LGBA\Municipalities\20. Budget Regulations\04. Budget Circulars\2020 MTREF>

Contact



national treasury

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REPUBLIC OF SOUTH AFRICA

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JH Hattingh
Chief Director: Local Government Budget Analysis
06 December 2019

Annexure A – Cash Flow Reconciliation

The following movement accounts should only be used for cash inflow and outflow transactions:

Item Assets:

- *Collections*: Collections received pertaining to a respective account (example is collection on receivables from non-exchange (property rates) and non-exchange (service charges electricity) transactions).
- *Acquisitions*: Purchases of assets and other expenditure.
- *Disposal*: Sale of non-current assets (example land).
- *Earned*: Interest earned on a bank account.

Item Liabilities:

- *Receipts*: Current year receipts on transfer and subsidies.
- *Advances*: Advances taken for the year, example for borrowing.
- *Repayments*: Repayments for the year, example for borrowing.
- *Payments*: Payments made; example defined benefits.
- *Withdrawals*: Payments made, examples are for bulk purchases for electricity and bulk purchases water.

Funding segment

Most municipalities are transacting incorrectly on the funding segment and accordingly overstate the cash balances available per function (example energy sources (electricity), water management (water treatment) etc. for the payment of services.

The “Funding” segment in the financial system identifies the various sources of funding available to municipalities for financing expenditure relating to the operation of the municipality for both capital and operational expenditure.

The intent with the Funding segment is to assist municipalities in the management of available funds to use in running the municipality (working capital), capital expanding, maintenance programmes and operational projects intended for the benefit of the community. **The underlying principle in recording of transactions in this segment is therefore cash based or funds available to utilise.**

The key question in finding the appropriate classification code for this segment is: “against which source of funding is the payment allocated and against which source is revenue received?”

The primary sources of funding for a municipality are property rates, service charges, equitable share and own revenue. Further to these sources of revenue a municipality also spend funds transferred from other sectors within government, namely transfers and subsidies such as appropriated by national and provincial government in terms of the Division of Revenue Act (DORA). A further source of funds available for utilisation is “cash backed reserves” as directed by the municipality’s financial policy on the utilisation of the reserves.

The projects as defined within the Project segment together with the “funding” and “Item” segments provide information on how funds have been spent and on what. The Funding segment’s structure distinguishes between “Operational, Capital and Non-Funding Transactions”.

Operational: Operational revenue provides for funds from all other sources of income such as taxes, service charges, commercial services, transfer and subsidies, etc.

Capital: Funds to finance capital projects.

Non-funding Transactions: This is items that does not relate to a cash transaction. Examples of non-funding transactions are:

- Billing for services on consumer accounts issued;
- Recording of invoices;
- Depreciation; and
- Debt provision.

Example 1: A municipality has issued a consumer account (billing) to a client for electricity consumption amounting to R100 in Ward X.

The transaction will be recorded as follows:

Segment	Dt	Cr
Project	Default	Default
Function	Function: Energy Sources: Non-core Function: Electricity	Function: Energy Sources: Non-core Function: Electricity
Item	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Monthly Billing	Revenue: Exchange Revenue: Service Charges: Electricity: Electricity Sales :Domestic Low: Conventional
Funding	Non funding transaction	Non funding transaction
Region	Ward X	Ward X
Costing	Default	Default
Amount	100	100

The monthly billing of a consumer does not relate to any cash inflow, the funding segment therefore a non-funding transaction.

Example 2: The client pays the municipality R100 on the consumer account received.

The transaction will be recorded as follows:

Segment	Dt	Cr
Project	Default	Default
Function	Function: Energy Sources: Non-core Function: Electricity	Function: Energy Sources: Non-core Function: Electricity
Item	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Deposits	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Collections
Funding	Fund:Operational:Revenue:General Revenue: Service Charges: Electricity	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Ward X	Ward X
Costing	Default	Default
Amount	100	100

The payment received will be recorded as a cash inflow against revenue service charges electricity for the function electricity. The electricity function will now have R100 funding (cash inflow) available for the payment of expenditure.

Example 3: The municipality receives an invoice from Eskom for the usage of electricity amounting to R50.

The transaction will be recorded as follows:

Segment	Dt	Cr
Project	Municipal Running Cost	Municipal Running Cost
Function	Electricity	Electricity
Item	Expenditure: Bulk Purchases: Electricity: ESKOM	Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Electricity Bulk Purchase: Deposits
Funding	Non funding transaction	Non funding transaction
Region	Mun	Mun
Costing	Default	Default
Amount	R50	R50

The recording of an invoice in the financial system does not relate to any cash outflow, no payment has been made, the funding segment therefore is a non-funding transaction.

Example 4: The municipality pay Eskom R50 on the invoice received.

The transaction will be recorded as follows:

Segment	Dt	Cr
Project	Default	Default
Function	Electricity	Electricity
Item	Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Electricity Bulk Purchase: Withdrawals	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description):Withdrawals
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Mun	Mun
Costing	Default	Default
Amount	R50	R50

The payment made will be recorded as a cash outflow against revenue service charges electricity for the function electricity. The electricity function will now have a balance of R50 cash available (funding) which is the difference between the cash received of R100 from a consumer on electricity consumption (example 2) and the payment of R50 to Eskom for the usage of electricity (example 4).

The electricity function will have a net balance of R50 positive cash (funding) which reconcile to the net cash in the bank account of R50.

Annexure B – Amendments to the A1 Schedule to cater for water under inventory in line with GRAP 12

Substantial changes to the A1 schedule were required to accommodate the approach to account for water under inventory. The draft adjustment to the A1 Schedule (Excel version) is attached to this published circular with amendments highlighted in light orange. The Excel document has been populated for one financial year to demonstrate the accounting treatment of the proposed changes. These changes are not for implementation during the 2020/21 MTREF but are included in the circular for comments prior to final implementation during the 2021/22 MTREF. The main changes were to Table SA3 that required further changes to some other worksheets as indicated below.

Table SA3

Changes to this table included the addition of water and other inventory items to enable municipalities to fully budget for the acquisition, issuing, adjustment, write-off, transfer and sale of all inventories. This will provide a detail reconciliation for the disclosure of inventory on the Statement of Financial Position (Table A6). This section has been aligned to the mSCOA chart - Item Assets – Inventory and, as it relates to water inventory, also to the IWA Modified Water Balance utilised by the DWS. The layout of the section includes the following inventory items:

- Water (separate item)
- Agricultural, Consumables, Finished Goods, Materials and Supplies (consolidated into one item)
- Work-in-progress (separate item)
- Housing Stock (separate item)
- Land (separate item)

It is important to note that, as a result of these changes, bulk purchasing of water will be processed as a cash transaction in the Statement of Financial Position – Acquisition of Inventory (Table A6). Acquisitions of water stock should include the following:

- Bulk purchases - Supply from bulk or other water service providers recognised by the amount paid.
- Water purified - Potable supply from Water Treatment Works. Value is to be determined by calculating primary and secondary cost components.
- Natural sources - Supply from boreholes, springs, fountain if not supplied through the water treatment plant. Value is to be determined by calculating primary and secondary cost components.

Currently the Statement of Financial Performance (Table A4) reflected the bulk purchasing of water as a cash expense. In terms of the change to treating water as inventory the cost of sales (water inventory consumed) is disclosed as a separate non-cash expense included under “Other materials & inventory consumed” on Table A4.

The cost of water losses and any write-down of inventory are expensed as a non-cash entry under “Expenditure by type Losses” on Table A4. When there is clear evidence of an increase in net realisable value of inventory adjustments are accounted for as a non-cash entry under “Revenue by source Gains” on Table A4.

Water Inventory consumed (cost of sales) included under “Other materials & Inventory Consumed” on Table A4 should include the following:

Billed Authorised Consumption

Billed Metered Consumption

- Free Basic Water
- Subsidised Water
- Revenue Water

Billed Unmetered Consumption

- Free Basic Water
- Subsidised Water
- Revenue Water

Un-Billed Authorised Consumption

- Unbilled Metered Consumption
- Unbilled Unmetered Consumption

The above-mentioned amendments to Table SA3 also necessitated adjustments to the following other tables as indicated below:

Table SA1

In order to adequately account for inventory, including water inventory, the following detail calculations were added on Table SA1:

Addition of Other materials & Inventory Consumed

- Inventory Consumed - Water
- Inventory Consumed - Other material
- Other materials

Total Other Material & Inventory Consumed

Bulk purchases: Electricity & Waste Water (previously Electricity & Water - now water changed to "Waste Water")

The change of terminology

- Electricity Bulk Purchases (no change)
- Waste Water Bulk Purchases (previously Water Bulk Purchases now water changed to "Waste Water")

Table A4

The change of terminology:

- Bulk purchases now **"Bulk purchases: Electricity & Waste Water"**
- Gains on disposal of PPE now **"Gains"**
- Loss on disposal of PPE now **"Losses"**
- Other Material changed to **"Other materials & inventory consumed"**

Table SA 30

The changes of terminology to cash payments by type:

- Bulk purchases - Electricity now changed to **"Bulk purchases - Electricity & Waste Water"**
- Bulk purchases - Water & Sewer" now changes to **"Acquisition Inventory - Water & other inventory"**

Annexure C – Process map for invoice verification/cost reimbursement

ACTIVITY	INSTITUTION	INDIVIDUAL
Step 1: Municipality receives invoices from the contractors and consultants	Municipality	Technical Director and PMU Manager
Step 2: Check completeness and all documents included and update the verification list/implementation plan	Municipality	PMU Manager
Step 3: Invoices and verification list submitted to Province (PT, Transport, CoGTA province, DWS, Energy, human settlement and MISA)	Municipality	Technical Director
Step 4: Province coordinates the site verification meeting/s with all stakeholders (Prov CoGTA and Treasury, MISA and municipality)	Province	Provincial selected lead official
Step 5: Municipality arranges with consultants and contractors to be on site and prepares the necessary progress report	Municipality	Technical Director and PMU
Steps 6: Site meeting/s held	(Prov CoGTA/Treasury, MISA and municipality)	Verification Team
Step 7: Transferring National Officer/MISA prepares the verification report and shares with all the verification team members. It recommends the amount to be released to municipality or recommends a refer back	Transferring National Officer/MISA	Transferring National Officer/MISA
Step 8: Verification team (coordinated by Province) to consider the recommendations by Transferring National Officer/MISA and submit recommendations to NT/Sector department	Province	Transferring National Officer/MISA with Provincial Treasury

ACTIVITY	INSTITUTION	INDIVIDUAL
<p>Step 9: Transferring National Office reviews all documentation submitted and: (i) either refer back to Province for corrections; or (ii) submits report to NT</p>	Transferring National Officer	Director: Grant Administration in national department
<p>Step 10: NT evaluates and provides go ahead to Transferring National Officer and confirms amount for the transfer</p>	National Treasury	Municipal Grant Monitoring and Analysis (MGMA) Unit within NT
<p>Step 11: Transferring National Officer prepares sundry payment advise for Finance and confirm the date with NT</p>	Transferring National Officer	Transferring National Officer
<p>Step 12: Finance confirms transfer details with National Treasury (date amount) and loads transfer NT loads transfers on Safety Web</p>	Finance	Finance Grant Administration Unit with NT
<p>Step 13: Transferring National Officer confirms transfer with receiving officer</p>	Finance	FINANCE
<p>Step 14: Municipality effects the payments to contractors and submit Proof of Payment (POP)'s Transferring National Officer</p>	Municipality	Technical Director / CFO
<p>Step 15: Next transfer of funds may be effected once the previous POP has been verified</p>	National Treasury and Transferring National Officer	National Treasury and Transferring National Officer

ANNEXURE O
MFMA NATIONAL TREASURY
CIRCULAR NO 99



Municipal Budget Circular for the 2020/21 MTREF

CONTENTS

1. THE SOUTH AFRICAN ECONOMY AND INFLATION TARGETS	2
2. KEY FOCUS AREAS FOR THE 2020/21 MUNICIPAL BUDGET PROCESS	2
2.1 LOCAL GOVERNMENT GRANTS AND MUNICIPAL REVENUE STRENGTH	3
2.2 RESPONSE TO THE FINANCE AND FISCAL COMMISSION (FFC)'S RECOMMENDATIONS.....	4
2.3 BUILDING CAPABILITY FOR INFRASTRUCTURE DELIVERY	5
2.4 DEVELOPMENT CHARGES REFORMS.....	6
3. ESKOM BULK TARIFF INCREASES	6
4. BUDGETING ISSUES	6
4.1 THE WAGE BILL	6
4.2 PENSION FUND AND SARS CONTRIBUTIONS	7
4.3 WATER.....	7
4.4 ATTRACTING ECONOMIC INVESTMENT.....	7
4.5 BORROWING FOR MULTI-YEAR CAPITAL PROJECTS	8
4.6 REFINANCING OF EXISTING LOANS.....	9
5. CONDITIONAL GRANT TRANSFERS TO MUNICIPALITIES	9
5.1 CRITERIA FOR THE ROLLOVER OF CONDITIONAL GRANT FUNDS.....	10
5.2 UNSPENT CONDITIONAL GRANT FUNDS FOR 2019/20	11
6. THE MUNICIPAL BUDGET AND REPORTING REGULATIONS	12
6.1 ASSISTANCE WITH THE COMPILATION OF BUDGETS.....	12
7. MUNICIPAL CHART OF ACCOUNTS (MSCOA)	13
7.1 RELEASE OF VERSION 6.4.1 OF THE CHART	13
7.2 USE OF FUNDING SEGMENT TO POPULATE THE CASH FLOW TABLES.....	13
7.3 CAPITAL PROJECTS USING INTERNALLY GENERATED FUNDING	14
8. BUDGET PROCESS AND SUBMISSIONS FOR THE 2020/21 MTREF	14
8.1 SUBMITTING BUDGET DOCUMENTATION AND SCHEDULES FOR 2020/21 MTREF	14
8.2 DOCUMENT UPLOADS TO THE LOCAL GOVERNMENT UPLOAD PORTAL.....	14

Introduction

This budget circular is a follow-up to MFMA Circular No. 98 that was issued on 06 December 2019. It aims to provide further guidance to municipalities with the preparation of their 2020/21 Medium Term Revenue and Expenditure Framework (MTREF) budgets and should be read together with the budget circulars that have been issued previously.

The grant allocations as per the 2020 Budget Review and the 2020 Division of Revenue Bill are also key focus areas in this circular.

1. The South African economy and inflation targets

Over the past year, economic growth has been weaker than forecasted and is only expected to reach 0.9 per cent in 2020. The 2020 budget highlights the difficult economic and fiscal choices confronting government over the next several years.

It is projected that revenue to be collected for the 2020/21 financial year will amount to R1.5 trillion which equates to 29.2 per cent of the Gross Domestic Product (GDP), whereas expenditure is projected to be at R1.95 trillion which is equivalent to 36 per cent of GDP. This means that there is a consolidated budget deficit of R370.5 billion or 6.8 per cent of GDP in 2020/21. The gross national debts by the end of 2020/21 is projected to be R3.56 trillion which is 65.6 per cent of GDP.

It is evident that determined action is required to reverse the deterioration of the public finances by narrowing the budget deficit, containing debt and growing the economy faster and in a sustainable manner. Municipalities therefore need to exercise caution when they prepare their 2020/21 MTREF budgets to ensure synergy with national economic and fiscal prudence.

The declining economic growth which might be impacted on further by the Corona virus pandemic and international companies closing down as a result, the deteriorating state of the finances for state-owned entities, continued high unemployment and water and electricity shortages will put pressure on the ability of municipalities to raise revenue. Municipalities are therefore advised to follow a conservative approach when projecting their revenue and to eliminate any waste and unnecessary expenditure. Importantly, municipalities should ensure that they adopt realistic and funded 2020/21 MTREF budgets, collect the debts owed to them and pay their creditors within 30 days of receipt of invoice.

The following macro-economic forecasts must be considered when preparing the 2020/21 MTREF municipal budgets.

Table 1 Macroeconomic performance and projections

	2019	2020	2021	2022
Percentage change	Estimate		Forecast	
Real GDP growth	0.3	0.9	1.3	1.6
CPI inflation	4.1	4.5	4.6	4.6

Source: 2020 Budget Review.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

2. Key focus areas for the 2020/21 municipal budget process

After budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.2 per cent of the nationally raised funds are allocated to national government, 43 per cent to provinces and 8.8 per cent to local government. This is a reduction from the 9.1 per cent allocated to local government when compared to the 2019/20 financial year.

Local government continue to receive the least share of the division of nationally raised revenue because it has extensive powers to raise its own revenue. On aggregate; the local government sphere raises about 70 per cent of its own revenue. However, municipalities should make every effort to improve the collection rates through improved billing and collection practices. In the present current economic climate, municipalities cannot afford to provide municipal services without recovering the cost of providing these services.

Spending outcomes for 2018/19 varied across the 257 municipalities. Many municipalities adopted unrealistic spending plans. As a result, 211 municipalities underspent their operating budgets and 214 municipalities underspent their capital budgets. This was a slight improvement from the previous year.

Of the R33.6 billion in conditional grants transferred to municipalities in 2018/19, R27.2 billion (80.1 per cent) was spent, compared to 93 per cent spent in 2017/18. This decline was partly due to underspending on drought relief funds allocated in the middle of the financial year.

2.1 Local government grants and municipal revenue strength

The conditional grants to municipalities have been reduced and most conditional grants have been reduced as part of efforts to limit growth in government expenditure and ensure that public debt is sustainable. To manage the effect on services, these reductions take into account:

- Past spending and performance;
- Whether the conditional grant funds salaries, and other related costs; and
- Whether there has been significant real growth in allocations in recent years.

Where possible, the National Treasury has reduced transfers that are more likely to go unspent or to be spent less effectively. Accordingly, grants that have persistently underperformed have been reduced by larger amounts. The largest proportional reduction to local government grants in 2020/21 has been made in respect of the public transport network grant, because only six of the 13 cities receiving the grant have successfully launched public transport systems. The three cities that have shown the least progress, namely Buffalo City, Msunduzi and Mbombela have been suspended from the grant and will not receive allocations in the 2020 MTEF period.

Legislation governing local planning and budgeting emphasises community participation in decision-making. The partnership between municipalities and communities relies on households and businesses recognising the value of, and paying for, municipal services. While government subsidises municipal services for low-income households, these services are only sustainable if people who can afford them and use larger quantities thereof pay their bills. Therefore, the sustainability of municipalities depends on how they collect and spend their own revenues.

Municipalities are reminded that all allocations included in their budgets must correspond to the allocations listed in the Division of Revenue Bill. All the budget documentation can be accessed from the National Treasury website by clicking on the link below:

<http://www.treasury.gov.za/documents/national%20budget/2020/default.aspx>

2.1. Changes to local government allocations

2.1.1. Unconditional grants

Over the next three years, above-inflation growth in allocations to the local government equitable share continues, while growth in conditional grants is slower as a result of the reductions announced in the 2020 Budget. The local government Equitable Share continues to receive above inflation increases because it allows municipalities to offer free basic services to indigent residents who cannot afford to pay for services. The total direct allocations to local government grow at an annual average rate of 6.6 per cent over the MTEF period.

2.1.2. Conditional grants

The 2020 Division of Revenue Bill has technical adjustments which were effected through the shifting of funds between different municipal allocations. However, it should be noted that the technical adjustments do not change the total amount allocated to local government. These changes to the grants include the shifting of:

- R400 million in 2020/21 from the municipal infrastructure grant, the water services infrastructure grants and the urban settlements development grant to the indirect regional bulk infrastructure grant to assist in funding the rehabilitation of wastewater treatment infrastructure in the Vaal River System;
- R160 million from the direct *neighbourhood development partnership grant* to the indirect component of the grant over the MTEF period;
- R3 billion that had been indicatively allocated to the new *informal settlement upgrading partnership grant* in 2020/21. This amount is shifted back to the *urban settlements development grant* following the decision to extend the informal settlements window within this grant for another year; and
- R166 million over the 2020 MTEF period from the *municipal infrastructure grant* to the *integrated urban development grant* for the entry of one additional municipality into the grant.

In addition to funds shifted from other local government grants, R250 million has been added to the indirect *regional bulk infrastructure grant* in 2020/21 to assist with addressing pollution in the Vaal River System. These funds were reprioritised from allocations in other spheres of government.

2.2 Response to the Finance and Fiscal Commission (FFC)'s recommendations

The Finance and Fiscal Commission Act, 1997 (Act No. No 99) requires that the FFC tables their recommendations on financial and fiscal matters at least 10 months before the start of each financial year. The FFC tabled its *Submission for the Division of Revenue 2020/21* to Parliament in May 2019. This year's theme is "reprioritising local government finances". The 2020/21 recommendations cover the following areas: local government financing framework, municipal government capacity building, local government sustainability, infrastructure management and efficiency, investment and developmental challenges in the local government sector.

2.2.1 Supplementary revenue sources for local government

The FFC recommended that the Minister of Finance should take steps (including piloting) to add supplementary revenue sources to the list of allowable taxes for different types of municipalities in a differentiated manner. National government supports this recommendation that additional revenue sources to municipalities should be fully explored. In response, various reforms have been prioritised to supplement the revenue sources of municipalities.

These include: amending the Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007) to ensure development charges are uniformly regulated and updating the municipal borrowing policy framework to clarify the funding instruments that municipalities are allowed to use to leverage their borrowing including clarifying the role of development finance institutions in this regard.

The Municipal Fiscal Powers and Functions Act already allows municipalities to apply to the Minister of Finance to levy additional taxes such as the tourism levies and fire levies recommended by the FFC. This Act also allows the Minister of Finance to introduce new municipal taxes on his own initiative. Applications from municipalities to implement new revenue sources provide a good mechanism for piloting new revenue sources like these as it ensures that the pilot municipalities are ready and willing to implement the new taxes. To be considered by the Minister of Finance, an application to introduce additional taxes must include the following:

- What the revenue from the proposed new municipal tax will be used for;
- Its compliance with section 229(2)(a) of the Constitution, which requires that municipal taxes do not prejudice national economic policy;
- The tax base, the desired tax rate, people liable for the tax and tax relief measures;
- The tax collecting authority; and
- Particulars of any consultations conducted, including consultations with a provincial government and organised local government and other municipalities where applicable, and the outcomes of these consultations.

2.2.2 Local government infrastructure management and efficiency

Government continues to provide responses to the FFC's recommendations on an annual basis. These annual recommendations by the FFC are required in terms of section 9 of the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997). The FFC recommended that the Ministers of Cooperative Governance and Traditional Affairs (CoGTA) and Finance should jointly strengthen the linkage between technical project planning processes and budgeting and foster smooth intergovernmental infrastructure coordination as part of the ongoing local government infrastructure grant reforms.

Government acknowledges the need to consolidate municipal infrastructure grants and to strengthen the linkages between the technical project planning process and the budgeting. The review of local government infrastructure grants has identified consolidation and rationalisation in the number of grants received by each municipality as a key area for reforming the grant system. As the various grants in the system serve different purposes, the consolidation and rationalisation process requires extensive consultation before grants can be merged. As a result, there is no definitive dates set on when the consolidation of grants will take place. However, government is committed to achieving the vision of a differentiated grant system.

2.3 Building capability for infrastructure delivery

The National Treasury continues to expand the tools available for provinces and municipalities to improve spending. Weaknesses in preparing and authorising projects and programmes are one of the main causes of poor performance on infrastructure transfers. The Infrastructure Delivery Management System (IDMS) has assisted provinces to build infrastructure units with qualified staff and institutionalise best practices. In the 2020/21 MTEF, cities will receive grant funding through the *integrated city development grant* to institutionalise an effective system for preparing programmes and projects. Metros will only be eligible for this funding if they:

- Have not had an adverse or disclaimed audit opinion in the last two financial years;

- Have formally adopted the Cities' Infrastructure Delivery and Management System (CIDMS) guidelines;
- Establish a programme and project approval committee to authorise work; and
- Commit to co-financing contributions and budget management arrangements.

National government provides a broad range of capacity-support grants and programmes for local government. These grants and programmes are under review and reforms to improve its effectiveness are likely to be implemented from 2021/22.

2.4 Development Charges reforms

National Treasury continues to explore how municipalities can use a broader package of infrastructure financing sources to meet their developmental mandate. One of these sources is development charges.

A development charge is a once-off charge imposed by a municipality on a land owner as a condition of approving a land development application that will substantially result in increased demand for municipal infrastructure services. These charges are imposed to cover the costs incurred by the municipality when installing new infrastructure or upgrading an existing infrastructure that is required to service the proposed development. It is based on the concept that urban growth and expanded land use creates the need for additional infrastructure services, therefore the developer should pay the incidence costs.

Municipalities have not fully used development charges due to uncertainty surrounding the regulatory frameworks. National Treasury is therefore amending the Municipal Fiscal Powers and Functions Act, 2007 (Act No. 97 of 1997) to incorporate the regulation of development charges. Cabinet has approved the publication of the draft Amendment Bill for public comment. The due date for submitting comments is 31 March 2020.

The draft Bill can be accessed on the National Treasury website at: http://www.treasury.gov.za/legislation/draft_bills/default.aspx.

3. Eskom Bulk Tariff increases

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. However, there has not been any determination by NERSA since the impasse around Eskom's application.

While the court case between NERSA and Eskom is still pending, municipalities should use the tariff increases previously (March 2019) approved by the regulator of 8.1 per cent for 2020/21, 5.2 per cent 2021/22 and 8.9 per cent for 2022/23.

4. Budgeting issues

4.1 The wage bill

The 2020 Budget Review highlighted the proposed wage bill reduction for the public service. Similar to national and provincial government, municipalities must ensure that compensation demands are balanced with the broader needs of society. In this context, municipalities should start taking decisive action to address bloated organisational structures and above inflation wage increases.

Wage bill increases are crowding out spending on capital projects for future economic growth and impacts on service delivery.

Local government also confronts tough fiscal choices in the face of financial and institutional problems that result in service-delivery breakdowns and unpaid bills. Municipalities can offset these trends by improving own revenue collection, working more efficiently and implementing cost containment measures.

4.2 Pension fund and SARS contributions

In terms of section 13A of the Pension Funds Act, 1956 (Act No. 24 of 1956), an employer must pay contributions it collected from employees' salaries to the relevant pension fund by the 7th day after the end of the month in respect of which the contributions were payable.

According to the latest annual report by the Pension Fund Adjudicator (PFA), it is especially concerned about non-payment of contributions in the municipal sector, thereby putting members' benefits at risk for extended periods of time. Over and above, there is interest on contributions that an employer is liable to pay if pension fund contributions are not paid over timeously. The Financial Services Laws General Amendment Act, 2013 (Act No. 45 of 2013) makes the employer's failure to pay contributions to a retirement fund a **criminal offence**. The amendment to this Act now provides for personal liability of persons who are entrusted with managing the overall financial affairs of the employer.

Section 65(2)(f) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) states that the accounting officer must take all reasonable steps to ensure that the municipality complies with its tax, levy, duty, pension, medical aid, audit fees, and their statutory commitments. Section 171(1) of the MFMA provides that the accounting officer commits financial misconduct if that accounting officer fails to comply with a duty imposed by a provision of the Act on the accounting officer of a municipality. In addition, section 173(1)(a)(i) of the MFMA then provides that an accounting officer is guilty an offence if that accounting officer deliberately or in a grossly negligent way amongst other, contravene or fails to comply with the provision of section 65(2)(f) of the MFMA. We will therefore be monitoring whether municipalities are addressing this failure by accounting officers consistent with the legal framework provided for in the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings and take the necessary action where there is failure on the part of municipalities to address this matter.

4.3 Water

Access to clean and potable water is a mandatory imperative in terms of the country's Constitution, the National Water Act, 1998 (Act No. 36 of 1998) and priorities set by the government in the National Development Plan (NDP). Water is also recognised as a fundamental human right and there is no doubt about the important role that water plays in human existence, the environment, economic development and sustainability.

Municipalities should take strategic action to ensure effective water management and resilience to drought, including the security of water supply, environmental degradation, and pollution of resources to achieve economic growth, development and socio-economic priorities in an equitable and sustainable manner.

4.4 Attracting economic investment

Maintaining clean cities underpins economic activity and wellbeing. Investors are not interested in investing in filthy cities. Therefore, municipalities should place emphasis on sensible land use planning and development and building plan control for housing,

commercial, industrial and recreational uses. Investments in waste collection and treatment infrastructure should be made in tandem with industrial and urban developments to minimise pollution to our land and waters.

4.5 Borrowing for multi-year capital projects

In terms of sections 16(3) of the MFMA, money for capital expenditure may be appropriated for a period not exceeding three financial years, provided that a separate appropriation is made for each of those financial years.

Section 19(1) of the MFMA further states that *a municipality may spend money on a capital project only if —*

- (a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in section 17(2)(b) the project, including the total cost, has been approved by the council;
- (b) section 33 has been complied with, to the extent that that section may be applicable to the project; and
- (c) the sources of funding have been considered, are available and have not been committed *for other purposes*.

Before approving a capital project, the municipal council must consider:

- a) the projected cost covering all financial years until the project is operational; and
- b) the future operational costs and revenue on the project, including municipal tax and tariff implications.

A municipality must adjust the revenue and expenditure estimates in an approved annual budget downwards through an adjustments budget if there is material under-collection of revenue during the current year in terms of section 28(2) of the MFMA. It may also appropriate additional revenues that have become available over and above those anticipated in the annual budget, **but only to revise or accelerate spending programmes already budgeted** for. New capital projects can therefore not be included in the adjustments budget, unless provided for in terms of section 28(2) of the MFMA.

With regard to the shifting of funds between multi-year appropriations, section 31 of the MFMA requires that *when funds for a capital programme are appropriated in terms of section 16(3) for more than one financial year, expenditure for that programme during a financial year may exceed the amount of that year's appropriation for that programme, provided that —*

- (a) *the increase does not exceed 20 per cent of that year's appropriation for the programme;*
- (b) *the increase is funded within the following year's appropriation for that programme;*
- (c) *the municipal manager certifies that -*
 - (i) *actual revenue for the financial year is expected to exceed budgeted revenue; and*
 - (ii) **sufficient funds are available for the increase without incurring further borrowing beyond the annual budget limit;**
- (d) *prior written approval is obtained from the mayor for the increase; and*
- (e) *the documents referred to in paragraphs (c) and (d) are submitted to the relevant provincial treasury and the Auditor-General.*

Considering the above sections of the MFMA, it is clear that section 16(3) allows for a multi-year capital appropriation not exceeding three financial years, while section 31 allows for:

- A maximum increase of 20 per cent in the appropriation for the year provided that it is funded within the following year's appropriation for that programme. By implication it

must be a multi-year programme and the increase should also fit within the limit of the next year's appropriation;

- Sufficient funds are available for the increase **without incurring further borrowing beyond the approved annual budget limit**. This means that additional revenues should be available in the year that the municipality intends to accelerate the expenditure or that a project saving that was funded from the borrowing that was approved for the current year should be used to prevent borrowing to exceed the annual budget limit; and
- This further implies that additional revenues should be available and prohibits the use of accumulated cash backed reserves from previous years for the acceleration of the programme.

Section 28(2)(b) prescribes that additional revenues that have become available may be used to revise or accelerate programmes already budgeted for. The same section further indicates that an adjustments budget process will be required to accelerate a capital programme. The municipal manager must provide certification that the additional revenues will be available within the financial year that the programme will be accelerated in terms of section 31 of the MFMA.

The legislation is not clear as to the timeframes for section 31 other than to state that prior written approval should be obtained from the Mayor. A prudent approach would be to include the documentation as part of the adjustments budget process and the dates set out in the Municipal Budget and Reporting Regulations.

This part of the Circular should also be read in conjunction with MFMA Circular No. 58 issued on 14 December 2011.

4.6 Refinancing of existing loans

Section 46(5) of the MFMA allows a municipality to re-financing existing long-term debt, provided that —

- (a) the existing long-term debt was lawfully incurred;
- (b) the re-financing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;
- (c) the net present value of projected future payments (including principal and interest payments) after re-financing is less than the net present value of projected future payments before re-financing; and
- (d) the discount rate used in projecting net present value referred to in paragraph (c), and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed.

If the re-financing of an existing loan does not comply with the above requirements, then the municipality should consider going to the market for a new loan that offers more affordable terms and/or negotiate a payment arrangement with the financial institution until the loan can be repaid as per the original terms.

5. Conditional Grant Transfers to Municipalities

This section provides guidance to municipalities with regard to the preparation for the 2019/20 unspent conditional grant and roll-over process and should be referenced against previous annual budget circulars.

5.1 Criteria for the rollover of conditional grant funds

Section 22 of the 2019 Division of Revenue Act (DoRA) requires that any conditional grants which are not spent at the end of the municipal financial year must revert to the National Revenue Fund, unless the receiving officer, provincial treasury and transferring national officer proves to National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When requesting a rollover in terms of section 22(2) of the 2019 DoRA, municipalities must include the following information with their submission to National Treasury:

1. A formal letter, signed by the accounting officer must be addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 22(2) of the 2019 DoRA;
2. A list of all the projects that are linked to the unspent conditional grants and a breakdown of how much was allocated and spent per project;
3. The following evidence indicating that work on each of the projects has commenced, as applicable to the specific rollover(s):
 - a) Proof that the project tender was published and the period for tender submissions closed before 31 March;
 - b) Proof that a contractor or service provider was appointed for delivery of the project before 31 March; or
 - c) Proof of a project tender, appointment of contractor or service provider for delivery of service before 30 June in cases where additional funding was allocated during the course of the final year of the project;
 - d) Incorporation of the Appropriation Statement;
 - e) Evidence that all projects linked to an allocation will be fully utilised by 30 June 2021 (attach cash flow projection for the applicable grant).
4. A progress report (also in percentages) on the status of each project's implementation that includes an attached, legible **implementation plan**);
5. The value of the committed project funding, and the conditional allocation from the funding source;
6. Reasons why the grants were not fully spent during the year of original allocation per the DoRA;
7. Rollover of rollovers will not be considered therefore municipalities must not include previous year's unspent conditional grants as rollover request;
8. An indication of the time-period within which the funds are to be spent if the roll over is approved; and
9. Proof that the Municipal Manager and Chief Financial Officer are permanently appointed.

No rollover requests will be considered for municipalities with vacant or acting Chief Financial Officers and Municipal Managers for a period exceeding 6 months from the date of vacancy, this also includes acting appointments as a result of suspensions of either MM or CFO that are more than 12 months.

If any of the above information is not provided or the application is received by National Treasury (Intergovernmental Relations Division) after 31 August 2020, the application will be declined.

In addition, National Treasury will also consider the following information when assessing rollover applications; and reserves the right to decline an application should there be non- performance by the municipality in any of these areas:

1. Compliance with the in-year reporting requirements in terms of sections 71 and 72 of the MFMA and section 12 of the 2019 DoRA, **including the municipal manager and chief financial officer signing-off on the information** sent to National Treasury;
2. Submission of the pre-audited Annual Financial Statements information to National Treasury by 31 August 2020;
3. Accurate disclosure of grant performance in the 2019/20 pre-audited Annual Financial Statements, (i.e. correct disclosure of grant receipts and spending in the notes to the AFS); and
4. Cash available in the bank (net position including short term investments) as at 30 June 2020 is equivalent to the amount that is unspent as at the end of the financial year. If the amount that is requested for roll over is not entirely cash backed, such a roll over will not be approved. National Treasury will not approve portions of roll over requests.

It should be noted that under no circumstances will the National Treasury consider requests to roll-over:

1. The entire 2019/20 allocation to the municipality, in cases whereby the roll over request is more than 50 per cent of the total allocation National Treasury will approve the roll over amount up to 50 per cent of the 2019/20 allocation;
2. Roll Over request of the same grant for the third consecutive time;
3. Funding for projects constituted through Regulation 32 of the Municipal Supply Chain Management Regulations (Gazette No.27636). Projects linked to additional funding and disasters are exempted; and
4. A portion of an allocation where the proof of commitment for the roll over application is linked to invoices that were issued before or on 31 May 2020.

5.2 Unspent conditional grant funds for 2019/20

The process to ensure the return of unspent conditional grants for the 2019/20 financial year will be managed in accordance with section 22 of the DoRA. In addition to the previous MFMA Circulars, the following practical arrangements will apply:

Step 1: Municipalities must submit their June 2020 conditional grant expenditure reports according to section 71 of the MFMA reflecting all accrued expenditure on conditional grants and further ensure that expenditure reported to both National Treasury and national transferring officers reconcile;

Step 2: When preparing the Annual Financial Statements, a municipality must determine the portion of each national conditional grant allocation that remained unspent as at 30 June 2020. These amounts **MUST** exclude all interest earned on conditional grants, retentions and VAT related to conditional grant spending that has been reclaimed from SARS, which must be disclosed separately;

Step 3: If the receiving officer wants to motivate in terms of section 22(2) of the 2018 DoRA that the unspent funds are committed to identifiable projects, the roll over application pack must be submitted to National Treasury by 31 August 2020.

National Treasury will not consider any rollover requests that are incomplete or received after this deadline.

Step 4: National Treasury will confirm in writing whether or not the municipality may retain any of the unspent funds as a rollover based on criteria outlined above by 23 October 2020;

Step 5: National Treasury will communicate the unspent conditional grants amount by 06 November 2020. A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment arrangement to the National Revenue Fund by 20 November 2020; and

Step 6: Any unspent conditional grant funds that should have, but has not been repaid to the National Revenue Fund by 20 November 2020, and for which a municipality has not requested a repayment arrangement, will be offset against the municipality's 04 December 2020 equitable share allocation.

All other issues pertaining to Appropriation Statement and reporting on approved roll overs are addressed in the Annexure to MFMA Circular No. 86.

6. The Municipal Budget and Reporting Regulations

National Treasury, together with the provincial treasuries, are rolling out training on budgeting and transacting in the *m*SCOA environment to all provinces to improve the credibility of the 2020/21 MTREF budgets.

6.1 Assistance with the compilation of budgets

In cases where the municipality requires advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

Province	Responsible officials	NT Tel. No.	Email
Eastern Cape	Matjatji Mashoeshoe	012-315 5553	Matjatji.Mashoeshoe@treasury.gov.za
Free State	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
Gauteng	Kgomotso Baloyi Kevin Bell	012-315 5866 012-315 5725	Kgomotso.Baloyi@treasury.gov.za Kevin.Bell@treasury.gov.za
KwaZulu-Natal	Kgomotso Baloyi Johan Botha	012-315 5936 012-315 5171	Kgomotso.Baloyi@treasury.gov.za Johan.Botha@treasury.gov.za
Limpopo	Willem Voigt Sifiso Mabaso	012-315 5830 012-315 5952	Willem.Voigt@treasury.gov.za Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Northern Cape	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
North West	Willem Voigt Makgabo Mabotja	012-315 5830 012-315 5156	Willem.Voigt@treasury.gov.za Makgabo.Mabotja@treasury.gov.za
Western Cape	Vuyo Mbunge	012-315 5661	Vuyo.Mbunge@treasury.gov.za
Technical issues Local Government Database	Elsabe Rossouw	012-315 5534	lgdataqueries@treasury.gov.za

National Treasury, together with the provincial treasuries, will undertake a compliance check and, where municipalities have not provided complete budget information, the municipal budgets will be returned to the mayors and municipal managers of the affected municipalities for the necessary corrections. Municipal managers are reminded that the annual budget must be accompanied by a quality certificate and council resolution in accordance with the format specified in regulation 31 of Schedule A of the Municipal Budget and Reporting Regulations. In addition to the above compliance check, the *m*SCOA data strings will be assessed to determine whether the municipalities are compliant.

The National Treasury herewith emphasises that where municipalities have not adhered to the Municipal Budget and Reporting Regulations, **they will be required to return to the municipal council and table a complete budget document aligned to the requirement of the Municipal Budget and Reporting Regulations.**

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year monitoring reports for both the parent municipality and its entity or entities. The following must be compiled:

- An annual budget, adjustments budget and monthly financial reports for the parent municipality in the relevant formats;
- An annual budget, adjustments budget and monthly financial reports for the entity in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial reports for the parent municipality and all its municipal entities in the relevant formats.

The Schedule A that the municipality submits to National Treasury must be a consolidated budget for the municipality (plus entities) and the budget of the parent municipality. Schedules D must be submitted for each entity.

7. Municipal Chart of Accounts (*mSCOA*)

7.1 Release of Version 6.4.1 of the Chart

Version 6.4.1 was released to include the amendments in conditional grants as per the 2020 DoRA. Version 6.4.1 of the chart will be effective from 2020/21 and must be used to compile the 2020/21 MTREF. It is available on the link below:

[Link to *mSCOA*](#)

7.2 Use of funding segment to populate the cash flow tables

It is critical that municipalities undertake balance sheet and cash flow budgeting to provide accurate cash flow information. The general rule that applies is that the “funding” and “Item” segments must be combined to provide cash flow information on how funds have been spent and on what.

This means that the budget is available at a cash flow level (A1 Schedule Budget Table SA30 and A7) and not when billing is done or when invoices are processed (A1 Schedule Budget Table A4: Statement of Financial Performance). Municipalities must apply the budgeted assumed collection rate to determine the cash flow budgets. Therefore, expenditure can only be processed against items with funding in line with the anticipated cash inflow and not billing. Municipalities should therefore identify the relevant source in the funding segment where revenue is received from and identify the funds to be used when payments are made. Guidance on this was provided in MFMA Circular No. 98.

However, there are still challenges to populate the detail of cash payments by type in the A1 Schedule Budget Table SA30 from Item Liabilities: Current Liabilities: Trade and other payables from exchange transactions as payables and accruals are not broken down by type (e.g. other materials, contracted services etc.). This omission of detail in the *mSCOA* chart will be addressed through chart amendments in version 6.5 of the chart.

As an interim measure the cash flow will be populated as follows:

For Cash Receipts:

The **cash receipts by source** will be populated using Item Assets: Current Assets: Cash and cash equivalents: Cash at bank: Bank account: Deposits in conjunction with the Funding Segment.

For Cash Payments:

The **cash payments** by type will be populated using Item Liabilities: Current Liabilities: Trade and other payables Exchange and Non- Exchange Transactions: Withdrawals in conjunction with the Funding Segment.

The cash payments that are not classified by type, will be grouped together as other payments on table SA30. This will enable population of suppliers and employees on the cash flow (Table A7).

National Treasury will share the linking of A1 Schedule Budget Tables SA30 and A7 to the mSCOA chart items to ensure that the cash flow information is populated correctly with municipalities and system vendors.

7.3 Capital Projects using Internally Generated Funding

Capital Projects in acquiring Assets using Internally Generated Funding must use: Funding: Capital: Transfer from Operational Revenue. This will ensure that table A5 will be populated correctly.

8. Budget process and submissions for the 2020/21 MTREF

8.1 Submitting budget documentation and schedules for 2020/21 MTREF

Accounting officers are reminded that Section 22(b)(i) of the MFMA requires that, **immediately** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in PDF and electronic formats. However, in cases where Council requires amendments to the tabled budget prior to consultation, municipalities should inform the National Treasury and the relevant provincial treasury **immediately** and submit the required budget documents and corresponding mSCOA data strings **within three working days** after the Council meeting.

The approved annual budget must still be submitted to both National Treasury and the relevant provincial treasury **within ten working days** after the council has approved the annual budget.

8.2 Document uploads to the Local Government Upload Portal

Due to the number of queries received on the document upload process using the Local Government Upload Portal, a full guideline will be issued in due course to explain the process and to outline which documents will be required to upload.

Contact



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