

ANNEXURE B

APPROVED TARIFFS

AIR QUALITY

AIR QUALITY		2022/2023	2023/2024	2024/2025
<u>TARRIF LIST/ STRUCTURE</u>				
Registration of Controlled Emitters: Registration fees will be charged in line with GRDM Air Quality by-Laws and tariff structure.				
R5000 per application				
REVIEW OF ATMOSPHERIC EMISSION LICENCE: included in above Processing fee calculator				
SPOT FINES IN TERMS OF GRDM AIR QUALITY BY-LAW- see attached				
<u>SMOKE CHECK OF VEHICLES</u>				
R515.00.00 per test (excl. VAT) 6% increase	545,9	578,65	613,37	
<u>IN STACK EMISSION MONITORING (TESTO 350)</u>				
Combustion Efficiency	545,9	578,65	613,37	
CO	612,68	649,44	688,41	
CO2	612,68	649,44	688,41	
NOX	612,68	649,44	688,41	
SO2	612,68	649,44	688,41	
H2S	612,68	649,44	688,41	
Flow rate	612,68	649,44	688,41	
CO2	612,68	649,44	688,41	
NOX	612,68	649,44	688,41	
SO2	612,68	649,44	688,41	
H2S	612,68	649,44	688,41	
Flow rate	545,9	578,65	613,37	
<u>PASSIVE SAMPLING (per single sample taken)</u>				
H2S	955,06	1 012,36	1 073,11	
SO2/NO2	842,7	893,26	946,86	
HCL	898,88	952,81	1 009,98	
BTEX	898,88	952,81	1 009,98	
DUST SAMPLING: Minivol Air Sampler				
Per single sampling run	1500	1500	1500	
MOBILE ANALYZER				
Per single sample run 5 parameters	5000	5000	5000	
WEATHER DATA				
Single record all weather parameters/ per record	1000	1000	1000	
Processing fees for Atmospheric Emission Licence (AEL) applications will be charged in terms of Annexure A, contained in the Regulations prescribing the atmospheric emission licence processing fee, 2016 as per Government Notice 250 published 11 March 2016.				
Annexure A:				
Application for new AEL	Application for AEL review	Application for AEL renewal	Application for AEL transfer	
R10 000 per listed activity	R10 000 per listed activity under review	R5 000 per listed activity	R 2 000,00	
ADMINISTRATIVE FINES				
Administrative fines in terms of Section 22A of the National Environmental Management, Air Quality Act, 2004, (Act 39 of 2004).				
Administrative fines will be charges in terms of Annexure 1 of The Regulations for the Procedure and Criteria to be followed in the Determination of an Administrative Fine in terms of section 22A of the Act, 2016 as per Government Notice 332 of 18 March 2016.				
Annexure 1				
Minimum fine	Yes/No	Amount		
For operating illegally		R200 000		
Aggregating factors/ criteria	Yes/No	Additional amount to the minimum fine (if yes)		
Each year in which the facility has operated without a licence.		R200 000 per year, i.e. each 12 month cycle.		
The facility for which the application is submitted is in a declared Priority Area in terms of section 18 of the Act		R1000 000		
Maximum fine may not exceed R5 million in terms of Section 22A.				

FIRE SERVICES TARIFFS

GARDEN ROUTE DISTRICT MUNICIPALITY						
Fire Services Charges						
VAT Inclusive						
2021/22			2021/22	2022/23	2023/24	2024/25
			Tariff	Tariff	Tariff	Tariff
1. SPECIALIZED FIRE FIGHTING SERVICES:						
1.1	This will include all Fire vehicles, all manpower, water supplies and pump attendance during actual rendering of a specialized fire fighting services (Per hour or part thereof) (Excluding travelling times)		R 5 635,44	R 5 973,56	R 6 331,98	R6 711,89
1.2	Humanitarian Assistance					
1.3	Contracted services		<i>3rd party invoice amount plus 10% handling fee</i>	<i>3rd party invoice amount plus 10% handling fee</i>	<i>3rd party invoice amount plus 10% handling fee</i>	<i>3rd party invoice amount plus 10% handling fee</i>
1.4	Additional Consumables:		<i>Purchase price plus 10% handling fee</i>	<i>Purchase price plus 10% handling fee</i>	<i>3rd party invoice amount plus 10% handling fee</i>	<i>3rd party invoice amount plus 10% handling fee</i>
1.5	Standby:	(Per hour or part thereof) (Excluding travelling time)	R 1 910,21	R 2 024,83	R 2 146,32	R 2 275,10
1.6	Air Support Services		<i>Purchase price plus 10% handling fee</i>	<i>Purchase price plus 10% handling fee</i>	<i>Purchase price plus 10% handling fee</i>	<i>Purchase price plus 10% handling fee</i>
1.7	Assistance requested outside Eden DM boundary:	(Per hour or part thereof)	R 7 010,30	R 7 430,92	R 7 876,77	R 8 349,37
1.8	Fire Safety/Fire Prevention Inspection:	Per kilometer tariff				
		LDV:	R 7,42	R 7,86	R 8,34	R 8,84
		Sedan Type:	R 6,18	R 6,55	R 6,95	R 7,37
		Per inspection: (all inclusive tariff)	R 801,18	R 849,25	R 900,20	R 954,21
1.9	Fire Permit	Per kilometer tariff				
		LDV:	R 7,42	R 7,86	R 8,34	R 8,84
		Sedan Type:	R 6,18	R 6,55	R 6,95	R 7,37
		Per inspection: (all inclusive tariff)	R 801,18	R 849,25	R 900,20	R 954,21
1.1	Certified copy of incident report	Per Copy	R 133,53	R 141,54	R 150,03	R 159,03
1.11	Public Education					
1.12	Water Delivery Add: Price of Water as per supplier invoice plus 10% handling fee	Per kilometer tariff	R 18,55	R 19,66	R 20,84	R 22,09
2. RENT						
2.1	Rent Income of Tents	Per Day				
		5x5 Army Tent	R 534,12	R 566,16	R 600,13	R 636,13
		10x20 Marque Tent	R 10 014,71	R 10 615,59	R 11 252,53	R 11 927,68
2.2	Rent Income of Generators	Per Day				
		70KVA	R 855,58	R 906,91	R 961,33	R 1 019,01
		40KVA	R 828,38	R 878,08	R 930,76	R 986,61
		6KVA	R 267,06	R 283,08	R 300,07	R 318,04
3. SPECIAL SERVICES:						
3.1	First Aid or Army Safety Assistance	Per event per official	R 667,65	R 707,71	R 750,17	R 795,24
3.2	Travelling or Equipment use	Per kilometer tariff				
		10 Seater or Minibus	R 8,65	R 9,17	R 9,72	R 10,30
		Sedan Vehicle	R 6,18	R 6,55	R 6,95	R 7,37
		Light Delivery Vehicle	R 7,42	R 7,86	R 8,34	R 8,84
		Medium Tanker	R 12,36	R 13,11	R 13,89	R 14,72
		Major Tanker	R 16,07	R 17,04	R 18,06	R 19,14
		Consumables actual cost	Plus 10%	Plus 10%	Plus 10%	

MUNICIPAL HEALTH TARIFFS

14/GARDEN DISTRICT MUNICIPALITY TARIFF LIST MUNICIPAL HEALTH	2022/2023 BUDGET (VAT INCL)	2023/24 BUDGET (VAT INCL)	2024/2025 BUDGET (VAT INCL)
1. Issuing of a health report and/or Certificate of Acceptability (COA) except when issued on request of an authority	R240.00	R254.00	R270.00
2. Health monitoring at the exhumation and reburial of human remains.	R730.00	R774.00	R820.00
3. Waterkwaliteitmonitering/ Water Quality Monitoring:			
3.1 All samples taken on request (except on request of an authority): R240.00 per sampling session plus laboratory costs of laboratory contracted by Garden Route DM.	R240.00	R254.00	R270.00
3.2 With an application for a COA for a food premises not serviced by a water service authority: R240.00 per sampling session plus laboratory costs of laboratory contracted by Garden Route DM.	R240.00	R254.00	R270.00
3.3 All subsequent routine bacteriological and/or chemical sampling on premises in possession of a COA.	FREE	FREE	FREE
4. Sampling of milk and milk products on request of purveyors	R240.00	R254.00	R270.00
4.1 All bacteriological and chemical sampling. R240.00 per sampling session plus laboratory costs of laboratory contracted by Garden Route DM.			
4.2 Follow up samples taken on request in cases where samples did not comply with the condition of the Foodstuffs, Cosmetics & Disinfectant Act, 1972 (Act 54 of 1972) R240.00 per sampling session plus laboratory costs of laboratory contracted by Garden Route DM.	R240.00	R254.00	R270.00
5. Commentary reports in respect of milk export certificates.	R240.00	R254.00	R270.00
6. Issuing of COA's for food premises in terms of R638 &	R240.00	R254.00	R270.00
- Issuing of a Certificate of Acceptability in terms of R961	R240.00	R254.00	R270.00
6.1 R240.00 per First application (once off payment)	R240.00	R254.00	R270.00
6.2 An inspection carried out in terms of Section 4.5 of R638 with reference to an application for the lifting of a prohibition on the use of a premises or facility.	R800.00	R849.00	R900.00
6.3 Replacement of a COA	R240.00	R254.00	R270.00
7. Health inspections at premises excluding food premises, for the issuing of a health report in respect of an application for trading licenses in terms of the Businesses Act.	R240.00	R254.00	R270.00
8. Application for the issuing of a Health Report.	R240.00	R254.00	R270.00
9. The issuing of certificate for the removal/destruction of foodstuffs, unfit for human consumption.	R380.00	R403.00	R427.00
10.The Issuing of a Funeral undertakers premises Certificate Of Competence registered in terms of R363 of 2013.	R240.00	R254.00	R270.00
11. The issuing of a Health Certificate for Child Care Centre & Early Childhood Development Centre (in terms of GRDM MHS Bylaws, 10 December 2018).	R240.00	R254.00	R270.00
12. The issuing of a Health Certificate For Nursing Homes (in terms of GRDM MHS Bylaws, 10 December 2018).	R240.00	R254.00	R270.00
13.The issuing of a Health Certificate For Maternity Homes(in terms of GRDM MHS Bylaws, 10 December 2018).	R240.00	R254.00	R270.00
14. The issuing of a Health Certificate For Old Age Homes (in terms of GRDM MHS Bylaws, 10 December 2018).	R240.00	R254.00	R270.00
15. The issuing of a Health Certificate For School Premises (in terms of GRDM MHS Bylaws, 10 December 2018).	R240.00	R254.00	R270.00
16. The issuing of a health Certificate For Accommodation Establishment (in terms of GRDM MHS Bylaws, 10 December 2018).	R240.00	R254.00	R270.00
17. The issuing of a Health Certificate For Beauty Salons (in terms of GRDM MHS Bylaws, 10 December 2018).	R240.00	R254.00	R270.00

18. The issuing of a Health Certificate For Offensive trades (in terms of GRDM MHS Bylaws, 10 December 2018).	R240.00	R254.00	R270.00
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SWARTVLEI TARIFFS

SWARTVLEI					
2020/2021 + 2021/2022 + 2022/2023 + 2023/2024 + 2024/2025					
Detail	Rate 2020/2021	Rate 2021/2022	Rate 2022/2023	Rate 2023/2024	Rate 2024/2025
IN SEASON					
WESTERN CAPE SCHOOL HOLIDAYS					
SITES WITHOUT ELECTRICITY	R 475	R 500	R 530	R 562	R 596
SITES WITH ELECTRICITY	R 554	R 585	R 620	R 657	R 697
OUT OF SEASON					
WESTERN CAPE SCHOOL HOLIDAYS					
SITES WITHOUT ELECTRICITY	R 266	R 280	R 297	R 315	R 333
SITES WITH ELECTRICITY	R 324	R 340	R 360	R 382	R 405
DAY VISITORS					
Per person	R 31	R 30	R 32	R 34	R 36

VICTORIA BAY TARIFFS

VICTORIA BAY					
2020/2021 + 2021/2022 + 2022/2023 + 2023/2024 + 2024/2025					
Detail	Rate 2020/2021	Rate 2021/2022	Rate 2022/2023	Rate 2023/2024	Rate 2024/2025
SITES WITH COMMUNAL ABLUTION FACILITIES					
IN SEASON WESTERN CAPE SCHOOL HOLIDAYS					
SEA BREEZE	R 585	R 615	R 652	R 691	R 732
RAILWAY TERRACE	R 642	R 675	R 716	R 758	R 804
OUT OF SEASON WESTERN CAPE SCHOOL HOLIDAYS					
SEA BREEZE	R 334	R 355	R 376	R 399	R 423
RAILWAY TERRACE	R 334	R 355	R 376	R 399	R 423
SITES WITH INDIVIDUAL ABLUTION FACILITIES					
IN SEASON WESTERN CAPE SCHOOL HOLIDAYS					
WESTERN TERRACE	R 674	R 710	R 753	R 798	R 846
OUT OF SEASON					
WESTERN TERRACE	R 428	R 450	R 477	R 506	R 536

DE HOEK RESORT TARIFFS

DE HOEK MOUNTAIN RESORT

2020/2021 + 2021/2022 + 2022/2023 + 2023/2024 + 2024/2025

Facility		Financial Year	OUT OF SEASON		IN SEASON	
4-sleeper Chalet	Per unit	2020/2021	R	726	R	997
		2021/2022	R	600	R	850
		2022/2023	R	636	R	901
		2023/2024	R	674	R	955
		2024/2025	R	715	R	1 012
6-sleeper Chalet	Per unit	2020/2021	R	862	R	1 134
		2021/2022	R	750	R	1 000
		2022/2023	R	795	R	1 060
		2023/2024	R	843	R	1 124
		2024/2025	R	893	R	1 191
Dormitories	Per person	2020/2021	R	78	R	78
		2021/2022	R	80	R	80
		2022/2023	R	85	R	85
		2023/2024	R	90	R	90
		2024/2025	R	95	R	95
Caravan Site With Electricity	Refer to notes	2020/2021	R	355	R	386
		2021/2022	R	350	R	400
		2022/2023	R	371	R	424
		2023/2024	R	393	R	449
		2024/2025	R	417	R	476
Tent Site Without Electricity	Refer to notes	2020/2021	R	297	R	361
		2021/2022	R	200	R	300
		2022/2023	R	212	R	318
		2023/2024	R	225	R	337
		2024/2025	R	238	R	357
Day Visitors	Per person	2020/2021	R 27.00 Per Person			
		2021/2022				
		2022/2023				
		2023/2024				
		2024/2025				
Conferences	Per day	2020/2021	R	935		
		2021/2022	R	700		
		2022/2023	R	742		
		2023/2024	R	787		
		2024/2025	R	834		

CALITZDORP SPA TARIFFS

CALITZDORP SPA				
2020/2021 + 2021/2022 + 2022/2023 + 2023/2024 + 2024/2025				
Facility		Financial Year	OUT OF SEASON	IN SEASON
Swimming Pool	Per unit 4-sleeper	2020/2021	R 1 071	R 1 301
		2021/2022	R 800	R 1 100
		2022/2023	R 848	R 1 166
		2023/2024	R 899	R 1 236
		2024/2025	R 953	R 1 310
Mountain Chalets 22 & 24	Per unit 4-sleeper	2020/2021	R 768	R 1 150
		2021/2022	R 600	R 1 000
		2022/2023	R 636	R 1 060
		2023/2024	R 674	R 1 124
		2024/2025	R 715	R 1 191
Mountain Chalets 21, 23, 25	Per unit 6-sleeper	2020/2021	R 1 076	R 1 227
		2021/2022	R 800	R 1 000
		2022/2023	R 848	R 1 060
		2023/2024	R 899	R 1 124
		2024/2025	R 953	R 1 191
Mountain Chalets	Per unit 4-sleeper	2020/2021	R 690	R 997
		2021/2022	R 550	R 800
		2022/2023	R 583	R 848
		2023/2024	R 618	R 899
		2024/2025	R 655	R 953
Mountain Chalets	Per unit 6-sleeper	2020/2021	R 925	R 1 050
		2021/2022	R 700	R 950
		2022/2023	R 742	R 1 007
		2023/2024	R 787	R 1 067
		2024/2025	R 834	R 1 131
Day Visitors	Per person	2020/2021	R 27.00 per Person	
		2021/2022		
		2022/2023		
		2023/2024		
		2024/2025		
Caravan & Tent Site With Electricity	See notes	2020/2021	R 381	R 506
		2021/2022	R 350	R 400
		2022/2023	R 371	R 424
		2023/2024	R 393	R 449
		2024/2025	R 417	R 476
Caravan & Tent Site Without Electricity	See notes	2020/2021	R 287	R 297
		2021/2022	R 200	R 300
		2022/2023	R 212	R 318
		2023/2024	R 225	R 337
		2024/2025	R 238	R 357
Conferences (Hall & Restaurant)	per day	2020/2021	R 1 447	N/A
		2021/2022	R 1 200	
		2022/2023	R 1 272	
		2023/2024	R 1 348	
		2024/2025	R 1 429	
Kitchen without crockery and cutlery	per day	2020/2021	R 935	N/A
		2021/2022	R 900	
		2022/2023	R 954	
		2023/2024	R 1 011	
		2024/2025	R 1 072	

WASTE MANAGEMENT TARIFF

Waste Management Tariffs 2022/23

TARIFF LIST WASTE MANAGEMENT/	2022/2023 BUDGET (VAT INCL)	2023/2024 BUDGET (VAT INCL)	2024/2025 BUDGET (VAT INCL)
Issuing of Waste Registration Certificates in terms of the Waste Management Bylaw.	239	253	268

LANDFILL SITE TARIFF

Landfill Site Tariffs 2022/23

Client	Utilisation of Regional Waste Management Facility	2022/23	2023/24	2024/25
		R (VAT incl)	R (VAT incl)	R (VAT incl)
Mossel Bay Municipality	Monthly tariff (all inclusive)	1 546 312	1 639 091	1 737 436
George Municipality	Monthly tariff (all inclusive)	1 946 266	2 063 042	2 186 825
Knysna Municipality	Monthly tariff (all inclusive)	675 109	715 615	758 552
Bitou Municipality	Monthly tariff (all inclusive)	499 231	529 185	560 936
Other clients				
- General Waste	Price per one metric ton	617	654	693
- General Waste	Price per quarter metric ton	154	163	173
- Hazardous Waste	Price per one metric ton	899	953	1 010
- Hazardous Waste	Price per quarter metric ton	225	238	253

COMMUNICATION TARIFFS

GARDEN ROUTE DISTRICT MUNICIPALITY					
PROPOSED TARIFFS 2022/2023					
GIS OFFICE					
ITEM	Tariff 2020/2021	Tariff 2021/2022	Tariff 2022/2023	Tariff 2023/2024	Tariff 2024/2025
PHOTOCOPIES	R	R	R	R	
A0	R 34,69	R 36,26	R 37,92	R 39,67	R 42,05
A1	R 19,02	R 19,87	R 20,79	R 21,75	R 23,05
A2	R 9,61	R 10,05	R 10,51	R 10,99	R 11,65
A3	R 0,98	R 0,98	R 1,03	R 1,08	R 1,15
A4	R 0,77	R 0,77	R 0,80	R 0,84	R 0,89
NORMAL PLOT					
A0	R 191,44	R 200,06	R 209,26	R 218,89	R 232,02
A1	R 95,72	R 100,03	R 104,63	R 109,44	R 116,01
A2	R 56,74	R 59,30	R 62,02	R 64,88	R 68,77
A3	R 32,81	R 34,29	R 35,87	R 37,52	R 39,77
A4	R 23,93	R 25,00	R 26,15	R 27,36	R 29,00
FLOOD PLOT					
A0	R 379,86	R 396,95	R 415,21	R 434,31	R 460,37
A1	R 191,44	R 200,06	R 209,26	R 218,89	R 232,02
A2	R 95,72	R 100,03	R 104,63	R 109,44	R 116,01
A3	R 56,74	R 59,30	R 62,02	R 64,88	R 68,77
A4	R 38,98	R 40,73	R 42,61	R 44,57	R 47,24
OTHER					
AKTEX / enquiry	R 19,44	R 20,31	R 21,25	R 22,22	R 23,56
CD	R 27,69	R 28,94	R 30,27	R 31,66	R 33,56
LABELS & CARDBOARD / sheet (INK excl.)	R 2,19	R 2,29	R 2,40	R 2,51	R 2,66
DATA / Block	R 83,60	R 87,36	R 91,38	R 95,58	R 101,32
A4 LAZER PRINT BLACK (INT)	R 2,82	R 2,95	R 3,08	R 3,23	R 3,42
A4 LAZER PRINT COLOUR (INT)	R -	R -	R -		
A4 LAZER PRINT BLACK	R 3,55	R 3,71	R 3,88	R 4,06	R 4,31
A4 LAZER PRINT COLOUR (INT)	R 7,42	R 7,75	R 8,11	R 8,48	R 8,99
A0 PHOTO PAPER	R 125,87	R 131,54	R 137,59	R 143,92	R 152,55
A1 PHOTO PAPER	R 65,63	R 68,58	R 71,73	R 75,03	R 79,54
A2 PHOTO PAPER	R 41,96	R 43,85	R 45,86	R 47,97	R 50,85
A3 PHOTO PAPER	R 27,90	R 29,16	R 30,50	R 31,90	R 33,82
LAMINATING					
ID CARD INTERNAL	R 10,97	R 11,47	R 11,99	R 12,55	R 13,30
RENTAL OF CAR PORTS	<u>2020/2021</u>	<u>2021/2022</u>	<u>2022/2023</u>	<u>2023/2024</u>	<u>2024/2025</u>
Carports 1	R 30,00	R 30,00	R 30,00	R 30,00	R 30,00
Carports 2	R 20,00	R 20,00	R 20,00	R 20,00	R 20,00
Op Oudshoorn is tandem carports indien die gebruik voortgaan met die verhuring	R 25,00	R 25,00	R 25,00	R 25,00	R 25,00
	<u>2020/2021</u>	<u>2021/2022</u>	<u>2022/2023</u>	<u>2023/2024</u>	<u>2024/2025</u>
Issuing of a duplicate account (per account)	R 5,54	R 5,79	R 6,05	R 6,33	R 6,71
Tracking fees: Plan/documentation (p/property)	R 52,77	R 55,20	R 57,74	R 60,40	R 64,02
GISc Services fees (p/hour)		R 345,00	R 360,87	R 377,47	R 400,12
Tracking fees: GIS(p/property)	R 103,98	R 108,76	R 113,76	R 119,00	R 126,14

<u>SUPPLY CHAIN MANAGEMENT TARIFFS</u>					
PROPOSED TARIFFS 2022/23					
	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
Tender Documents	R 275,00	R 291,50	R 300,00	R 350,00	R 400,00

DISASTER MANAGEMENT TARIFFS

GARDEN ROUTE DISTRICT MUNICIPALITY								
Disaster Management Charges								
VAT Inclusive								
2022/23					2022/2023	2023/2024	2024/2025	
			Tariff					
1. DISASTER MANAGEMENT:								
1,1	Humanitarian Assistance		---Free---					
2. RENT								
2,1	Rent Income of Tents	Per Day						
		5x5 Army Tent	R 494,56	R 29,67	R 524,23	R 555,69	R 589,03	
		10x20 Marque Tent	R 9 272,87	R 556,37	R 9 829,24	R 10 419,00	R 11 044,14	
2,2	Rent Income of Generators	Per Day						
		70KVA	R 792,19	R 47,53	R 839,72	R 890,10	R 943,51	
		40KVA	R 767,02	R 46,02	R 813,04	R 861,82	R 913,53	
		6KVA	R 247,28	R 14,84	R 262,12	R 277,84	R 294,51	
3. Hourly rate					2022/2023	2023/2024	2024/2025	
	Incident commander:				608,54	645,05	683,76	
	Disaster Management Officers:				362,94	384,72	407,80	
	Logistical Support Staff:				234,37	248,43	263,33	
4. Forward Command Vehicle (Per kilometer tariff)					2022/2023	2023/2024	2024/2025	
	LDV:				7,86	8,34	8,84	
	Sedan Type:				6,55	6,95	7,36	
	10 Seater or Minibus				9,17	9,72	10,31	
5. Logistical Support Vehicle (Per kilometer tariff)					2022/2023	2023/2024	2024/2025	
	LDV:				7,86	8,34	8,84	
	Sedan Type:				6,55	6,95	7,36	
	10 Seater or Minibus				9,17	9,72	10,31	

ANNEXURE C

TARIFF POLICY



TARIFF POLICY

Date Approved: DD MM YYYY

Council Resolution DC
(DC No):

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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 its 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 and to cover the cost of rehabilitation where a statutory obligation to do restoration exist.
- 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 and other receivers of services 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 and to cover the cost of rehabilitation where a statutory obligation to do restoration exist.

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 towards 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 c

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, to recover a portion of those costs, or to bring about a surplus that can be utilized to subsidize other non-economic services or to result in a cash surplus which must be transferred to a reserve established for a particular service. Tariffs could also include administrative fees to be charged to recover cost as an additional cover charge to deliver service on behalf of another party. Proposed tariffs will be presented to the community and municipalities utilizing services, 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 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 levels 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 FINACIAL PLAN POLICY

Date Approved:

Council Resolution (DC
No):

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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

- (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
Approved:

Council Resolution

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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 may 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) (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 Executivemayor 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:

Council
Resolution (DC
No):

DC

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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)

	Years		Years
<u>Infrastructure</u>		<u>Other</u>	
Roads and Paving	7 - 32	Buildings	5 - 32
		Other vehicles	2 - 34
		Office equipment	3 - 32
<u>Community</u>		Furniture and fittings	1 - 33
Buildings	7 - 32	Bins and containers	8 - 32
Recreational Facilities	32	Specialised plant and	
Parks and gardens	22	Equipment	2 - 32
Investment Property - Buildings	29 - 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 workings asset 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 is any assets not in good working condition please inform asset management for them to be repaired as this 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 from, 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:

Council Resolution
(DC):

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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, landfill site calculations of the GRAP 17 asset and GRAP 19 provisions, 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.

j) The amount calculated as a contribution to rehabilitate the landfill site at the end of its useful life, is included in the cash flow and must generate a cash surplus equal to the calculated value of the annual amount to be invested to yield the amount needed to rehabilitate the landfill site. To achieve this the cost of the landfill site operations must be fully recovered from the participating user municipalities. These cash surpluses must annually be transferred from the accumulated surplus to a Landfill Rehabilitation Reserve Fund.

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 and the Landfill Rehabilitation 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.

2.8.1 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;
- capital replacement reserve balance
- landfill site restoration reserve balance
- 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) Rehabilitation Reserve

The once off payment for the statutory obligation to rehabilitate the regional landfill site when it reached the end of its useful life 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.

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 which will be funded from loan funding. The agreement will be for twenty (20) 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.

(c) 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: COUNCIL RESOLUTION

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1. Definitions

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act has the same meaning as in 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 2016

“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

“PPFPA” 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);

“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)
 - (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,
- (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

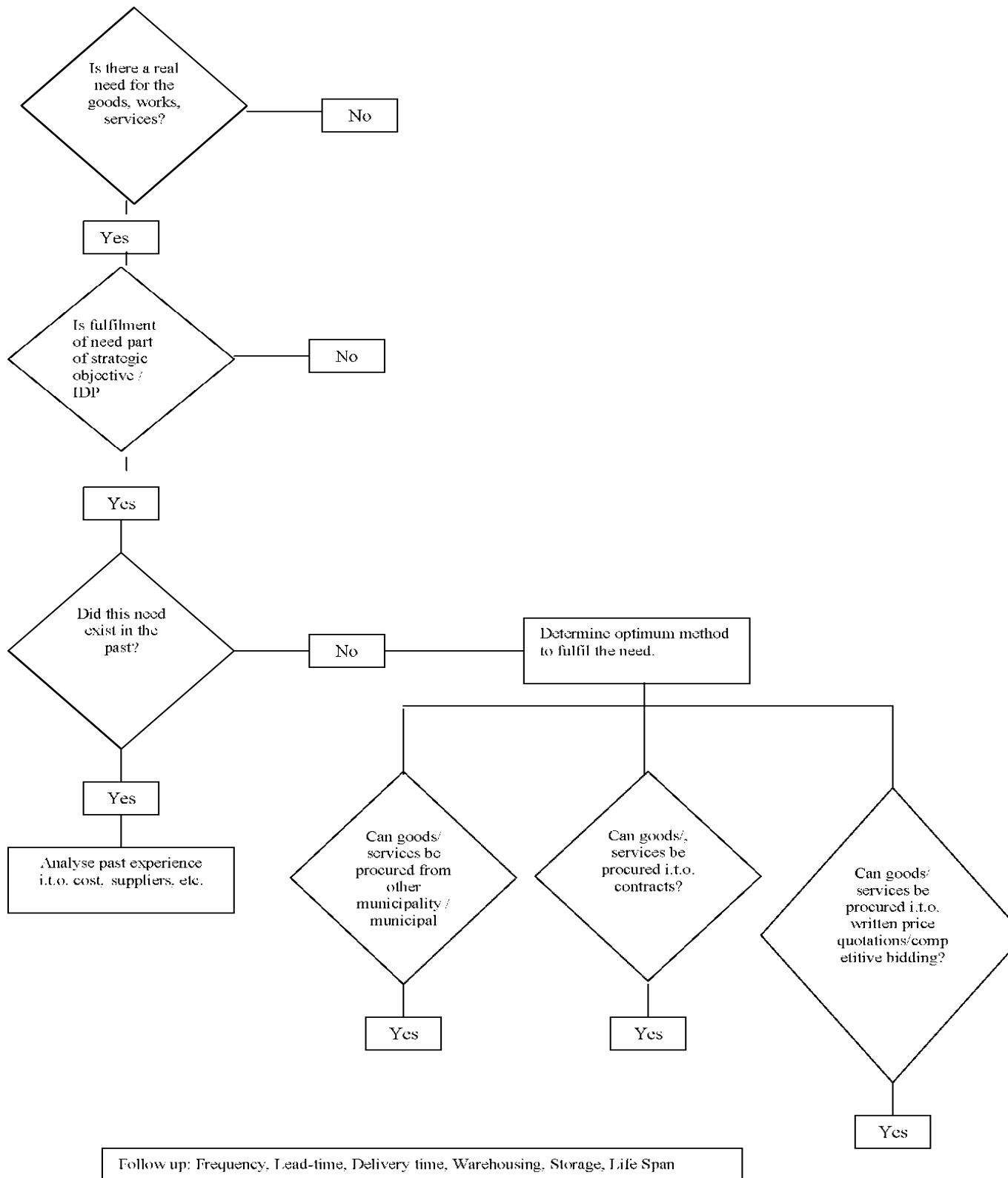
- a) Demand management to be executed following the tabling of the draft Integrated Development Plan (IDP) and draft budget by council or approval of the Adjustment budget by council, spending of funds subject to final approval of the budget by council and funds are available on the financial system.
- 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 the frequency of the need
- e) linking the requirement to the budget
- f) conducting expenditure analysis based on past expenditure
- g) determining requirement (including the internal capacity to implement)
- h) conducting commodity analyses in order to check for alternatives; and
- j) conducting industry analyses to establish market prices and strategic industry role players

Annexure:

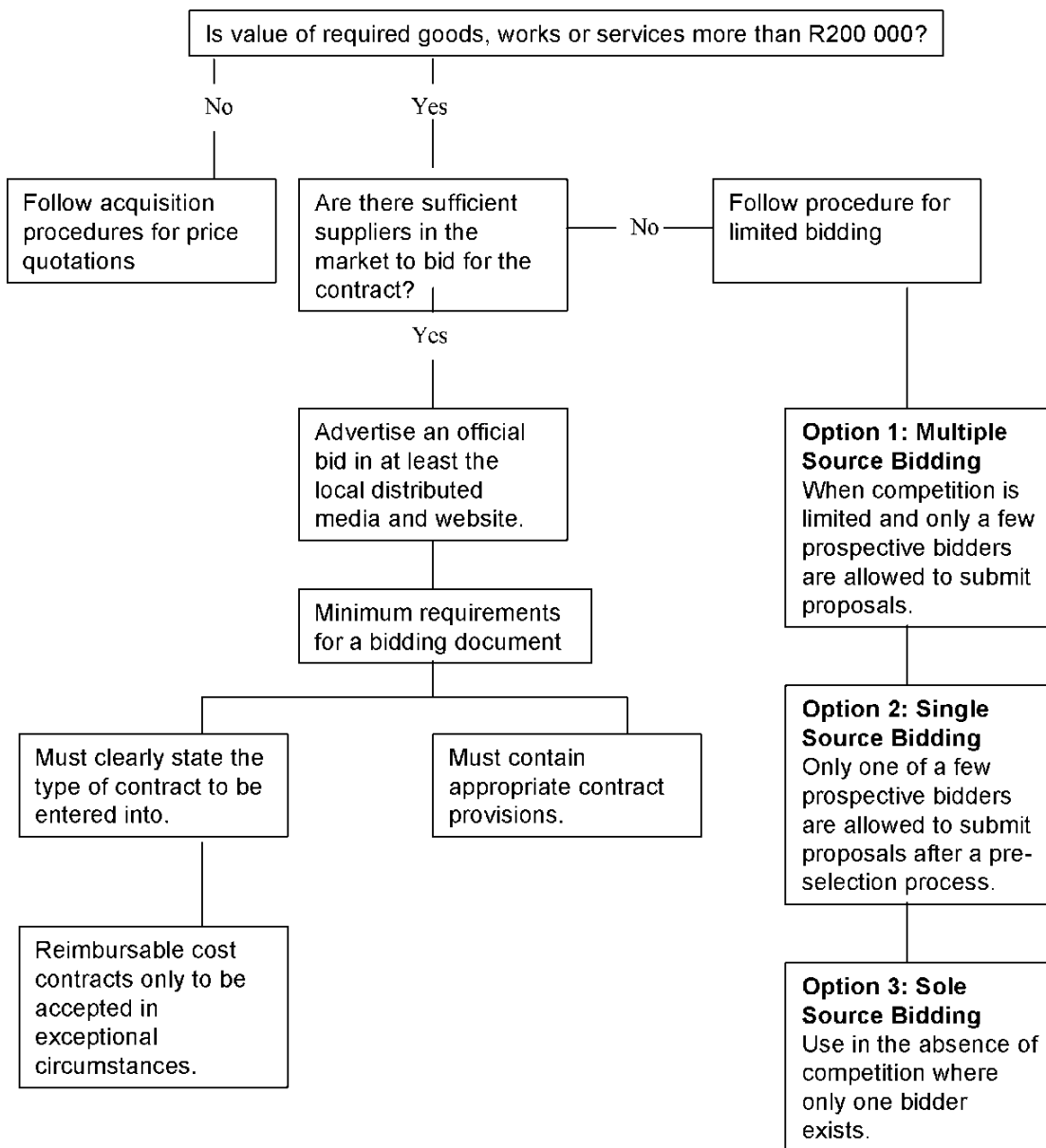
Flowchart of the Demand Management Process



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 0000 (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 R2 000, in accordance with the provisions of the Petty Cash Policy
 - b) written quotations for procurements of a transaction value over R2 000 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 R2000;
 - (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.
- (4) 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 number, if supplier is a register 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-filling 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.

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 evaluation and adjudication criteria, including any criteria required by other applicable legislation or Policies adopted by council, Preferential Procurement Policy;
- (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** – predefine 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 Garden Route District Municipality's Preferential Procurement Policy; 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)

- (i) 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)

(ii) 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

3. 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 local industries can provide such goods and services
 - a) 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 with the aim to support of the regional economic strategy and developing a vibrant economy within 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 if

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 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 from 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 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 (Follow Preferential Procurement Policy on Income Generating procurement); 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:
 - 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 Local Government Framework for Infrastructure Delivery and Procurement Management (LGFIDPM) – Refer to Annexure C*

d) **Other matters**

- I. all projects approved by the municipality must be registered with the CIDB
- 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 – R2000</i>	Petty Cash	Executive Manager	Supply Chain Management Policy S12(1)(a)
➤ <i>R 2 000 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 complied 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 of Service Level Agreements to be in accordance with Contract Management process.

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:

7.2Compensation

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.

Annexure B



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, favour, hospitality or other benefit directly or indirectly, including to any close family member, partner or associate of that person, of a value more than R350 or as may be set by council;
- (d) must declare to the accounting officer details of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person;
- (e) must declare to the accounting officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process, or in any award of a contract by the municipality ;
- (f) must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of a contract in which that person, or any close family member, partner or associate, has any private or business interest;
- (g) must declare any business, commercial and financial interests or activities undertaken for financial gain that may raise a possible conflict of interest;
- (h) should not place him/herself under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties; and
- (i) should not take improper advantage of their previous office after leaving their official position.

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, favouritism 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, favouritism or unfair conduct;
 - (ii) any alleged contravention of the policy on inducements, rewards, gifts and favours to municipalities or municipal entities, officials or other role players; and
 - (iii) any alleged breach of this code of conduct.
- 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

Local Government Framework for Infrastructure Delivery and Procurement Management (LGFIDPM)

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 SCM Framework for Infrastructure Delivery and Procurement Management of the Garden Route District Municipality, for procurement in excess of R50 million rand.

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Foreword

In 2012, the Infrastructure Delivery Management System (IDMS) was adopted as the chosen government wide system for infrastructure delivery in South Africa. In the same year (2012), the National Treasury, together with the eight metropolitan municipalities, initiated the customisations of the IDMS for implementation by municipalities. The product of that engagement became the Cities Infrastructure Delivery Management Toolkit (CIDMT), focusing mainly on cities or metros.

In order to establish a common approach to infrastructure delivery across all organs of state, the Standard for Infrastructure Procurement and Delivery Management (SIPDM) was issued for adaptation and adoption by municipalities in terms of Circular 77.

In the process of implementing and institutionalising the SIPDM, institutions expressed concerns regarding the operational challenges imposed by aspects of the SIPDM. This constraint was further compounded when the Preferential Procurement Regulations, 2017 were promulgated and effected, resulting in conflict between the SIPDM and the Regulations.

The National Treasury, in consultation with relevant stakeholders, initiated the SIPDM review process, which resulted in the development of the Local Government Framework for Infrastructure Delivery and Procurement Management (LGFIDPM). The LGFIDPM provides for minimum requirements for effective governance of infrastructure delivery and procurement management.

Introduction

- a) The Integrated Development Plan (IDP) is the principal strategic planning instrument for municipalities. The IDP process requires a robust process of gathering and synthesising information related to the medium to long-term management of the municipality's infrastructure needs.
- b) The preparation of Roads and Storm Water Services, Water and Sanitation Services, Waste Disposal Services, Electricity Services and Community Facilities and Municipal Buildings, Infrastructure Asset Management Plans (IAMPs) enables municipalities to rank projects and determine budgets, based on a holistic view of local needs and priorities; and serves as a source of valuable information in preparing the IDP.
- c) Through the Infrastructure Delivery Management System, Cities Infrastructure Delivery Management System was developed to provide a holistic system for the management of infrastructure based on the requirements of SANS 55001: Asset management tailored for application in South African metropolitan spaces and specifically in support of the country's spatial transformation agenda.
- d) There is need to develop an infrastructure delivery management system tailor-made for all municipalities (excluding cities) which should integrate asset management strategy, policy to guide infrastructure planning, delivery management and decision making. The LGFIDPM introduces the initial process focusing on the project processes of the infrastructure delivery management and infrastructure procurement.
- e) The Framework for Infrastructure Procurement Management should be implemented together with the project management processes, to ensure alignment, integration and efficient and effective service delivery.

1. Scope

- 1.1 The Local Government FIDPM applies to organs of state which are subject to the Municipal Finance Management Act (MFMA).
- 1.2 The Framework provides minimum requirements for the implementation of Infrastructure Delivery and Procurement Management through the:
 - a) Project processes for infrastructure delivery management, and
 - b) Infrastructure procurement gates.
- 1.3 The Framework specifies the allocation of responsibilities for performing activities and making decisions at project stages and procurement gates.

b) Terms and Definitions

Approved: Officially agreed and signed-off by an Accounting Officer or a delegated person / body.

Construction: Everything constructed or resulting from construction operations.

Employer: Organ of state intending to, or entering into, a contract with a contractor.

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 is made whether to proceed to the next process, or not.

Infrastructure:

- immovable asset, which is acquired, constructed or results from construction operations; or
- Movable asset, which cannot function independently from purpose-built immovable asset(s).

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

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

Organ of State: Any department of state or administration in the national, provincial and local sphere of government.

Procurement strategy: The selected packaging, contracting, pricing and targeting strategy and procurement procedure for a particular procurement.

Project: A unique set of processes consisting of coordinated and controlled activities with start and end dates, performed to achieve the project objective.

Stage: A collection of periodical and logically related activities in the Project Management Control Stages that culminates in the completion of an end of stage deliverable.

c) **ABBREVIATIONS**

CIDB Construction Industry Development

Board IDP Integrated Development Plan

FIDPM Framework for Infrastructure Delivery and Procurement

Management MFMA Municipal Finance Management Act

PSP Professional Service Provider

PPPFA Preferential Procurement Policy Framework Act

SCM Supply Chain Management

SDBIP Service Delivery Budget Implementation Plan

d) NORMATIVE REFERENCES

4.1 Acts of Parliament

The following referenced Acts of Parliament are indispensable in the application of this document:

- i. Architectural Profession Act, 2000 (Act No. 44 of 2000)
- ii. Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003)
- iii. Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)
- iv. Construction Industry Development Board Act, 2000 (Act No. 38 of 2000)
- v. Division of Revenue Act (Annual)
- vi. Engineering Profession Act, 2000 (Act No. 46 of 2000)
- vii. Landscape Architectural Profession Act, 2000 (Act No. 45 of 2000)
- viii. Municipal Finance Management Act, (No. 56 of 2003)
- ix. Local Government: Municipal Systems Act, 2000 (Act No. 32 Of 2000)
- x. National Archives and Record Services of South Africa Act, 1996 (Act No. 43 of 1996)
- xi. Occupational Health and Safety Act, 1993 (Act No. 85 of 1993)
- xii. Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
- xiii. Project and Construction Management Professions Act, 2000 (Act No. 48 of 2000)
- xiv. Public Finance Management Act, 1999 (Act No. 1 of 1999)
- xv. Quantity Surveying Profession Act of 2000 (Act No. 49 of 2000)
- xvi. Other Sector Specific Acts of Parliament.

4.2 Regulations issued in terms of the MFMA and MFMA Circulars

- i) Regulations issued in terms of the MFMA
- ii) Preferential Procurement Policy Framework Act Regulations (PPPFA of 2017 or as amended from time to time) and circulars.

4.3 Standards

- i) Applicable Construction Industry Development Board Standard for Uniformity
- ii) Construction Sector Code

4.4 Management System

- i) System in place
- ii)

4.5 National Treasury Guidelines

- i) Local Government Capital Asset Management Guideline and Planning Guidelines
- ii) Budget Facility for Infrastructure (BFI).

4.6 Department of Cooperative Governance and Traditional Affairs Guidelines

- i) Guidelines for Infrastructure Asset Management in Local Government.

e) FRAMEWORK FOR INFRASTRUCTURE DELIVERY

5.1 The Infrastructure Delivery Management Project Processes

- a) The project process of infrastructure delivery management contains control stage deliverables at the end of each stage. Table 1 outlines the stage deliverables that must be approved. The control stages are specific to project management processes; and outline and describe the stages in the life of a project from start to end. The specific stages are determined by the specific project's governance and control needs. The stages follow a logical sequence with a specified start and end. The deliverable is considered to have passed through the relevant stage when it is approved and signed off. The project then moves on to the next sequential stage. It is expected that the Garden Route Municipality's project implementation process reflects an engagement between the Budget Treasury Office, IDP, SCM, and all strategic role players when developing and approving projects. It is also expected that there should be engagements with the National and Provincial Treasury where appropriate or where projects dictate so.

Table 1: Project stage deliverables

Stage		Project Stage Deliverables
No	Name	End of Stage Deliverables
1	Initiation	<p>Initiation Report or Pre-feasibility Report</p> <p>(5) The Initiation Report defines project objectives, needs, acceptance criteria, organisation's priorities and aspirations, and procurement strategies, which set out the basis for the development of the Concept Report.</p> <p>Or</p> <p>(6) A Pre-feasibility Report is required on Mega Capital Projects, to determine whether to proceed to the Feasibility Stage; where sufficient information is presented to enable a final project implementation decision to be made. Mega capital projects should be determined in the municipality's policy approved by the Municipal Council.</p> <p>Stage 1 is complete when the Initiation Report or Pre-feasibility Report is approved.</p>

2	Concept	<p>Concept Report or Feasibility Report</p> <ul style="list-style-type: none"> i. The Concept Stage presents an opportunity for the development of different design concepts to satisfy the project requirements developed in Stage 1. This stage presents alternative approaches and an opportunity to select a particular conceptual approach. The objective of this stage is to determine whether it is viable to proceed with the project, premised on available budget, technical solutions, time frame and other information that may be required. ii. The Concept Report should provide the following minimum information:
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Stage		Project Stage Deliverables
No	Name	End of Stage Deliverables
		<ul style="list-style-type: none"> a) Document the initial design criteria, cost plan, design options and the selection of the preferred design option; or the methods and procedures required to maintain the condition of infrastructure, or the project. b) Establish the detailed brief, scope, scale, form and cost plan for the project, including, where necessary, the obtaining of site studies and construction and specialist advice. c) Provide an indicative schedule for documentation and construction, or maintenance services, associated with the project. d) Include a site development plan, or other suitable schematic layouts, of the works. e) Describe the statutory permissions, funding approvals and utility approvals required to proceed with the works associated with the project. f) Include a baseline risk assessment for the project and a health and safety plan, which is a requirement of the Construction Regulations issued in terms of the Occupational Health and Safety Act. g) Contain a risk report, need for further surveys, tests, investigations, consents and approvals, if any, during subsequent stages. <p>iii. A Feasibility Report must provide the following minimum information:</p> <ul style="list-style-type: none"> a. Details regarding the preparatory work covering: <ul style="list-style-type: none"> i. A needs and demand analysis with output specifications. ii. An options analysis. b. A viability evaluation covering: <ul style="list-style-type: none"> i. A financial analysis. ii. An economic analysis, if necessary. c. A risk assessment and sensitivity analysis; d. A professional analysis covering: <ul style="list-style-type: none"> i. A technology options assessment. ii. An environmental impact assessment. iii. A regulatory due diligence. e. An implementation readiness assessment covering: <ul style="list-style-type: none"> i. Institutional capacity. ii. A procurement plan. <p>Stage 2 is complete when the Concept Report or the Feasibility Report is approved.</p>
3	Design Development	<p>Design Development Report</p> <ul style="list-style-type: none"> 1) The Design Development Report must, as necessary: <ul style="list-style-type: none"> a) Develop, in detail, the approved concept to finalise the design and definition criteria.

Stage		Project Stage Deliverables
No	Name	End of Stage Deliverables
		<p>b) Establish the detailed form, character, function and costings.</p> <p>c) Define the overall size, typical detail, performance and outline specification for all components.</p> <p>d) Describe how infrastructure, or elements or components thereof, are to function; and how they are to be safely constructed, be commissioned and be maintained.</p> <p>e) Confirm that the project scope can be completed within the budget, or propose a revision to the budget.</p> <p>Stage 3 is complete when the Design Development Report is approved.</p>
4	Design Documentation	<p>Design Documentation</p> <p>(vii) Design documentation provides:</p> <ul style="list-style-type: none"> the production information that details performance definition, specification, sizing and positioning of all systems and components that will enable construction; the manufacture, fabrication and construction information for specific components of the work, informed by the production information. <p>Stage 4 is complete when the Design Documentation Report is approved.</p>
5	Works	<p>Completed Works capable of being used or occupied</p> <p>4) Completion of the Works Stage requires:</p> <p>a) Certification of the completion of the works in accordance with the provisions of the contract; or</p> <p>b) Certification of the delivery of the goods and associated services in accordance with the provisions of the contract.</p> <p>Stage 5 is complete when the Works Completion Report is approved.</p>
6	Handover	<p>Works which have been taken over by the user or owner; Completed Training; Record Information</p> <p>(5) The handover stage requires the following activities to be undertaken:</p> <p>a) Finalise and assemble record information which accurately reflects the infrastructure that is acquired, rehabilitated, refurbished or maintained;</p> <p>b) Hand over the works and record information to the user organisation and, if necessary, train end user staff in the operation of the works.</p> <p>Stage 6 is complete when the Handover/Record Information Report is approved.</p>

7	Close-Out	Defects Certificate or Certificate of Final Completion; Final Account; Close-Out Report
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Stage		Project Stage Deliverables
No	Name	End of Stage Deliverables
		<p>(6) The Close-Out Stage commences when the end user accepts liability for the works. It is complete when:</p> <ul style="list-style-type: none"> a) Record information is archived; b) Defects certificates and certificates of final completion are issued in terms of the contract; c) Final amount due to the contractor is certified in terms of the contract; d) Close-Out Report is prepared by the Implementer and approved by the Municipality. <p>Stage 7 is complete when the Close-out Report is approved.</p>

- b) Procurement of PSPs and Contractors can occur at different points in the project stages.
- c) Additional stages may be added to the described stages above, if deemed necessary. For example, additional stages could include those necessary to ensure that project activities are appropriately carried out and stages linked. Contract activities would, in many instances, be contingent upon the requirements of the specific contract being used.
- d) For project progress using the project stages, reporting must be for the deliverable achieved in the stage immediately prior to the 'in progress' stage. For example, if a project is shown as being at Stage No. 3 (Design Development), it implies that the deliverable for Stage No. 2 (i.e. the Concept Report) has been achieved; and that the deliverable for Stage 3 (i.e. the Design Development Report) is in the process of being prepared.
- e) Where an organ of state engages another organ of state to provide agency services, a service delivery agreement must be developed that outlines the roles and responsibilities for each organ of state; and establishes a relationship between the client and the implementer. The development of all deliverables should be carried out in a cooperative and consultative manner between the Client and Implementer parties. All deliverables must be developed and signed off in compliance with the specific service delivery agreement.

c) **Gateway Reviews**

5.2.1 Gateway reviews for mega capital projects : Value > R50 000 000

- i. The MFMA (Act 56 of 2003), section 19 (2) states: "Before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider the projected cost covering all financial years from the start until the project is operational; and the future operational costs and revenue on the project, including municipal tax and tariff implications."
- ii. The (LGFIDPM) Local Government Framework for Infrastructure Delivery and Procurement Management, prescribes the Gateway Review at the end of stage 2, as the minimum requirement to comply with section (i) above.
- iii. The focus of such a review must be on the quality of the documentation in the first instance, and thereafter on:
 - a. Deliverability: the extent to which a project is deemed likely to deliver;

- b. Expected benefits: within the declared cost, time and performance area;
 - c. Affordability: the extent to which the project's level of expenditure and financial risk can be accepted, given the organisation's overall financial position, both singly, and when considering its other current and projected commitments; and
 - d. Value for money: The optimum combination of whole life costs and quality (or fitness of purpose), to meet the user's requirements.
- iv.** A gateway review team must comprise of not less than three persons who are neither involved, nor associated with the project, but have a broad understanding of the subject matter.
- v.** A gateway review must be led by a person who has experience in the planning of infrastructure projects and is registered as a professional with a statutory council under the built environment professions. The members of the team must, as relevant, have expertise in the key technical areas, cost estimating, scheduling and implementation of similar projects.
- vi.** It is the duty of the institution's Accounting Officer or Authority to appoint a team responsible for the gateway review of his or her institution.
- vii.** The gateway review team must base its findings primarily on:
 - a) The information contained in the end-of-stage deliverable;
 - b) Supplementary documentation, if any, provided by key staff and obtained during an interview process; and
 - c) Interviews with key staff members and stakeholders.
- viii.** The gateway review team must issue a report at the conclusion of a gateway review, which reflects the team's assessment of the information at the end of a stage; and provides findings or recommendations on areas where further work should be undertaken to improve such information.
- ix.** The gateway review findings must be classified by the gateway review team as:
 - a) Critical: Findings that pose adverse effect to the project or package. Critical findings are findings related to the stage deliverable that are wholly unacceptable.
 - b) Major: Findings that pose a potentially adverse effect to the project or package. Major findings are serious findings and are in direct violation of key legislation, e.g. The Constitution of the Republic of South Africa, the MFMA or the PPPFA.
 - c) Minor: Findings that do not pose any adverse effect to the project or package. Minor findings indicate the need for improvement of practices and processes.
- x.** A Stage 2 deliverable must not be approved until such time that all findings have been resolved.

6.1 FRAMEWORK FOR INFRASTRUCTURE PROCUREMENT

(1) INTRODUCTION

The framework for infrastructure procurement outlines the minimum infrastructure procurement policy requirements for municipal planning and implementation.

The strategic direction set in the Integrated Development Plan (IDP) informs the framework for infrastructure procurement. For example, procurement strategies must be aligned to the municipality's developmental and internal transformation needs, as specified in the IDP.

(2) MINIMUM REQUIREMENT FOR INFRASTRUCTURE PROCUREMENT

- a) Infrastructure procurement must be undertaken in accordance with all applicable Infrastructure Procurement related legislation and this Framework.
- b) Infrastructure procurement must be implemented in accordance with the procurement gates prescribed in clause 6.3 below.
- c) The Accounting Officer must ensure that a budget is available for the duration of the project, in line with MFMA provisions for capital and operating budgets.
- d) The Accounting Officer must ensure that cash flow management processes are in place to meet payment obligations within the time periods specified in the contract.
- e) Procurement gates provided in 6.3 below must be used, as appropriate, to:
 - (i) Authorise commencement of activities that lead to the next control gate;
 - (ii) Confirm conformity with requirements; and/or
 - (iii) Provide information to eliminate any cause of non-conformity and to prevent reoccurrence.
- f) The authorisation to proceed to the next procurement gate must be given by a delegated person or body. The delegated person or body must be able to apply relevant built environment knowledge and skill to achieve the intended results required at the relevant procurement gate. The level of detail contained in the documentation on which a decision to proceed to the next procurement gate is made, must be sufficient to enable an informed decision.
- g) The Accounting Officer must develop and implement effective and efficient emergency procurement procedures, including relevant approval delegation, in compliance with relevant legislation.
- h) The Accounting Officer must develop and implement an effective and efficient infrastructure disposal policy in line with the Municipal Asset Transfer Regulations. The institution may consider disposal strategies aligned to their internal disposal policy, prior to proceeding with the procurement strategy.
- i) The Accounting Officer must keep records of Procurement Gate Approvals, in a manual or electronic format, with the following minimum requirements:
 - (i) Procurement gate;
 - (ii) Delegated person/s or body;
 - (iii) Date on which the approval request was received;
 - (iv) Date on which the approval was actioned; and
 - (v) Signature of the delegated person or body.
- j) All assets must be recorded in the municipal asset register as required by the

GRAP standards.

6.3 Infrastructure Procurement Gates

6.3.1 Procurement Gate 1 (PG 1)

- a) Initiate a procurement process;
- b) Minimum Requirement for PG 1:
 - i. Establish and clarify the procurement need, aligned to the municipality's development and transformation priorities specified in the IDP.
 - ii. Determine a suitable title for the procurement, to be applied as the project description
 - iii. Prepare the broad scope of work for the procurement.
 - iv. Perform market analysis.
 - v. Estimate the financial value of proposed procurement and contract for budgetary purposes, based on the broad scope of work.
 - vi. Confirm the budget.
 - vii. Compliance with section 33 of the MFMA with respect to community and stakeholder consultation.
- c) **PG 1 is complete when a designated person or body makes the decision to proceed/not to proceed, with the procurement of the infrastructure.**

6.3.2 Procurement Gate 2 (PG 2)

- a) Approve procurement strategy to be adopted.
- b) **Minimum Requirement for PG 2:**
 - i. Develop a procurement strategy aligned to the institutional procurement strategy:
 - ii. Establish contracting and pricing strategy comprising of an appropriate allocation of responsibilities and risks; and the methodology for contractor payments.
 - iii. Identify service required for works.
 - iv. Decide on contracting strategy.
 - v. Decide on pricing strategy.
 - vi. Decide on form of contract.
 - vii. Establish opportunities for promoting preferential procurement in compliance with legislative provisions and the Construction Sector Code.
- c) **PG 2 is complete when a delegated person or body approves the procurement strategy that is to be adopted.**

6.3.3 Procurement Gate 3 (PG 3)

- a) Approve procurement documents.
- b) **Minimum requirements for PG 3:**
 - 1) Prepare procurement documents that are compatible with:
 - i. approved procurement strategies.
 - ii. project management design documentation.
- c) PG 3 is complete when the Bid Specification Committee approves the procurement document.

6.3.4 Procurement **Gate 4 (PG 4)**

- a) Confirm that cash flow processes are in place to meet projected contractual obligations.
- b) **Minimum requirement for PG 4**
 - 6.3.4.b.1 Confirm that cash flow processes are in place to meet contractual obligations.
 - 6.3.4.b.2 Establish control measures for settlement of payments within the time period specified in the contract.
- c) **PG 4 is complete when a delegated person or body confirms in writing that cash flow processes are in place; and control measures are established for the procurement to take place.**

6.3.5 Procurement **Gate 5 (PG 5)**

- a) Solicit tender offers.
- b) **Minimum requirements for PG 5**
 - 6.3.5.b.1 Invite contractors to submit tender offers.
 - 6.3.5.b.2 Receive tender offers.
 - 6.3.5.b.3 Record tender offers.
 - 6.3.5.b.4 Safeguard tender offers.
- c) **PG 5 is complete when tender offers received are recorded and safeguarded by a delegated person from the SCM unit.**

6.3.6 Procurement **Gate 6 (PG 6)**

- a) Evaluate tender offers premised on undertakings and parameters established in procurement documents.
- b) **Minimum Requirement for PG 6:**
 - 6.3.6.b.1 Determine whether tender offers are complete.
 - 6.3.6.b.2 Determine whether tender offers are responsive.
 - 6.3.6.b.3 Evaluate tender submissions.
 - 6.3.6.b.4 Review minimum compliance requirements for each tender.
 - 6.3.6.b.5 Perform a risk analysis.
 - 6.3.6.b.6 Prepare a report on tender offers received, and on their achievement of minimum compliance.
- c) **PG 6 is complete when the chairperson of the Bid Evaluation Committee approves the BEC report.**

6.3.7 Procurement **Gate 7 (PG 7)**

- a) Award the contract.
- b) **Minimum Requirement for PG 7:**
 - 6.3.7.b.1 Bid adjudication committee review of the BEC evaluation report.
 - 6.3.7.b.2 Bid Adjudication Committee makes an award.
 - 6.3.7.b.3 Accounting Officer approval of the tender process.
 - 6.3.7.b.4 Notify successful tenderer and unsuccessful tenderers of the outcome.
 - 6.3.7.b.5 Sign contract document.
 - 6.3.7.b.6 Formally accept tender offer.
- c) **PG 7 is complete when the Accounting Officer, or the Bid Adjudication Committee where delegated, confirms that the tenderer has provided evidence of**

complying with all requirements stated in the tender data and formally accepts the tender offer in writing, and issues the contractor with a signed copy of the contract.

6.3.8 Procurement Gate 8 (PG 8)

a) Administer and monitor the contract.

b) Minimum Requirements for PG 8:

1) Finance department to:

- i. Capture contract award data.
- ii. Manage cash flow projection.
- iii. Administer contract in accordance with the terms and provisions of the contract.

i. Delivery department to:

2) Ensure compliance with contractual requirements.

c) PG 8 is complete when a delegated person captures the contract completion/termination data (close out reports and relevant documents), including payment certificates due.

ANNEXURE I

**CREDIT CONTROL AND DEBT
COLLECTION POLICY**



CREDIT CONTROL AND DEBT COLLECTION POLICY

Date

DC Approved:

Council
Resolution (DC
No):

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PREAMBLE

In terms of section 96 of the Local Government: Municipal Systems Act, 2000, a Municipality shall-

- 9 collect all money due and payable to it, subject to the provisions of the Act and any other applicable legislation; and
- 10 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 a 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.

6. 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-

- 6.1** rental agreements;
2. fire services
3. air quality services
- environmental health levies
- 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 –

- who is in an acting capacity in that position;
- 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

- 6 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
- 7 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-

7.1 the person in whom ownership vests;

7. 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;
8. 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;
9. in the event of immovable property in respect of which a lease agreement of 30 years or longer had been concluded, the lessee thereof;

10. in respect of-

- 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;
- 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 to the Deeds Registries Act, 1937 (Act No 47 of 1937), including the lawfully appointed representative of such person;

11. any persona, including but not limited to:

- 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;
- any government department;
- any council or governing body established in accordance with any legislation in force in the Republic of South Africa; and
- 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 principal debt balance levied which is outstanding at the due date for payment - which excludes the total accumulated interest balance which forms part of the total overdue amount on the account

7. CUSTOMER CARE AND MANAGEMENT

2.1. COMMUNICATION AND THE CONVEYANCE OF INFORMATION

- 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;

- 5) identify, within the region, the needs which are legally the responsibility of the Municipality;
- 6) involve the community in the prioritising of such needs;
- 7) involve the community in the Municipality's planning of projects and what the Municipality is and other government levels are doing; and
- 8) 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.
 - a) 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;

- 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.

- **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;

- **ENQUIRIES. APPEALS. ANP SERVICE COMPLAINTS**

- 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.
- 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.
- 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.
- 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

- A person may appeal against the findings of the Municipality referred to in paragraph 2.3.3.
- 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-
(l) set out the grounds of the appeal
- The Municipal Manager must commence with an appeal within six (6) weeks and decide the appeal within a reasonable period.

2) PAYMENT FACILITIES

- The Municipality shall provide and maintain strategically situated accessible payment offices and cash points throughout its area of jurisdiction
- 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;
- 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.
- 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.

- 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

c) 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 INABILITY FOR PAYMENT OF MONEY DUE AND PAYABLE TO THE MUNICIPALITY

- The person responsible for the payment of money due and payable to the Municipality will be the following in the instances mentioned hereafter:
- any other services -the person to whom such services were delivered.
- 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.
- 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

- Municipal Services, Rental Agreements, Sundry debtors

- 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.
- 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.
- 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.

**(1) ACTIONS TO BE TAKEN WHERE DEBTORS FALL IN ARREARS OR FAIL TO PAY
MONEYS DUE ON OR BEFORE THE DATE OF PAYMENT**

a) FEES AND LEVIES IN ARREARS IN RESPECT OF MUNICIPAL SERVICES

- Interest shall be levied interest on overdue account will be calculated on total principal debt balance levied which is outstanding at the due date for payment - which excludes the total accumulated interest balance which forms part of the total overdue amount on the account
- 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 instalments 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.

(i) 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.

(ii) If fees, or any portion thereof, due in respect of municipal services remain unpaid for a period exceeding 90 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.

• **ARREARS RENTAL AGREEMENTS**

- 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.
- 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.

- 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*.
- 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 3.3.2.3.

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*.

V. LEVYING OF INTEREST

- Interest at the standard rate shall be levied and collected in respect of all amounts in arrears due and payable to the Municipality.
- 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.
- Interest is levied on the total principle debt balancer outstanding and interest on interest will not be levied as part of the outstanding balance

iv. COLLECTION OF DEPOSIT

- a) 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.
- b) 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.
- c) The amount of the deposit is determined as per specific agreement for municipal services.
- d) 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.
- e) The Municipality is not liable for the payment of interest on deposits held by the Municipality.

f) INSTITUTION OF LEGAL PROCEEDINGS

- The institution of legal proceedings includes, but is not limited to-
 - the suing of a debtor for payment of amounts in arrears;
 - the attachment of rent payable in respect of a property;
 - the attachment of a debtor's remuneration;
 - the attachment and sale in execution of movable things;
 - the attachment and sale in execution of immovable property;
 - the evacuation of a tenant from a rented property in the event of rental due to the Municipality in respect of such leased property.
- The institution of legal proceedings is undertaken with due consideration of all legal requirements and in compliance with the applicable regulations and procedural rules.
- Discretionary powers vest in the Manager: Financial Services to decide whether

- an account should be handed over to a debt collector or an attorney for collection and if
- 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.

- 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.

a. WRITING OFF OF BAD DEBT

3.8.1 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

- Deed search to be requested from Legal Services Department on ID numbers of deceased debtors
- 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.

3.8.2 Prevention Of Prescription Of Debt

- 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.

- 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:-

- 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
- 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.

- In terms of Section 11 of the Prescription Act, 1969 (Act 68 of 1969), the periods of prescription of debts are as follows:
 - **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.
 - **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.
 - **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.
 - **Three years** in respect of all other debts, save where an Act of Parliament provides otherwise.²⁹

3.8.3 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.

3.8.4 WRITE OFF DEBTS OWING TO THE MUNICIPALITY

(iii) 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.

(iv) SPECIFIC CONDITIONS

The Municipality will consider debts for write-off in the following specific circumstances:

- 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

- 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:

- 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
 - 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.
- 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.

iv. 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 -

- 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
- 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.

• 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.

• 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.

- **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.

- **QATA 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	Council
Approved:	D
	C Resolution (DC No):

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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:

25. The placing or deposit of funds with a financial institution' or
26. 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) Act 1 of 1985, contracted by a municipality or municipal entity to -
 16. advise on investments
 17. manage investments on its behalf ; or
 18. 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

9 **Objective and Scope of Policy**

- 9.1 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.
- 9.2 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.
- 9.3 This policy is intended to provide a framework for ensuring the proper management and investment of its cash resources so as to ensure:

- That the net current asset requirements of the municipality are effectively managed;
- That sufficient cash resources are available to finance the capital and operating budgets of the municipality;
- That the highest possible return on investments is gained without unnecessary risk, during periods when excess funds are not immediately required;
- That in so doing, the primary aim of preserving and ensuring the safety of deposits is promoted;
- That there is effective control over the management of bank accounts
- That investments are diversified.

9.4 This policy shall apply to the management of all of the cash resources of the Municipality and to all investments made by it

10 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:

10.1 The Local Government: Municipal Finance Management Act No. 56 of 2003 ("the MFMA") and

10.2 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").

11 Principles of Sound Cash Management

In order to promote sound cash management, the Municipality shall

adhere to the following principles:

- 11.1 It shall collect revenue when it is due and bank it promptly;
- 11.2 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;
- 11.3 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;
- 11.4 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;
- 11.5 It shall and pursue apply its debt collection policy to ensure that amounts receivable by the municipality are collected and banked promptly;
- 11.6 It shall accurately forecast its cash flow requirements;
- 11.7 It shall synchronise the inflow and outflow of cash;
- 11.8 It shall recognise the time value of money by economically, efficiently and effectively managing cash;
- 11.9 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.

11 **CASH COLLECTION**

- 11.1 All monies due to the municipality must be collected as soon as possible,

either on or immediately after due date, and banked on a economical minimum of twice p.m basis.

- 11.2** 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.

12 RECEIPT OF PAYMENTS

- 12.1** 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.

- 12.2** When money is received over the counter:

- 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
- 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.

- 12.3** Payments by cheque

No payments by cheque will be accepted

- 12.4** When money is received by electronic transfer, such transfers must be immediately recorded and receipts must be issued.

8. Payments to Creditors

- 8.1** 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, subject to the provisions of Section 65 of the MFMA.

- 8.2** 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 CFO chief financial officer may in his discretion authorise payment thereof.
- 8.3** 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.
- 8.4** 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.
- 8.5** Special payments to creditors (that is to say, payments made in circumstances not contemplated elsewhere in this section) 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.
- 8.6** Credit statements must be reconciled monthly.
- 8.7** Payments must be made only on receipt of an official order, certified goods received note and official company invoice.
- 8.8** All payments, other than petty cash disbursements, shall be made through the municipality's bank account(s) .
- 8.9** 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 7.10, determine the rules and procedures relating to the approval of payments and jointly with the municipal manager decide on appropriate signatories.
- 8.10** 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.

8.11 Notwithstanding the above, payments shall be effected by means of electronic transfers with the normally accepted control measures being applied

- 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.
- 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.
- 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.
- The chief financial officer or the delegated authority 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.
- 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 councillors, officials or related spouses or family members.

- **MANAGEMENT OF INVENTORY**

- The chief financial officer or delegated authority shall be responsible for the proper administration of all stores.
- If sub-stores are established under the control of any head of department, or delegated authority 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.
- No sub-store may be established without the prior written consent of the chief financial officer.
- Each head of department or delegated authority 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.

- A stock register, reflecting the undermentioned detail must be kept and updated daily:

10.5.1 Item description;

10.5.2 Stores code

10.5.3 number;

10.5.4 Transaction date;

On goods received-

- Goods delivery note number;
- Number of items received; and

10.5.5 Value of items

received. On goods issued-

- Requisition number; and

- Number of items issued.
 - Balance of items in stock.
- Stock counts must be affected monthly and an annual report reflecting stock shortage and surpluses must be submitted to council as at 31 August of each financial year. All surpluses and shortages must be explained by the accountable head of department.
- 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.

9) **CASH FLOW PROJECTIONS**

- a) 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.
- b) Provision must be made in the cash flow estimates for the operating and capital requirements of the municipality.
- c) The operating requirements must include provisions for:
 - i) Monthly salary and allowances payments;
 - ii) Bulk purchases of electricity and water;
 - iii) Interest on long term loans;
 - iv) Maintenance of assets;
 - v) General expenditure [payments to current creditors]; and
 - vi) Expected daily and monthly incomes.
- d) 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.

- e) 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.
- f) 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.
- g) Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

(iv) **INVESTMENT ETHICS**

- 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.
- 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.
- 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.

8. **INVESTMENT PRINCIPLES**

- (i) When money is available for investment, it shall be invested in accordance with the provisions contained in this policy.
- (ii) 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.
- (iii) In order to limit exposure, where large sums of money are available for investment, the Chief Financial Officer shall ensure that:
 - 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 50% are invested at the institution with the highest rate, 30 % at the institution with the 2nd highest rate and 20% with the institution with the 3rd highest rate of available funds at that date; and
 - As far as it is practically and legally possible, the municipality's investments are so distributed that more than one investment category is covered.
- (iv) 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.
- (v) 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

- (vi) 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.
- (vii) 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.
- (viii) 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.
- (ix) 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.

11. Credit Ratings

- 1) It is of utmost importance that the investments only be placed with creditworthy institutions with a credit rating of A 1 and better for short term [0 - 12 months) and credit ratings AA and AAA ratings for long term [more than 12 months)
- 2) Fitch and or CA ratings to be obtained of all investments institutions before a financial institution may be considered for investing funds.
- 3) Ratings must be updated at least annually or when there has been structural change in the market or at the particular institution.
- 4) The optimal combination of the most favourable rated institution and the institution offering the best returns for the investment sought, should be the determining factor when choosing the institution.

(viii) **PERMITTED INVESTMENTS**

- Monetary investments: The Municipality may invest funds only in investment types permitted under Regulation 6 of the Investment Regulations.
- Non-monetary investments: Any non-monetary investments will require approval by Council prior to execution.

(ix) **CALL DEPOSITS AND FIXED DEPOSITS**

- Before making any call or fixed deposits, the chief financial officer, shall obtain quotations from at least three institutions.
- Given the volatility of the money market, the chief financial officer, shall, whenever necessary, request quotations electronically, 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).

d) 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.

(6) CONTROL OVER INVESTMENTS

- a) The Chief Financial Officer shall ensure that proper records are kept of all investments made by the Municipality.
- b) Such records shall include an investment register in which the following information shall be recorded:
 - Name of institution
 - Capital invested
 - Date invested
 - Interest rate
 - Maturationdate
 - Interestreceived
 - Capitalrepaid; and
 - Balance invested (other categories).
- c) The investment register and accounting records must be reconciled on a monthly basis.

- d) The investment register must be examined on a fortnightly basis to identify investments falling due within the next two weeks.
- e) The Chief Financial Officer must ensure that interest, correctly calculated, is received on due date.
- f) Investment documents and certificates must be safeguarded in a fire resistant safe, with dual custody. The following documents must be safeguarded:
 - Fixed deposit letter or investment certificate
 - Receipt for capital invested,
 - Copy of electronic transfer or cheque requisition
 - Excel schedule of comparative investment figures,
 - Commission certificate indicating no commission was paid on the investment; and
 - Interest rate quoted.

(7) REPORTS

The Municipal Manager shall ensure that reports are submitted to the Mayor as required under Regulation 9 of the Investment Regulations.

(8) BANKING ARRANGEMENTS

- a) The Municipal Manager is responsible for the management of the Municipality's bank accounts, but may delegate this function to the Chief Financial Officer.
- b) The Municipal Manager and Chief Financial Officer are authorised at all times to sign electronic transfers and any other documentation associated with the management of such accounts.
- c) 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.

- d) All bank accounts and investments must be in the name of the municipality.
- e) The selection of the Municipality's Bankers shall be carried out in accordance with the Municipality's Supply Chain Management Policy.

12. Raising of Debt

- (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.
- (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;

k) The Supply Chain Management Policy;

l) The Budget Policy;

m) The Borrowing Policy;

(d) REVIEW OF POLICY

This policy is to be reviewed annually.

(e) RESPONSIBILITY FOR IMPLEMENTATION

The Municipal Manager shall be responsible for the implementation of this policy, provided that the Municipal Manager 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

28 Commencement

This policy shall come into force on the first day of July 2021

ANNEXURE K

BORROWING POLICY



BORROWING POLICY

Date Approved:

Council Resolution (DC
No):

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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 20 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

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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 of 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 COUNCIL RESOLUTION DC



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*
- 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** local industries can provide such goods and services*
- (2) The district to develop and support Proudly Garden Route Brand and products with ,the aim to support 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 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.

Economic Development and Planning Department to partake in the process of setting targets for the organization with clear guidelines for their measurement.

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 by the Department of Trade and Industry

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
1.13. “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</p>

	system
1.20. “stipulated minimum threshold	means the minimum threshold stipulated in terms of Department of Trade Industry and National Treasury
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 applies to the Garden Route District Municipality and the objectives are to:
 - 2.2.1.** Provide clarity on the municipality’s approach to procurement, particularly with regards to requirements of preferential procurement;
 - 2.2.2.** Provide access to contracts for historical disadvantaged individuals;
 - 2.2.3.** Promote participation by SMMEs;
 - 2.2.4.** Promote capacity development and skills transfer;
 - 2.2.5.** Promote Local Economic Development and endeavour to use procurement as a means to boost the economy of the Garden Route Region
 - 2.2.6.** 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 as per Local Economic Development Strategy
- 2.3.** General requirements
 - 2.3.1.** 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.
 - 2.3.2.** Outputs required will be quantified and will form part of the contractual arrangement upon awarding of the contract.

3. Identification of preference point system, objective criteria and sub-contracting

- 3.1.** The Garden Route District 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,5, 6, or 7 of the Garden Route District Municipality Preferential Procurement Policy
- (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 sub-contracting is applicable to the tender as envisaged in Section 9;

Determine whether objective criteria are applicable to the tender as envisaged in section 10

4. Tenders to be evaluated on functionality

- 4.1.** The Municipality must state in the tender documents if the tender will be evaluated on functionality.
- 4.2.** The evaluation criteria for measuring functionality must be objective.
- 4.3.** The tender documents must specify-
 - 4.3.1.** the evaluation criteria for measuring functionality;
 - 4.3.2.** the points for each criteria and, if any, each sub-criterion; and
 - 4.3.3.** the minimum qualifying score for functionality.
- 4.4.** The minimum qualifying score for functionality for a tender to be considered further-
 - 4.4.1.** must be determined separately for each tender; and
 - 4.4.2.** may not be so-
 - (i) low that it may jeopardise the quality of the required goods or services; or
 - (ii) high that it is unreasonably restrictive.
- 4.5.** Points scored for functionality must be rounded off to the nearest two decimal places.
- 4.6.** A tender that fails to obtain the minimum qualifying score for functionality as indicated in the tender documents is not an acceptable tender.
- 4.7.** 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 10.

5. 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

- 5.1.** 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

Pmin = Price of lowest acceptable tender.

5.2. 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 Contrib utor	Number of Points
1	20
2	18
3	14
4	12
5	8
6	6
7	4
8	2
Non- compli ant contribu tor	0

5.3. A tenderer must submit proof of its B-BBEE status level of contributor.

5.4. 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-

5.4.1. may only score points out of 80 for price; and

5.4.2. scores 0 points out of 20 for B-BBEE.

5.5. 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.

5.6. 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).

5.7. The points scored must be rounded off to the nearest two decimal places.

5.8. Subject to sub-section 5.9 and section 10, the contract must be awarded to the tenderer scoring the highest points.

5.9. 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.

5.10. The Municipality may-

5.10.1. negotiate a market-related price with the tenderer scoring the highest points or cancel the tender;

5.10.2. 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;

5.10.3. 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.

5.11. If a market-related price is not agreed as envisaged in section 5.10.3, the Municipality must cancel the tender.

6. 90/10 preference point system for acquisition of goods or services with Rand value above R50 million

6.1. 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

P_{min} = Price of lowest acceptable tender.

6.2. 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 Contrib utor	Number of Points
1	10
2	9
3	6
4	5
5	4
6	3
7	2
8	1
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 contribution or is a non-compliant contributor to B-BBEE may not be disqualified, but-

6.4.1. may only score points out of 90 for price; and

6.4.2. scores 0 points out of 10 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 contribution in terms of Sub-Section (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 sub-section (6.9) and section 10, 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. Tenders to generate income or to dispose of or lease assets

7.1 Tenders that Generate income or to dispose of or lease assets with a rand value below R30 000, will be awarded to the bidder with the highest bid on offer

7.2 80/20 preference points system for tenders to generate income or to dispose of or lease assets with Rand value equal to or above R30 000 and up to Rand value of R50 million

7.2.1 The following formula must be used to calculate the points for price in respect of a tender to generate income or to dispose of or lease assets, with a Rand value equal to, or above R 30 000 and up to a Rand value of R50 million, inclusive of all applicable taxes:

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

P_s = Points scored for price of tender under consideration;

P_t = Price of tender under consideration; and

P_{\max} = Price of highest acceptable tender.

7.2.2 A maximum of 20 points may be awarded to a tenderer for the specified goals envisaged in section 2(1)(d) and (e) of the Act.

7.2.3 The points scored must be rounded off to the nearest 2 decimal places.

7.2.4 Subject to regulation 9, the contract must be awarded to the tenderer scoring the highest points.

7.3 90/10 preference point system for tenders to generate income or to dispose of or lease assets with Rand value equal to or above R50 million

7.3.1 The following formula must be used to calculate the points for price in respect of a tender to generate income or to dispose of or lease assets, with a Rand value above R50 million, inclusive of all applicable taxes:

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

Where-

3

Ps = Points scored for price of tender under consideration;

Pt = Price of tender under consideration; and

Pmax = Price of highest acceptable tender.

7.3.3 A maximum of 10 points may be awarded to a tenderer for the specified goals envisaged in section 2(1)(d) and (e) of the Act.

7.3.4 The points scored must be rounded off to the nearest 2 decimal places.

7.3.5 Subject to regulation 9, the contract must be awarded to the tenderer scoring the highest points.

8. Sub-contracting as condition of tender

8.1.1. If The Municipality applies sub-contracting, the Municipality must advertise the tender with a specific tendering condition that the successful tenderer must sub-contract in accordance with CIDB prescripts

9. Criteria for breaking deadlock in scoring

9.1. 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.

9.2. 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.

9.3. If two or more tenderers score equal total points in all respects, the award must be decided by the drawing of lots.

10. Award of contracts to tenderers not scoring highest points

10.1. 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.

10.2. If Garden Route District Municipality intends to apply objective criteria in terms of section 2(1)(f) of the Act, the objective criteria should be stipulated in the tender documents.

11. Conditions

11.1. Only a tenderer who has completed and signed the declaration part of the tender documentation may be considered.

11.2. Garden Route District Municipality must, take into account any discounts which have been offered unconditionally when calculating comparative prices.

11.3. A discount which has been offered conditionally must, despite not being taken into account for evaluation purposes, be implemented when payment is processed.

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

11.5. 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. Declarations

12.1. A tender must, in the manner stipulated in the document, declare that-

12.1.1. the information provided is true and correct;

12.1.2. the signatory to the tender document is duly authorised; and

12.1.3. documentary proof regarding any tendering issue will, when required, be submitted to the satisfaction of the Municipality.

13. Sub-contracting after award of tender

13.1. A person awarded a contract may only enter into a sub-contracting arrangement with the approval of the Municipality.

13.2. 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.

13.3. 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.

14. Cancellation of tender

14.1. The Municipality may, before the award of a tender, cancel a tender invitation if-

14.1.1. due to changed circumstances, there is no longer a need for the goods or services specified in the invitation;

14.1.2. funds are no longer available to cover the total envisaged expenditure;

14.1.3. no acceptable tender is received; or

14.1.4. there is a material irregularity in the tender process.

14.2. The decision to cancel a tender invitation in terms of Sub-Section (1) must be published on the Municipal Website, inform all tenderers that submitted their bids

15. Remedies

15.1. Upon detecting that a tenderer submitted false information regarding its B-BBEE status level of contributor, or any other matter required in terms of the GRDM Preferential Procurement Policy 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-

15.1.1. inform the tenderer accordingly;

15.1.2. 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

15.1.3. if it concludes, after considering the representations referred to in sub-section (1)(b), that-

- (i) such false information was submitted by the tenderer-
 - a. disqualify the tenderer or terminate the contract in whole or in part; and
 - b. 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.

15.2. The Municipality must-

15.2.1. inform the National Treasury, in writing, of any actions taken in terms of Sub-Section (1);

15.2.2. provide written submissions as to whether the tenderer should be restricted from conducting business with any organ of state; and

15.2.3. submit written representations from the tenderer as to why that tenderer should not be restricted from conducting business with any organ of state.

16. Circulars and guidelines

16.1. Garden Route District Municipality will only adopt Circulars, Guidelines and Advisory Notes in accordance to provisions of section 168(3)(a) of the MFMA, through council approval. National Treasury may issue-

16.1.1. a circular to inform Municipality of any matter pertaining to these Regulations; or

16.1.2. a guideline to assist Municipality with the implementation of any provision of these Regulations.

17. Short title and commencement

17.1. 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

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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.

- **REGULATORY FRAMEWORK**

Legislation-Municipal Finance Management Act 56 of 2003

- **OBJECTIVES**

Compliance with the regulatory framework in terms of the relevant legislation is required.

- **DEFINITIONS**

Accounting Officer: The person appointed by council in terms of section 82 of Act 17 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.

- **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.

- The accounting officer must, for the purposes of subsection (1), take all reasonable steps to ensure-
 - that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds;
 - that the municipality has and maintains a management, accounting and information system which-
 - recognizes expenditure when it is incurred;
 - 1. accounts for creditors of the municipality, and
 - 2. accounts for payments made by the municipality.

- that the municipality has and maintains a system of internal control in respect of creditors and payments;
 - that payments by the municipality are made-
 - directly to the person to whom it is due unless agreed otherwise for reasons as may be prescribed; and
- (i) 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.

12 PETTY CASH POLICY

12.1 General Policy

- The use of a petty cash float (a float may not exceed R3,500.00) is strictly confined to individual cash purchases of up to a maximum of R750.00, unless otherwise authorized by the Chief Financial Officer;
- The expenditure with regard to petty cash shall not be deliberately split into more than one transaction to avoid the said limit;
- A petty cash float is not to be used for any of the following:
 - the cashing of cheques;

13 loans to any person whatsoever;

- 14 payment of personal remuneration to any person whatsoever, whether for fees, salaries, wages, travel allowance as part of remuneration, honorarium or other reason.
- 9.** for instalment invoices such as rental of equipment or open orders, even if the amount falls within the specified limit;
- 10.** 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.
- 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.
 - The accounting officer, or delegated official, may conduct internal audits to evaluate compliance with this policy.

12.2 Establishing and Operating a Petty Cash Float

- 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.
- 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.
- 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.
- 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.
- 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.

12.3 Security of Petty Cash Floats and Documentation

- 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.
- 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.

- Under no circumstances are keys to be left in the lock of the petty cash box, cabinet or safe.
- 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.

12.4 Completing Petty Cash Vouchers and the Petty Cash Reconciliation and Register

- Petty cash stationery is available from the Expenditure section. The form consists of two parts:
 - Petty Cash Voucher
 - 4.) Petty Cash Reconciliation and Register
 - 5. Receipt for cash advance (Only when appropriate-refer to paragraph on Advances)

(the same form as in (i) above)

- All details entered on the Petty Cash Voucher must appear on the Petty Cash Reconciliation and Registersheet.
- 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.

12.5 Sub-advances to staff members

- 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.

- On completion of the purchase, the recording-, documentation- and authorization requirements will be as stated in the above paragraph: Completing a Petty Cash Voucher.

- 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.

- No more than one advance will be made to any one individual at a time.

12.6 Out-of Pocket Payments

- 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.

- 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) .
- The recording-documentation-and authorization requirements will be as stated in paragraph 6.4

12.7 Reimbursement of Petty Cash Floats

- A petty cash float is operated on the basis that expenditure from the float is reimbursed **not more than twice monthly**. Such reimbursement requires:-
 - 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.
- 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.
- 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.

- Reimbursement of claims where supporting documentation as prescribed in this policy is absent/ missing, will be declined.
- 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.
- 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.
- A petty cash float must never be reimbursed with funds derived from any other source whatsoever.

5.8 Shortages

- Any shortages in respect of a petty cash float must be reimbursed immediately by the responsible petty cash officer.
- 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

7.2 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.

7.3 Short title and commencement

This Policy is called the Garden Route District Municipality Petty Cash Policy and takes effect from, July 2021, and should be reviewed annually

ANNEXURE N

COST CONTAINMENT POLICY



COST CONTAINMENT POLICY

Date	Council Resolution	DC
Approved:	(DC No):	

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1. DEFINITIONS

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

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

"*consultant*" means a professional person, individual partnership, corporation, or a company appointed to provide technical and specialist advice or to assist with a design and implementation of projects or to assist the municipality to achieve its objectives of local government in terms of section 152 of the Constitution.

"*cost containment*" means the measures implemented to curtail spending in terms of this policy.

"*credit card*" means a card issued by a financial services provider, which creates a revolving account and grants a line of credit to the cardholder.

"*municipality*" means Garden Route District Municipality ("GRDM")

"*political office bearers*" means, in terms of this policy, all councillors serving on the council of Garden Route District Municipality

2. PURPOSE

The purpose of the policy is to regulate spending and to implement cost containment measures at Garden Route District Municipality.

3. OBJECTIVES OF THE POLICY

The object of this policy is to ensure that the resources of the municipality are used effectively, efficiently and economically by implementing cost containment measures.

4. SCOPE OF THE POLICY

This policy will apply to all Councillors, **members of Oversight Committees** and Municipal employees.

5. LEGISLATIVE FRAMEWORK

This policy must be read in conjunction with other policies of Council applicable to matters raised in this policy. In the even that other policies have different limits/criteria than this policy in relation to matters covered in both, the stricter limits/criteria will apply.

6. POLICY PRINCIPLES

This policy will apply to the procurement of the following goods and/or services:

- (a) Use of consultants
- (b) Vehicles used for political office-bearers
- (c) Travel and subsistence
- (d) Domestic accommodation
- (e) Credit cards
- (f) Sponsorships, events and catering
- (g) Communication
- (h) Conferences, meetings and study tours
- (i) Any other related expenditure items

7. USE OF CONSULTANTS

- 7.1 Consultants may only be appointed after an assessment of the needs and requirements confirms that GRDM does not have the requisite skills or resources in its full -time employ to perform the function.
- 7.2 The accounting officer must adopt a fair and reasonable remuneration framework for consultants taking into account the rates -

- (a) determined in the "Guideline on fees for audits undertaken on behalf of the Auditor -General of South Africa ", issued by the South African Institute of Chartered Accountants;
- (b) set out in the "Guide on Hourly Fee Rates for Consultants ", issued by the Department of Public Service and Administration; or
- (c) as prescribed by the body regulating the profession of the consultant.

7.3 The tender documentation for the appointment of consultants must include a clause that the remuneration rates will be subject to negotiation, not exceeding the applicable rates mentioned in par 7.2 above.

7.4 When negotiating cost -effective consultancy rates for international consultants, the accounting officer may take into account the relevant international and market –determined rates.

7.5 When consultants are appointed the accounting officer must:

- (a) appoint consultants on a time and cost basis with specific start and end dates;
- (b) where practical, appoint consultants on an output- specified basis, subject to specific measurable objectives and associated remuneration;
- (c) ensure that contracts with consultants include overall cost ceilings by specifying whether the contract price is inclusive or exclusive of travel and subsistence disbursements;
- (d) ensure the transfer of skills by consultants to the relevant officials of the municipality;
- (e) undertake all engagements of consultants in accordance with the Municipal Supply Chain Management Regulations, 2005 and the municipality's supply chain management policy; and
- (f) develop consultancy reduction plans to reduce the reliance on consultants.

7.6 All contracts with consultants must include a fee retention or a penalty clause for poor performance.

7.7 The specifications and performance of the service provider must be used as a monitoring tool for the work that is to be undertaken and performance must be appropriately recorded and monitored.

- 7.8 The travel and subsistence costs of consultants must be in accordance with the national travel policy issued by the National Department of Transport, as updated from time to time.
- 7.9 The contract price must specify all travel and subsistence costs and if the travel and subsistence costs for appointed consultants are excluded from the contract price, such costs must be reimbursed in accordance with the national travel policy of the National Department of Transport.

8. VEHICLES USED FOR POLITICAL OFFICE-BEARERS

- 8.1 The threshold limit for vehicle purchases relating to official use by political office-bearers may not exceed seven hundred thousand rand (R700 000) or 70% (VAT inclusive) of the total annual remuneration package for GRDM's grade, as defined in the Public Office Bearers Act and the notices issued in terms thereof by the Minister of Cooperative Governance and Traditional Affairs, whichever is lower.
- 8.2 The procurement of vehicles in par. 8.1 must be undertaken using the national government transversal mechanism, unless it may be procured at a lower cost through other procurement mechanisms.
- 8.3 Before deciding on another procurement process as contemplated in 8.2, the accounting officer must provide the council with information relating to the following criteria that must be considered:
- (a) Status of current vehicles;
 - (b) Affordability of options including whether to procure a vehicle as compared to rental or hire thereof, provided that the most cost effective option is followed and the cost is equivalent to or lower than that contemplated in par. 8.1;
 - (c) Extent of service delivery backlogs;
 - (d) Terrain for effective usage of vehicle; and
 - (e) Any other policy of council
- 8.4 If the rental referred to in par. 8.3 is preferred, the accounting officer must review the costs incurred regularly to ensure that value for money is obtained.

- 8.5 Regardless of their usage, vehicles for official use by public office bearers may only be replaced after completion of 120 000 kilometers.
- 8.6 Notwithstanding par. 8.5, a municipality may replace vehicles for official use by public office bearers before the completion of 120 000 kilometers only in instances where the vehicle experiences serious mechanical problems and is in a poor condition, and subject to obtaining a detailed mechanical report by the vehicle manufacturer or approved dealer.
- 8.7 The accounting officer must ensure that there is a policy that addresses the use of municipal vehicles for official purposes.

9. TRAVEL & SUBSISTENCE

- 9.1 The accounting officer:
- (a) May approve the purchase of economy class tickets for officials or political office bearers where the flying time for a flight is five (5) hours or less; and
 - (b) may only approve the purchase of business class tickets for officials, political office bearers and persons reporting directly to the accounting officer for flights exceeding five hours.
- 9.2 In the case of the accounting officer, the mayor may approve the purchase of economy class tickets where the flying time is five hours or less and business class tickets for flights exceeding five hours.
- 9.3 Notwithstanding par. 9.1-9.2, the accounting officer, or the mayor in the case of an accounting officer, may approve the purchase business class tickets for an official or a political office bearer with a disability or a medically certified condition.
- 9.4 International travel to meetings or events will only be approved if it is considered critical to attend the meeting or event, and only the officials that are directly involved with the subject matter will be allowed to attend the meeting or event.

9.5 The accounting officer, or the mayor in the case of the accounting officer, may approve accommodation costs that exceed an amount as determined from time to time by the National Treasury through a notice only -

- (a) during peak holiday periods; or
- (b) when major local or international events are hosted in a particular geographical area that results in an abnormal increase in the number of local and /or international guests in that particular geographical area.

9.6 An official or a political office bearer of the municipality must:

- (a) utilize the municipal fleet, where viable, before incurring costs to hire vehicles;
- (b) make use of available public transport or a shuttle service if the cost of such a service provider is lower than:
 - (i) the cost of hiring a vehicle;
 - (ii) the cost of kilometres claimable by the official or political office bearer; and
 - (iii) the cost of parking.
- (c) not hire vehicles from a category higher than Group B or an equivalent class; and
- (d) where a different class of vehicle is required for a particular terrain or to cater for the special needs of an official, seek the written approval of the accounting officer before hiring the vehicle.

9.7 The municipality must use the negotiated rates for flights and accommodation as communicated by National Treasury, from time to time, or any other cheaper flight or accommodation that is available.

10. DOMESTIC ACCOMMODATION

10.1 The accounting officer must ensure that costs incurred for domestic accommodation and meals are in accordance with the maximum allowable rates for domestic accommodation and meals, as communicated by National Treasury, from time to time.

- 10.2 Overnight accommodation may only be booked where the return trip exceeds 500 kilometres, unless deemed to be impractical and prior approval is obtained from the applicable Executive Manager (or Speaker in case of councillors) after providing proper written motivation to deviate from this stipulation. For example, in instances where attendance is required over a number of days, or there is a risk to the health of the official or councillor and cost vs benefit considerations can warrant such expenditure.

11. CREDIT CARDS

- 11.1 The accounting officer must ensure that no credit card or debit card linked to a bank account of the municipality is issued to any official or public office bearer.
- 11.2 Where officials or public office bearers incur expenditure in relation to official municipal activities, such officials and public office bearers must use their personal credit cards or cash or arrangements made by the municipality, and request reimbursement from the municipality in terms of the travel and subsistence policy and petty cash policy.

12. SPONSORSHIPS, EVENTS & CATERING

- 12.1 The municipality may not incur catering expenses for meetings that are only attended by persons in the employ of the municipality, unless prior written approval is obtained from the accounting officer.
- 12.2 Catering expenses may be incurred by the accounting officer for the following, if they exceed five (5) hours:
- (a) Hosting of:
 - (a) meetings;
 - (b) conferences;
 - (c) workshops;
 - (d) courses;
 - (e) forums;
 - (f) recruitment interviews; and

(g) council proceedings

- 12.3 Entertainment allowances of qualifying officials may not exceed two thousand rand (R2 000) per person per financial year, unless otherwise approved by the accounting officer.
- 12.4 Expenses may not be incurred on alcoholic beverages, unless the municipality recovers the cost from the sale of such beverages.
- 12.5 Social events, team building exercises, year-end functions, sporting events and budget vote dinners may not be financed from the municipal budget or by any supplier or sponsor.
- 12.6 Expenditure may not be incurred on corporate branded items like clothing or goods for personal use of officials, other than uniforms, office supplies and tools of trade, unless the costs thereto are recovered from the affected officials or is an integral part of the business model.
- 12.7 Expenditure may be incurred to host farewell functions in recognition of officials who retire after serving the municipality for ten (10) or more years, or retire on grounds of ill health, the expenditure should not exceed the limits of the petty cash usage as per the petty cash policy of the municipality.

13. COMMUNICATION

- 13.1 All municipal related events must, as far as possible, be advertised on the municipal website, instead of advertising in magazines or newspapers.
- 13.2 Officials will be held liable for the reimbursement of costs to GRDM relating to private calls and data usage that exceed the cellphone and data packages assigned to officials, as applicable.
- 13.3 Newspapers and other related publications for the use of officials must be discontinued on the expiry of existing contracts or supply orders, unless required for professional purposes and where unavailable in electronic format.
- 13.4 The acquisition of mobile communication services may be done by using the transversal term contracts that have been arranged by the National Treasury.

14. CONFERENCES, MEETINGS & STUDY TOURS

- 14.1 Appropriate benchmark costs must be considered prior to granting approval for an official to attend a conference or event within and outside the borders of South Africa. (Note that "conference or event" referenced above excludes attendance of government forums, user groups and workshops.)
- 14.2 The benchmark costs may not exceed R2 500.
- 14.3 When considering applications from officials to conferences or events within and outside the borders of South Africa, the accounting officer must take the following into account:
- (a) The officials role and responsibilities and the anticipated benefits of the conference or event;
 - (b) Whether the conference or event will address the relevant concerns of the municipality;
 - (c) The appropriate number of officials to attend the conference or event, not exceeding three officials; and
 - (d) Availability of funds to meet expenses related to the conference or event.
- 14.4 The amount referred to in 14.2 above excludes costs related to travel, accommodation and related expenses, but includes:
- (a) Conference or event registration expenses; and
 - (b) Any other expense incurred in relation to the conference or event.
- 14.5 When considering the cost for conferences or events the following items must be excluded, laptops, tablets and other similar tokens that are built into the price of such conferences or events.
- 14.6 Meetings and planning sessions that entail the use of municipal funds must, as far as practically possible, be held in-house.
- 14.7 Municipal offices and facilities must be utilized for conferences, meetings and strategic planning sessions where an appropriate venue exists within the municipal jurisdiction.

- 14.8 An accounting officer must grant the approval for officials and in the case of political office-bearers, oversight committee members and the accounting officer, the mayor, as contemplated in par 14.3
- 14.9 The municipality must take advantage of early registration discounts by granting the required approvals to attend the conference, event or study tour, in advance.

15. OTHER RELATED EXPENDITURE ITEMS

- 15.1 All commodities, services and products covered by a transversal contract by the National Treasury must be procured through that transversal contract before approaching the market, in order to benefit from savings and lower prices or rates that have already been negotiated.
- 15.2 Municipal resources may not be used to fund elections, campaign activities, including the provision of food, clothing and other inducements as part of, or during the election periods.

16. ENFORCEMENT PROCEDURES

Failure to implement or comply with this policy may result in any official of the municipality or political office bearer, that has authorized or incurred any expenditure contrary to determinations in this policy, being held liable for financial misconduct or a financial offence in the case of political office bearers as defined in Chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014.

17. DISCLOSURES OF COST CONTAINMENT MEASURES

- 17.1 Cost containment measures applied by the municipality must be included in the municipal in-year budget report and annual cost savings must be disclosed in the annual report.

- 17.2 The measures implemented and aggregate amounts saved per quarter, together with the regular reports on reprioritization of cost savings, on the implementation of the cost containment measures must be submitted to the municipal council for review and resolution. The municipal council can refer such reports to an appropriate council committee for further recommendations and actions.
- 17.3 Such reports must be copied to the National Treasury and relevant provincial treasuries within seven calendar days after the report is submitted to municipal council.

18. IMPLEMENTATION & REVIEW PROCESS

This policy will be reviewed at least annually or when required by way of a council resolution, or when an update is issued by National Treasury.

19. SHORT TITLE

This policy shall be called the Cost Containment Policy of the Garden Route District Municipality.

ANNEXURE O
MFMA NATIONAL TREASURY
CIRCULAR NO 112



Municipal Budget Circular for the 2022/23 MTREF

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Introduction

The purpose of the annual budget circular is to guide municipalities with their compilation of the 2022/23 Medium Term Revenue and Expenditure Framework (MTREF). This circular is linked to the Municipal Budget and Reporting Regulations (MBRR) and the municipal Standard Chart of Accounts (mSCOA), and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved.

Among the objectives of this budget circular is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial reform agenda by focussing on key "game changers". These game-changers include ensuring that municipal budgets are funded, revenue management is optimised, assets are managed efficiently, supply chain management processes are adhered to, mSCOA is implemented correctly and that audit findings are addressed.

Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance in areas of the budget preparation that is not covered in this circular.

1. The South African economy and inflation targets

The National Treasury projects real economic growth of 5.1 per cent in 2021, following an expected contraction of 6.4 per cent in 2020. Real GDP growth is expected to moderate to 1.8 per cent in 2022, 1.6 per cent in 2023 and 1.7 per cent in 2024.

South Africa experienced its largest recorded decline in economic output in 2020 due to the strict COVID-19 lockdown. Real GDP contracted by 7.2 per cent in 2020 compared to 0.1 per cent increase in 2019. It is expected to increase by 6.2 per cent in 2021/22 and moderate by an average increase of 1.7 per cent over the 2022/23 MTEF.

Manufacturing production grew by 17 per cent in the first six months of 2021 compared with the same period in 2020. Production has not recovered to pre-pandemic levels, although the Absa Purchasing Managers' Index remains above the neutral 50-point mark. Electricity disruptions, raw material shortages and rising input costs will continue to limit output in the short to medium term.

The main risks to the economic outlook are slowdown in economic growth. The evolution of COVID-19 and slow progress in vaccine rollout reinforces uncertainty and poses risks to economic recovery.

Slow implementation of structural reforms continues to weigh on business confidence and private investment. Electricity supply constraints, which could worsen over the short term, are a drag on economic growth. In contrast, progress on energy reforms poses upside risks to fixed investment and the overall economic outlook.

A further deterioration in the public finances due to various spending pressures and the materialisation of contingent liabilities could trigger further credit rating downgrades. Pressures on the government wage bill ceiling, including the implementation of the non-pensionable salary increases undermine fiscal consolidation measures.

The fiscal framework does not include any additional support to state-owned companies, but the poor financial condition and operational performance of several

of these companies remains a large contingent risk. A number of entities may request further bailouts.

Government is strictly enforcing minimum criteria before guaranteeing the debt of state-owned companies, as outlined in the 2021 Budget, which has led to a decline in guarantee requests. Nonetheless, the broader context of financial distress, weak governance and unsustainable operations in many of these companies remains unaddressed.

Since the 2008 global financial crisis, economic growth has trended downwards, resulting in persistent shortfalls in tax revenue that have not been matched by adjustments to spending growth. This in turn has led to wider budget deficits, higher borrowing and a rapid increase in the ratio of debt to GDP. The reason that the debt servicing costs are growing at a pace that is faster than the rate of GDP growth, and this ratio will continue to increase until government runs a sufficiently large primary budget surplus.

To maximise the value of spending, government needs to contain costs, more especially consumption related spending, exercise prudent and compliant financial management, and eradicate wasteful treatment of public funds and resources. Compensation of employees remains a major cost pressure. It remains critical for municipalities to adhere to compensation ceilings, manage headcounts proactively and conduct staff audit to ensure the staff complement is aligned to the approved organogram. This will assist government to improve its fiscal position.

Medium-term priorities include: reindustrialising through implementation of the master plans; growing exports through the African Continental Free Trade Area; implementing the Tourism Sector Recovery Plan; supporting township and rural economies; and promoting localisation, inclusive economic growth and job creation.

In 2021/22, gross tax revenue is expected to be R120.3 billion higher than projected in the 2021 Budget, with corresponding improvements of R69.8 billion and R59.5 billion expected in 2022/23 and 2023/24 respectively. This is still well below pre-pandemic revenue estimates, but it provides space for government to deal with immediate fiscal pressures while continuing to stabilise the public finances.

Headline inflation is expected to remain between 3 to 6 per cent target range over the 2022/23 MTEF.

In summary, the tax revenue in 2021/22 was higher than projections and this was mainly due to commodity price rally. However, these are projected to be short term, and as such long-term spending commitments should not be made based on short term revenue benefits. There are measures in place to reduce expenditure to narrow the budget deficit.

The following macro-economic forecasts must be considered when preparing the 2022/23 MTEF municipal budgets.

Table 1: Macroeconomic performance and projections, 2020 - 2025

Fiscal year	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Estimate	Forecast		
CPI Inflation	2.9%	4.9%	4.0%	4.4%	4.5%

Source: Medium Term Budget Policy Statement 2021.

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 2022/23 budget process

2.1 Local government conditional grants allocations

Over the 2022 MTEF period, transfers to municipalities will grow below inflation. Over the next three years, local government resources increase by 4.1 per cent.

Transfers to local government will be increased by R17.8 billion, including R9.3 billion from the local government equitable share, R1.5 billion from the general fuel levy and R6.9 billion in direct conditional grants over the 2022 MTEF period. 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 2022 MTEF period.

The annual Division of Revenue Bill will be published in February 2022 after the Minister of Finance's budget speech. The Bill will specify grant allocations and municipalities must reconcile their budgets to the numbers published herein.

Municipalities are advised to use the indicative numbers presented in the 2021 Division of Revenue Act to compile their 2022/23 MTREF. In terms of the outer year allocations (2023/24 financial year), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as presented in the 2021 Division of Revenue Act for 2021/22. The DoRA is available at:

<http://www.treasury.gov.za/documents/national%20budget/2021/default.aspx>

Division of Revenue Amendment Bill, 2021: changes to local government allocations

Budget Facility for Infrastructure Funding – R81 million is added to the direct regional bulk infrastructure grant for George Local Municipality for the implementation of the potable water security and remedial works project. Due to delays in the implementation of projects approved through Budget Facility for Infrastructure (BFI), the projects sponsors have requested funding to be reduced to align with the planned project rollout.

R1.3 billion is reduced from the public transport network grant for City of Cape Town to align to its revised implementation plan of myCiti phase 2A.

Neighbourhood Development Partnership Grant – R841 million is added to the direct neighbourhood development partnership grant for local government to create 32 663 jobs through precinct management, community safety, place-making, greening, integrated waste management and digitalisation, with special focus on poor and marginalised areas and economic nodes.

Roll-over of indirect regional bulk infrastructure grant – R582 million is rolled over in the indirect regional bulk infrastructure grant to fund the operational payments for the Vaal River pollution remediation project in Emfuleni Local Municipality. This change is shown in Schedule 6, Part B of this Bill.

Reprioritisation in the neighbourhood development partnership grant – In the neighbourhood development partnership grant, R90 million is shifted from the direct component to the indirect component of the grant, to fund project preparation, planning and implementation for municipalities facing implementation challenges. The affected municipalities are City of Johannesburg, Mogale City, Kwa-Dukuza, West Rand, Sol Plaatje, Ray Nkonyeni and City of Cape Town. These changes are shown in

Schedule 5, Part B and Schedule 6, Part B of this Bill.

Changes to gazetted frameworks and allocations

Neighbourhood development partnership grant – The grant framework for the neighbourhood development partnership grant is amended to remove reference to Built

Environment Performance Plans and include the conditions attached to the approval of funds from the Presidential Youth Employment Initiative. The conditions require cities to expand the existing Expanded Public Works Programme projects and enter into new partnerships with the private sector and civil society.

Regional bulk infrastructure grant – The grant framework for the regional bulk infrastructure grant is amended to include the conditions attached to the approval of funding from the BFI for the implementation of the potable water security and remedial works project in George Local Municipality. The conditions require that the municipality submit a business plan, a cost-benefit analysis report and enter into a co-financing agreement with the Department of Water and Sanitation and the Department of Cooperative Governance.

Integrated urban development grant – The grant framework for the integrated urban development grant is amended to include a provision for purchasing special vehicles for waste management. This correction is needed to ensure alignment with conditions in the municipal infrastructure grant as municipalities can move between the two grants.

Municipal infrastructure grant – The grant framework for the municipal infrastructure grant is amended to correct for the omission of the baseline allocation of R14.8 billion in 2019/20 in the past performance section of the framework. The amount was erroneously not captured. This correction is needed to show the audited past financial performance of the grant.

3. IDP Consultation Process Post 2021 Local Government Elections

Municipalities are advised to refer to the guidance (refer to the email sent by CoGTA to all municipalities on 20 October 2021) provided through the joint National Treasury/ Department of Cooperative Governance/ South African Local Government Association (NT/DCoG/SALGA) Joint Circular No.1 on the transitional measures in relation to the IDP consultation process. This circular indicates that the previous municipal councils had an obligation to ensure that the legislative stipulations were complied with. Therefore, they were expected to continue the process of the development of the IDP starting with the development and adoption of the process plans as provided for in section 28 of the Municipal Systems Act. Municipalities should then implement the adopted budget process plan and conduct the public engagements as per dates they have indicated in the process plan.

4. Municipalities unable to pass the annual budget after 1 July

The provincial executive council must urgently request the Mayor to submit a report outlining detailed reasons and or circumstances that led to failure to approve the annual budget by the 1 July.

The provincial executive council must intervene in terms of section 139(4) of the Constitution and take appropriate steps by issuing a directive to the municipal council to approve a budget and any revenue raising measures necessary to give effect to the budget within a reasonable period.

Section 26(4) and (5) of the MFMA provides for how the expenses can be met pending the approval of a budget through a directive. Provincial Treasuries should establish clear internal processes for reviewing and recommending the approval of withdrawals by their MEC (templates can be obtained from National Treasury).

The provincial executive council must upon issuing of a directive to the Municipal Council conduct an assessment of the budget tabled by the Mayor against the norms and standards, approved budget process plan, and the outcome of public participation processes.

In the event the Municipal Council fails to approve a budget due to walk out or individual misconduct by a majority of councillors, the Speaker must immediately investigate the conduct of those identified councillors in terms of the Code of Conduct for councillors as provided for in the Municipal Systems Act, 2000.

If in terms of the assessment by the provincial executive council of the tabled budget, it is found that there are no justifiable grounds for not approving the budget, the former must submit/ present the outcome of the assessment to the Municipal Council with a directive to consider the assessment and adopt the budget. If the assessment of the provincial executive council of the tabled budget finds that it does not adhere to the required norms and standards, the directive from the provincial executive council should instruct the council to first amend the budget to remedy this before adopting the budget.

The provincial executive council must, if necessary give the municipal council a further 14 days to approve a tabled budget that complies with norms and standards and incorporates the outcome of public participation, failing which the provincial executive council must consider dissolution of municipal council, approval of a temporary budget and appointment of an administrator as a last resort.

5. Municipal Standard Chart of Accounts (mSCOA)

5.1 Release of Version 6.6 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 6.6 is released with this circular.

Version 6.6 of the chart will be effective from 2022/23 and must be used to compile the 2022/23 MTREF and is available on the link below:
<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandandChartOfAccountsFinal/Pages/default.aspx>

The Project Summary Document (PSD) on the National Treasury webpage will be aligned to the chart changes in version 6.6 where applicable. The PSD is also available on the above link.

mSCOA chart changes are issued annually in December. For the National Treasury to consider a new chart change, the issue must be logged with all relevant background and details on the Frequently Asked Questions (FAQ) database. The FAQ database can also be accessed on the above link.

The matter will then be further investigated by the FAQ committee of the National Treasury. If it is found that a chart change is required in the next chart version, then the matter will be elevated to the mSCOA Technical Committee and if in agreement, it will be recommended for approval to the mSCOA Steering Committee. Requests for chart changes in the next version of the chart must be logged for consideration by 31 August

of each year.

5.2 Credibility of mSCOA data strings

The credibility of the mSCOA data strings remains a concern although we have observed a marked improvement in some areas. At the core of the problem is:

- The incorrect use of the *m*SCOA chart and segments, balance sheet budgeting, movement accounting and basic municipal accounting practices by municipalities;
- Some municipalities are not budgeting, transacting and reporting directly in/ from their core financial systems; have not purchased all the modules of the core financial system or have not upgraded to the Enterprise Resource Planning (ERP) (*m*SCOA enabling) version of their financial systems;
- A number of municipalities are still transacting on their legacy systems that are not *m*SCOA enabling or they are using Ms Excel spreadsheets that are not incorporated in the functionality of their financial systems, while they are paying for maintenance and support for the *m*SCOA enabling system that was procured. This constitute fruitless and wasteful expenditure; 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 2022/23, 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.

Municipalities should refer to the guidance provided in the *m*SCOA circulars issued by the National Treasury to classify their transactions correctly.

The credibility and accuracy of the data strings must be verified by municipalities before submission as the data strings submitted will be used as the single source for all analysis and publications in the 2022/23 municipal financial year.

5.3 Regulation of Minimum Business Processes and System Specifications

One of the key objectives of the *m*SCOA reform is to ensure that municipalities are planning, budgeting, transacting and reporting directly on and from integrated ERP systems to have one version of the truth in terms of the reported financial performance. The manual correction of data strings by municipal officials or system vendors are not allowed in terms of the *m*SCOA Regulations.

All municipalities and municipal entities had to comply with the *m*SCOA Regulations by 1 July 2017. MFMA Circular No. 80 (Annexure B) provided guidance on the minimum business processes and system specifications for all categories of municipalities (A, B and C). A number of Regulations and best practices as per the MFMA Circulars have been introduced since the issuing of MFMA Circular No. 80 in 2016.

The National Treasury will expand and regulate the business processes and system specifications in 2022/23 to these new developments. If your municipality has not yet achieved the minimum required level of *m*SCOA implementation, then a detailed action plan (road map) must be developed to indicate how the municipality will fast track the implementation of *m*SCOA. The action plan should include the following focus areas, as applicable to the municipality:

- **System landscape** – does the municipality has access to updated ICT hardware, software and licences that is sufficient to run the chosen financial management systems solution;
- **Governance and institutional arrangements** – is there a functional *m*SCOA steering

committee or equivalent structure consisting of representatives from all business units, that meet regularly to monitor and report on mSCOA related issues to Management Committee (MANCO), Executive Committee (EXCO) and Council. Furthermore, did the

municipality appoint a suitably qualified System Administrator and the required IT securities are in place;

- **System functionality** – is the functionality of the system complying with the minimum business processes and system specifications articulated in MFMA Circular No 80; is the municipality utilising the core financial system solution and its modules optimally; and are 3rd party sub-systems seamlessly integrating with the mSCOA enabling financial system; and
- **Proficiency of municipal officials to use the financial system** – are the relevant municipal officials sufficiently capacitated on all system modules and functionalities to use the financial systems solution; are relevant officials in the organisation familiar with the mSCOA chart, balance sheet budgeting and movement accounting; and have change management taken place to ensure that mSCOA is institutionalised as an organisational reform and not only a financial reform.

It should be emphasised that the onus to ensure compliance with the mSCOA Regulations and minimum system specifications as per MFMA Circular No. 80 and its Annexure B rests with the municipality and not the system vendor. Municipalities should ensure that they budget sufficiently to become and remain mSCOA compliant.

The progress against the action plan must be monitored by the municipality's mSCOA Project Steering Committee and should also be reported at the 2021/22 Mid-year Budget and Performance engagements and the Budget and Benchmark engagements with the National and the respective provincial treasury. Copies of the action plan and progress reports should also be shared with the National and the respective provincial treasury.

5.4 Extension of RT25-2016 Service Level Agreements (SLA) for Financial Systems

The National Treasury has received numerous queries about the extension of the SLA for the transversal contract for the procurement of municipal systems of financials management and internal control (RT25-2016).

The RT25-2016 contract has expired in May 2019. Therefore, the RT25-2016 cannot be utilised to procure financial systems and Service Level Agreements (SLAs) entered into through the transversal contract cannot be extended when they expire. Municipalities that procured systems through the RT25-2016 transversal tender must approach the market to procure a new service provider for system support and maintenance. Due to the high financial investment in procuring financial systems, it is not cost effective to change financial systems every 3 to 5 years. Also, the expiry of the SLA does not necessitate the procurement of a new financial system - unless the system that is being used is not complying with the required business processes and system specifications.

Furthermore, the Municipal SCM Regulations does not prohibit the use of long-term contracts as long as the needs analysis and market analysis are done to justify the continuous need for the service. Municipalities may utilise Section 33 of the MFMA, taking into account the municipality's specific circumstances, provided that the decision is legally sound and there is evidence to support the municipality's decision.

Where a municipality has entered into a SLA for the provision of system support and maintenance through an open procurement process, the SLA may be extended in terms of Section 116(3) of the MFMA.

Notwithstanding the above, since the ICT environment changes very quickly the municipal needs must be re-evaluated to ensure that the IT systems in place are still 1) compatible with the needs and systems of the municipality, 2) aligned to modern technology and new legislative requirements and 3) cost effective prior to concluding long-term maintenance and support agreements in the event that there are other financial management solutions or

systems that may be better or even more cost effective as opposed to the current ones that may be outdated.

5.5 mSCOA Monthly Trial Balance

Municipalities are required to submit the following documents to GoMuni Upload portal on a monthly basis in PDF format:

1. C Schedule
2. Primary Bank Statement
3. Bank Reconciliation
4. Quality certificate
5. Monthly budget statement (Section 71 Report)
6. Trial balance

To date, the trial balances were submitted in various formats with varying levels of detail – some of them unreadable, making it difficult to identify the submission of the trial balances. From 1 July 2022, the trial balance must include the following minimum information:

- mSCOA item description
- Balance brought forward (i.e. opening balance)
- Movement Debit
- Movement Credit
- Balanced closing balance at the end of the document

The name of the municipality, municipal code and relevant period (year and month) must be clearly identified in the submission. Municipalities should ensure that the monthly data string aligns to the trial balance submitted to the GoMuni Upload portal.

5.6 Budgeting for the COVID-19 pandemic

In terms of mSCOA Circular No. 9 municipalities are reminded to record and ring fence all funding and expenditure pertaining to the COVID-19 pandemic when budgeting and transacting.

It is evident from the mSCOA data strings that were submitted by municipalities in terms of the monthly Section 71 reporting that not all municipalities are budgeting and reporting on COVID-19 related allocations and expenditure as per the guidance provided. Therefore, the National Treasury is not able to draw complete COVID-19 reports from the mSCOA data strings inclusive of the data for all municipalities as yet and the weekly manual reporting is still required.

Once the National Treasury is able to draw COVID-19 reports from the mSCOA data strings for the majority of municipalities and the Covid-19 restrictions is lifted as per the Disaster Management Act, 2002 (Act 57 of 2002) and its regulations, the weekly manual reporting will be stopped.

5.7 Costing Segment

The purpose of the costing segment in mSCOA is to provide for the recording of the full cost for the four core municipal functions, namely: electricity, water, waste water and waste management as a minimum requirement. These four services are the most significant revenue generating functions within municipalities and essential for setting

cost reflective tariffs.

The costing segment does not impact on the financial statements and will be recorded as a 'below the line cost' and are recorded in the management accounts to make decisions in

formulating tariffs and cost control. Municipalities must refer to the PSD for the detailed application of the costing segment.

5.8 Classification of the Skills Development Levy

Employers must pay 1 per cent of their employees pay to the skills development levy. This is a contribution of 1 per cent of the total amount paid in respect of salaries to employees, which includes overtime payments, leave pay, bonuses etc. Therefore, this does not constitute employee related cost because it is not a compensation to employees, nor social contributions. Skills Development levy must be classified as operational costs as indicated in the mSCOA Project Summary Document (PSD).

5.9 Revised Municipal Property Rates Act Categories

Reference is made to paragraph 4.3 of MFMA Circular No. 107. Municipalities are reminded that section 8 of the Municipal Property Rates Act on the determination of categories of **rateable** properties has been revised through the Local Government Municipal Property Rates Amendment Act, 2014 ("the Amendment Act").

Municipalities were required to implement the new property categorisation framework by not later than 1 July 2021. The mSCOA chart Version 6.6 makes provision for the new and the old framework. However, the old framework will be retired in the next version of the chart and municipalities are advised to implement the new property categorisation framework as legislated. Therefore, municipalities cannot use both frameworks to avoid duplication and overstatement of revenue from property rates.

6. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. The weak economic growth has put pressure 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.

Municipalities must ensure that they render basic services, maintain their assets and clean environment. Furthermore, there must be continuous communication with the community and other stakeholders to improve the municipality's reputation. This will assist in attracting investment in the local economy which may result in reduced unemployment. Some municipalities are experiencing serious liquidity challenges. Therefore, the new leadership is advised to:

- Decisively address unfunded budgets by reducing non-priority spending and improving revenue management processes to enable collection; and
- Address service delivery failures by ensuring adequate maintenance, upgrading and renewal of existing assets to enable reliable service delivery.

It should be noted that it is easier for consumers to pay for services if they are reliable and when the environment is well maintained.

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 lower 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 2022/23** in their budget narratives and pay careful attention to 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.

6.1 Maximising the revenue generation of the municipal revenue base

Reference is made to MFMA Circulars No. 93, paragraph 3.1 and No. 98, paragraph 4.1. The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their 2022/23 MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this is a fundamental reason for municipalities not attaining their desired collection rates.

It is essential that municipalities reconcile their most recent valuation roll data to that of the billing system to ensure that revenue anticipated from property rates are accurate. Municipalities should undertake this exercise annually as a routine practice during the budget process. The list of exceptions derived from this reconciliation will indicate where the municipality may be compromising its revenue generation in respect of property rates. A further test would be to reconcile this information with the Deeds Office registry. In accordance with the MFMA Circular No. 93, municipalities are once more requested to submit their annual reconciliation of the valuation roll to the billing system to the National Treasury by no later than **04 February 2022**.

The above information must be uploaded by the municipality's approved registered user(s) using the GoMuni Upload Portal at: <https://lguploadportal.treasury.gov.za/>. If the municipality experience any challenge uploading the information a request for an alternative arrangement may be emailed to linda.kruger@treasury.gov.za.

6.2 Setting cost-reflective tariffs

Reference is made to MFMA Circular No. 98, paragraph 4.2. The setting of cost-reflective tariffs is a requirement of Section 74(2) of the Municipal Systems Act which is meant to ensure that municipalities set tariffs that enable them to recover the full cost of rendering the service. This forms the basis of compiling 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 (Financial and Fiscal Commission (FFC), 2011). Credible budgets are critical for local government to fulfil its mandate and ensure financial sustainability.

A credible expenditure budget reflects the costs necessary to provide a service efficiently and effectively, namely:

- A budget adequate to deliver a service of the necessary quality on a sustainable basis; and
- A budget that delivers services at the lowest possible cost.

Municipalities are encouraged to utilise the tariff setting tool referenced in MFMA Circular No. 98, item 4.2. This tool will assist in setting tariffs that are cost-reflective and would enable a municipality to recover costs to fulfil its mandate. 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](#)

It is also imperative that every municipality is utilising the mSCOA cost segment correctly.

6.3 Bulk Account Payments and Concessions

During 2018/19, intense work was undertaken to resolve systemic and structural issues pertaining to the electricity function in municipalities. Core to this work was addressing the escalating Eskom debt that threatened the sustainability of Eskom as well as that of municipalities.

During the process, Eskom agreed to provide relieve in certain areas. Municipalities are reminded of the following concessions that remain in place:

- The interest rate charged on overdue municipal bulk accounts were reduced from primeplus 5 per cent to prime plus 2.5 per cent;
- Payment terms were extended from 15 days to 30 days for municipal bulk accounts; and
- Eskom allocation of municipality payments to capital first and then to interest.

These concessions align to the MFMA and are meant to curb municipal growing debt levels by allowing a more conducive payment regime than what was previously employed. In addition, municipalities are urged to budget for and ring-fence their payment of bulk services. Bulk current account payments must be honoured religiously to avoid stringent application of the bulk suppliers' credit control policy.

Municipalities are also advised to enforce a culture of payment for services through their normal credit control processes. In this regard it should be noted that municipalities are only compensated for free basic services based on an indigent user component calculation through the equitable share. As such, a municipality's allocation of free basic services to all of the municipality's consumers is not funded in the equitable share. Every municipality, during the budget process, must consider the affordability to the municipality when allocating free basic services above the national norm and to consumers other than indigent consumers. **If a municipality has any arrears on any of its bulk supplier's accounts, it must limit its provision of free basic services to registered indigent consumers only.**

In this regard municipalities are reminded to take note of the Constitutional Court decision in **Mazibuko and Others vs City of Johannesburg and Others (CCT 39/09) [2009] ZACC 28; 2010 (3) BCLR 239 (CC); 2010 (4) SA 1 (CC) (8 October 2009)**. The Constitutional Court confirmed that a municipality has the right to disconnect the water service in the event of non-payment. In the case of registered indigent users, water may not be disconnected but can and should be restricted to the national policy limit of 6 kilolitres of water monthly.

6.4 Timeous allocations and clearing of the control accounts

Municipalities are encouraged to clear the control accounts on a monthly basis and to allocate trade and other receivable payments in these suspense accounts to the relevant debtor accounts regularly before the monthly submissions as required by the MFMA. Implementing and enforcing the credit control policy of the municipality whilst payments are not cleared in the control account is negligent and irresponsible. Municipalities are warned against this bad practice, and this must be avoided at all costs.

6.5 Smart Prepaid Meters Solution

The Inter-Ministerial Task Team (IMTT) of the 5th administration appointed a panel to investigate the electricity function to better understand what is causing the non-payment to Eskom. Cabinet subsequently endorsed the panel's recommendation that a smart prepaid solution for all municipalities must be explored. Municipalities are advised that the National Treasury, through the Office of the Chief Procurement Officer (OCPO), will soon facilitate a

transversal contract to standardise prepaid smart meter solutions for electricity that align to minimum and critical technical specifications for local government.

If your municipality or entity is currently in the process of procuring any smart meter solution or is planning to, you are cautioned:

- Against proceeding prior to the OCPO having issued and awarded the transversal prepaid smart meter Terms of Reference (ToR); and
- That, with immediate effect, you must obtain the National Treasury's input prior to proceeding with any current procurement or proposed procurement for any smart meter solution or similar system solution. This is to prevent unnecessary and wasteful expenditure on such solutions. Any request for National Treasury's input on the current or planned procurement of any smart meter solution or similar system solution or component thereof, must be directed to the National Treasury for the attention of the Local Government Budget Analysis Unit (Mr. Sadesh Ramjathan) Sadesh.Ramjathan@treasury.gov.za.

Your assistance in proactively ensuring that the municipality and/ or its entities are not adversely affected by these processes will be appreciated.

6.6 Completeness and credibility of revenue related information in the Budget

The Municipal Budget and Reporting Regulations (MBRR) regulates the minimum level of information required from municipalities when compiling, implementing, monitoring, and evaluating the municipality's financial management situation. Failure to include the minimum required information hampers the municipal council, the public and stakeholders' ability to make informed decisions and engage on the matter. It also limits research, studies, and benchmarking undertaken for local, provincial, and national purposes.

The National Treasury would like to take this opportunity to caution municipalities that the MBRR prescribe the minimum level of information municipalities must include as part of their legal reporting obligations.

Going forward the Treasuries will place increased attention and focus on the adequacy of municipalities' submissions. The National Treasury regards this non-compliance to include the minimum level of information as serious and if persistent will consider applying the available legal sanctions, including recourse in terms of section 216(2) of the Constitution. In this context, National Treasury will particularly focus on the completeness of asset management related information as well as the statistical information required in the A, B and C schedules during the 2022/23 MTREF.

6.7 Eskom Bulk Tariff increases

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. Bulk electricity costs are consistently much higher than inflation, having gone as high as 17.8 per cent in the 2021/22 municipal financial year. Eskom's need for increased funding means that over the period ahead they are applying for much higher tariff increases. In their Multi-Year Price Determination (MYPD 5) application Eskom requested approval for municipal bulk tariff increases of 20.5 per cent in 2022/23, 15 per cent in 2023/24 and 10 per cent in 2024/25. NERSA rejected this revenue application at the end of September 2021 and in October 2021 ESKOM filed an application in the High Court to review NERSA's decision. The matter is still in court with a decision anticipated to be made shortly. If Eskom succeeds, the court will compel NERSA to process the rejected application for tariffs for the year starting 1

April 2022 in terms of the existing MYPD methodology. NERSA will then be expected to immediately publish Eskom's application for public comment.

6.8 Long Term Financial Strategies

National Treasury is supporting municipalities to develop and implement long-term financial models and strategies. This reform seeks to develop more sustainable, and integrated infrastructure development programmes over the longer term, informed by strategic plans, and financed in the most effective and efficient manner.

Although some municipalities have long-term financial models (LTFM), they are not always integrated with municipal plans, or based on actual cash flow analysis and investment programmes, or able to consider alternative financial scenarios and outcomes in relation to the ability to borrow and the structuring of market transactions.

Municipalities need to develop LTFM that support decisions on investment selection and assesses the financial impact of policy choices, by forecasting future financial performance and the impact of infrastructure projects on borrowing capacity. The LTFM needs to inform the municipality's long-term financial strategy, which must articulate a sustainable, efficient and effective borrowing strategy and practices for the municipality and provide a clear statement of intent for lenders and other stakeholders.

National Treasury has initiated this reform in the metropolitan municipalities and some of the Intermediate City municipalities and will continue with this reform in the next financial year. Based on the piloting of this reform, guidance will be provided to all municipalities to develop and implement LTFM's and strategies.

7. Funding choices and management issues

Municipalities are under pressure to generate revenue as a result of the economic landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services. 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 2022/23 MTREF budgets:

- Improving the effectiveness of revenue management processes and procedures;
- Cost containment measures to, amongst other things, control unnecessary spending on nice-to-have items and non-essential activities as highlighted in the Municipal Cost Containment Regulations read with MFMA Circular No. 82;
- Ensuring value for money through the procurement process;
- The affordability of providing free basic services to all households;
- Not taking on unfunded mandates;
- Strictly control the use of costly water tankers and fix the water infrastructure to enable the sustainable provision of water;
- Prioritise the filling of critical vacant posts, especially linked to the delivery of basic services; and
- Curbing the 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.

7.1 Employee related costs

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 dated 15 September 2021 through the agreement that was approved by the Bargaining Committee of the Central Council in terms of Clause 17.3 of the Constitution should be used when budgeting for employee related costs for the 2022/23 MTREF. In terms of the agreement, all employees covered by this agreement shall receive with effect from 01 July 2022 and 01 July 2023 an increase based on the projected average CPI percentages for 2022 and 2023. The forecasts of the Reserve Bank, in terms of the January 2022 and January 2023, shall be used to determine the projected average CPI. Municipalities are encouraged to perform an annual head count and payroll verification process by undertaking a once-a-year manual salary disbursement, in order to root out ghost employees.

7.2 Remuneration of Councillors

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. It is anticipated that this salary determination will also take into account the fiscal constraints. Municipalities should also consider guidance provided above on salary increases for municipal officials during this process. Any overpayment to councilors 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 councilor(s) concerned.

8. TRANSFERS TO MUNICIPALITIES

8.1 Criteria for the release of the Equitable Share

Section 216(2) of the Constitution of South Africa requires that the National Treasury must enforce compliance with the measures established to ensure both transparency and expenditure control in each sphere of government and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures.

The criteria for the release of the Equitable Share Instalments for the 2022/23 municipal financial year are as follows:

- The 2022/23 adopted budget must be funded and adopted by Council as per the legal framework, as required in terms of section 18 of the MFMA and consistent with the Budget Council and Budget Forum resolutions;
 - a. The adopted budget must include budget allocations for bulk suppliers current account payments;
 - b. Should the adopted budget still be unfunded, then a funding plan will be required to show how the municipality intends moving progressively out of this position into a funded state, if this plan has been adopted in the past, then a progress report must be submitted on the framework previously shared to guide municipalities which is aligned to the rescue phase of the new approach to Municipal Financial Recovery Service (MFRS);
 - c. Those municipalities that adopted an unfunded budget must work with their

- respective Provincial Treasuries to rectify this position in the lead up to the main adjustments budget process in February 2023; and
- d. A council resolution showing commitment to address the unfunded position must be submitted by these municipalities to the National Treasury by 01 July 2022.

- Credible mSCOA data strings and source documents for the 2022/23 MTREF and 2021/22 audits must be generated directly from the core municipal financial system and successfully uploaded to the Local Government GoMuni Portal. Source documents must be submitted in PDF and no excel based spreadsheet/templates will be accepted;
- The report submitted by bulk suppliers in terms of section 41 of the MFMA must indicate that the current account has been paid timeously in terms of section 65(2)(e) of the MFMA. In addition, where the municipality has a repayment plan with Eskom and/ or the water boards, proof that the current accounts have been paid and a copy of the agreed upon payment plan (or evidence of negotiations underway with creditors) must be submitted to the National and provincial treasuries;
- Municipalities must provide evidence that SARS, pension and other staff benefits deducted from municipal officials have been paid over the appropriate Funds and/ or institutions;
- The information requested in MFMA Circulars No. 93, 98 and 107 on the reconciliation of the valuation roll have been submitted to the National Treasury as per the required timeframes;
- The Competency Regulations reporting requirements have been complied with;
- Provide a copy of the Unauthorised, Irregular, Fruitless and Wasteful (UIF&W) expenditure register, the latest copy of the Municipal Public Accounts Committee (MPAC) recommendations, Council Resolution on UIFW as well as council approved UIFW Reduction Strategy, proof of establishment of the Disciplinary Committee Board (or evidence of progress towards their establishment) and updated audit action plan (where the audit has been completed);
- Those municipalities that received an adverse or disclaimed opinions for the 2020/21 financial year will not receive their funding allocation unless there is a council resolution committing to address these opinions with an implementable plan. The resolution must be signed by each member of the Council and submitted to National Treasury by 1 October 2022;
- The Municipal Financial Recovery Service progress reporting framework for financial recovery plans must be complied with by municipalities under intervention in terms of S139 of the Constitution;
- Additionally, those municipalities that have outstanding audits for both the 2019/20 and 2020/21 financial years as well as municipalities with outstanding 2020/21 audit opinions that also received an adverse or disclaimer opinion in 2019/20, will also not receive their allocation; and
- Any other outstanding documents as per the legal framework have been submitted including the AFS submission (municipality only and consolidated AFS).

Failure to comply with the above criteria will result in National Treasury invoking section 38 of the MFMA which empowers National Treasury to withhold a municipality's equitable share if the municipality commits a serious or persistent breach of the measures established in terms of Section 216(2) of the Constitution which includes reporting obligations set out in the MFMA and National Treasury requests for information in terms of Section 74 of the MFMA.

9. The Municipal Budget and Reporting Regulations

9.1 Schedule A - version to be used for the 2022/23 MTREF

National Treasury has released Version 6.6 of the Schedule A1 (the Excel Formats) which is aligned to Version 6.6 of the mSCOA classification framework and must be used when compiling the 2022/23 MTREF budget.

All municipalities must prepare their 2022/23 MTREF budgets in their financial systems and produce the Schedule A1 directly from their financial system.

Municipalities must start early enough to capture their tabled budget (and later the adopted budget) in the budget module in the financial system and must ensure that they produce their Schedule A1 directly out of the budget module. **Manual capturing on A1 schedule version**

National Treasury has protected the A1 schedule version 6.6 in order to ensure that the Schedule A1 generated directly from the financial system and not populated manually.

The budget, adjustments budget and Section 71 monthly reporting Schedules that have been regulated in terms of the MBRR have also been aligned to the mSCOA chart version 6.6. The revised MBRR Schedules for the 2022/23 MTREF and its linkages to the financial and non- financial data string are available on the link below:

<http://mfma.treasury.gov.za/RegulationsandGazettes/Municipal%20Budget%20and%20Reporting%20Regulations/Pages/default.aspx>

9.2 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
	Abigail Maila	012-395 6737	Abigail.Maila@Treasury.gov.za
Buffalo City	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Free State	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
Gauteng	Matjatji Mashoeshoe	012-315 5553	Matjatji.Mashoeshoe@treasury.gov.za
	Abigail Maila	012-395 6737	Abigail.Maila@Treasury.gov.za
Johannesburg and Tshwane	Willem Voigt	012-315 5830	WillemCordes.Voigt@treasury.gov.za
Ekurhuleni	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
KwaZulu-Natal	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
	Kevin Bell	012-315 5725	Kevin.Bell@treasury.gov.za
eThekweni	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
Limpopo	Sifiso Mabaso	012-315 5952	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
	Lesego Leqasa		Lesego.Leqasa@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
Western Cape	Willem Voigt	012-315-5830	WillemCordes.Voigt@treasury.gov.za
Cape Town	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
George	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za

Technical issues with Excel formats	Sephiri Tlhomeli	012-406 9064	lgdataqueries@treasury.gov.za
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National and provincial treasuries will analyse the credibility of the data string submissions.

9.3 Assessing the 2022/23 MTREF budget

National and provincial treasuries will assess the 2022/23 MTREF budgets to determine if it is complete, funded and complies with the mSCOA requirements. The mSCOA data strings for the tabled (TABB) and adopted (ORGB) budgets will be used for this assessment.

The **assessment period** of all municipal budget will therefore be from **01 April to 30 June 2022 for both the tabled and adopted budgets**. In this period, the National and provincial treasuries will 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.

Importantly, in order to generate an adopted budget (ORGB) data string, the budget must be locked on the financial system by the 10th working day of July each year. Therefore, once the ORGB data string has been generated, errors in the ORGB can only be corrected via an adjustments budget in February of each year. In terms of the design principles of mSCOA, municipalities are not allowed to open the budget on the system for corrections after it has been locked. This means that the tabled budget data string (TABB) should in fact be verified and errors in the TABB should be corrected in the ORGB **before the adopted budget is locked on the financial system and the ORGB data string is generated**.

Amending an unfunded, incomplete and erroneous budget through an adjusted budget is also not encouraged as the National Treasury only considers an adjusted budget in the third and fourth quarter of the financial year for analysis and publication purposes. This will result in overspending and unauthorised expenditure not been monitored in the first six months of the financial year.

The National Treasury would like to emphasise that **where municipalities have adopted an unfunded budget without a credible funding plan, they will be required to correct the funding plan and ensure that it is credible. The credible funding plan must be immediately adopted by the Municipal Council, and the changes to the budget must be effected in the mid-year adjustments budget to ensure compliance with Section 18 of the MFMA.**

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 in pdf format.

In the past it was noted that municipalities have challenges to align the audited outcomes on the financial system to A1 Schedule. Municipalities must ensure that the audited figures and

adjusted budget figures captured on the A1 Schedule aligns to the annual financial statements and Schedule B respectively.

10. Submitting budget documentation and A1 schedules for 2022/23 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 2022**, the final date of submission of the electronic budget documents and corresponding mSCOA data strings is **Friday, 01 April 2022**; and
- Section 24(3) of the MFMA, read together with regulation 20(1) of the MBRR, 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. However, given that municipalities are generating the annual budgets directly from the financial system as required by the mSCOA Regulations and that the budgets must be verified before it is locked on the financial system and transacted against, municipalities must submit the approved budget to the National Treasury and the relevant provincial treasury in electronic formats **immediately** after approval by the municipal council. Therefore, if the annual budget is tabled to council on **31 May 2022**, the final date of submission of the electronic budget documents and corresponding mSCOA data strings is **Wednesday, 01 June 2022**.

Since the 2020/21 MTREF, municipalities are no longer required to submit hard copies of all required documents including budget related, Annual Financial Statements and Annual Reports to National Treasury via post or courier services. Electronic copies must be submitted in pdf format to the GoMuni Upload portal.

10.1 Expected submissions for 2022/23 MTREF

The following information should be submitted for the 2022/23 MTREF:

- The budget documentation as set out in the MBRR. The budget document must include the main A1 Schedule Tables (A1 - A10);
- The non-financial supporting tables (A10, SA9, SA11, SA12, SA13, SA22, SA23, SA24 etc. and any other information not contained in the financial data string) in the A1 schedule must be submitted in the prescribed mSCOA data string in the format published with Version 6.6 of the A1 schedule;
- The draft and final service delivery and budget implementation plan (SDBIP) in electronic PDF format;
- The draft and final IDP;
- The council resolution for the tabled and adopted budgets;
- Signed Quality Certificate as prescribed in the MBRR for the tabled and adopted budgets;
- D Schedules specific for the entities; and

- A budget locking certificate immediately at the start of the new municipal financial year on 1 July.

10.2 Go Muni Upload Portal

The National Treasury is in the process of finalising the development work on the GoMuni Upload portal. Municipalities, provincial treasuries, system vendors and sector departments should ensure that the names and contact details of the data uploaders or users of the data, as reflected on the LG Database, for their respective institutions are correct and updated as and when changes occur.

10.3 Portals for the submission of information

Municipalities must ensure that the documents are submitted to the correct portals/ mailboxes. These portals/ mailboxes are:

<https://lguploadportal.treasury.gov.za> (GoMuni Upload Portal) – All documents required in terms of legislation, including:

- mSCOA Data Strings by approved registered users;
- Budget-related and in-year documents and schedules (A, B and C) by approved registered users; and
- Reconciliation of the valuation roll to the financial system (as per MFMA Circular No.93).

Budget related documents and schedules must be uploaded by approved registered users using the GoMuni Upload Portal at: <https://lguploadportal.treasury.gov.za/>. The GoMuni Upload Portal does not have the same size restrictions encountered with lgdocuments@treasury.gov.za, but requires all documents to:

- Be in PDF format only; and
- 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 clearly and uploaded separately.

Municipalities may **only** send electronic versions of the above documents to lgdocuments@treasury.gov.za when experiencing problems with the GoMuni Upload Portal.

lgdataqueries@treasury.gov.za – Database related and submission queries and the grant rollover templates.

lgdocuments@treasury.gov.za – Any additional information required by National Treasury that is not listed under the GoMuni Upload portal such as the manual COVID-19 reports.

Please do not submit the same document to ALL the platforms listed above as it means that our Database Team must register the same documents three times which slows down the process. **Any document/ queries that are submitted to the incorrect portal/ mailbox will be deleted and not processed.**

10.4 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.

10.5 Communication by municipal entities to National Treasury

Municipal entities should not request meetings directly from National Treasury. National Treasury will only engage the entities through the parent municipalities. This includes all communications apart from the legislative reporting requirements.

Contact



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria 0001

012 315 5009

012 395 6553



<http://www.treasury.gov.za/default.aspx>

JH Hattingh
Chief Director: Local Government Budget Analysis
06 December 2021

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ANNEXURE P
MFMA NATIONAL TREASURY
CIRCULAR NO 115

**MFMA Circular No. 115****Municipal Finance Management Act No. 56 of 2003****Municipal Budget Circular for the 2022/23 MTREF****CONTENTS**

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Introduction

This budget circular is a follow-up to MFMA Circular No. 112 that was issued on 06 December 2021. It aims to provide further guidance to municipalities with the preparation of their 2022/23 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 2022 Budget Review and the 2022 Division of Revenue Bill are also key focus areas in this circular. Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance in areas of the budget preparation that is not covered in this circular.

1. The South African economy and inflation targets

The world economy is expected to grow by 4.4 per cent this year. This is lower than the 4.9 per cent that was anticipated when tabling the medium-term budget policy statement (MTBPS). The Omicron variant of the coronavirus caused many countries to impose restrictions to manage its spread. In addition, continued imbalances in global value chains have limited the pace of the world's economic recovery.

The South African economy has not been shielded from these global developments. National Treasury has revised South Africa's economic growth estimate for 2021 to 4.8 per cent, from 5.1 per cent at the time of the MTBPS.

This revision reflects a combination of the impact of changes in the global environment, along with South Africa's own unique challenges. Commodity prices, which have supported South Africa's economic recovery, slowed in the second half of 2021.

Also, violent unrest in July, and restrictions imposed to manage the third wave of COVID-19 further eroded the gains South Africa made in the first half of the year.

Industrial action in the manufacturing sector, and the re-emergence of loadshedding, also slowed the pace of the recovery.

Real Gross Domestic Product (GDP) growth of 2.1 per cent is projected for 2022. Over the next three years, GDP growth is expected to average 1.8 per cent.

Headline inflation is expected to remain between 3 to 6 per cent target range over the 2022/23 MTEF.

In summary, the tax revenue in 2021/22 was higher than projections and this was mainly due to commodity price rally. However, these are projected to be short term, and as such long-term spending commitments should not be made based on short term revenue benefits. There are measures in place to reduce expenditure to narrow the budget deficit.

The following macro-economic forecasts must be considered when preparing the 2022/23 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2020 - 2025

Fiscal year	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Estimate	Forecast		
CPI Inflation	2.9%	4.5%	4.8%	4.4%	4.5%

Source: Budget Review 2022.

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 2022/23 budget process

2.1 Local government conditional grants allocations

Over the 2022 MTEF period, direct transfers to municipalities will grow above inflation, at an annual average rate of 7.9 per cent. Direct conditional grants grow at an annual average rate of 5.3 per cent over the MTEF, while the Local Government Equitable Share (LGES) grows faster, at an annual average rate of 10.3 per cent over the same period.

The higher than inflation growth of allocations to local government is due to additional allocations over the medium term as follows:

- 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 2022 MTEF period. R28.9 billion is added to the LGES over the MTEF to increase coverage of the provision of free basic services; and
- An amount of R1.7 billion over the MTEF is added to the Neighbourhood Development Partnership Grant to fund the continuation of the upscaling of city-led public employment programmes, as part of the Presidential Youth Employment Intervention; and an amount of R347 million over the first two years of the MTEF period is allocated to fund the introduction of the Municipal Disaster Recovery Grant. More detail is provided below.

The Division of Revenue Bill was published on 23 February 2022, following the tabling of the Budget in Parliament. The Bill specifies all local government transfers and municipalities must reconcile their budgets to the numbers published herein.

In terms of the outer year allocations (2023/24 and 2024/25), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as presented in the 2022 Division of Revenue Act. The DoRB is available at: <http://www.treasury.gov.za/documents/national%20budget/2022/dor.aspx>

2.2 Division of Revenue Bill, 2022: changes to local government allocations

Budget Facility for Infrastructure (BFI) Funding – There are reductions of R754 million in 2022/23 and R105 million in 2023/24; and an increase of R621 million in 2024/25 in the *Public Transport Network Grant* to align to the revised implementation plan and cash flow projections for the City of Cape Town's MyCiTi public transport network.

Neighbourhood Development Partnership Grant – R1.7 billion is added to the direct component of the *Neighbourhood Development Partnership Grant* for the eight metropolitan municipalities to fund the continuation of the upscaling of city-led public employment programmes that contribute to informal settlement upgrading, public space and asset maintenance, development and management, greening and cleaning, food security, innovative service delivery, local knowledge and information sharing and management, community safety, environmental services and management and community tourism. This is part of the Presidential Youth Employment Intervention and is a continuation of government's response to job losses due to COVID-

19, introduced as part of the stimulus package to respond to the impact of the COVID-19 pandemic during 2020.

Regional Bulk Infrastructure Grant – R1 billion is added to the *Regional Bulk Infrastructure Grant*, funded from the BFI, to fund the continuation of the implementation of the Potable Water Security and Remedial Works project in George Local Municipality.

Integrated National Electrification Programme (Eskom) Grant – R50 million is reprioritised from the *Integrated National Electrification Programme (Eskom) Grant* to finance the operational requirements of the Independent Power Producer Office in 2022/23.

Energy Efficiency and Demand Side Management Grant – R8 million in 2022/23 and 2023/24, respectively is reprioritised from the *Energy Efficiency and Demand-Side Management Grant* to finance the operational requirements within the vote of the Department of Mineral Resources and Energy.

R10 million is shifted from the sport component of the **Municipal Infrastructure Grant (MIG)** to the **Integrated Urban Development Grant (IUDG)** in 2022/23, to fund a sport project in Polokwane Local Municipality.

The **Municipal Disaster Recovery Grant** is introduced to fund infrastructure recovery in municipalities in KwaZulu-Natal. This grant is allocated R347 million between 2022/23 and 2024/25.

2.3 Changes to gazetted frameworks and allocations

Infrastructure Skills Development Grant (ISDG) – The grant framework for the infrastructure skills development grant is amended to include a condition that municipalities must have a capacitated Project Management Units with qualified people to act as supervisors in terms of the relevant statutory council requirements.

Municipal Infrastructure Grant (MIG) – Over the 2022 MTEF, the Department of Cooperative Governance (DCoG) will introduce an indirect component to the MIG. This is to improve efficiency in grant expenditure to develop more and better-quality infrastructure. The conversion will be done in-year. The criteria as determined by DCoG includes indicators related to expenditure and reliability of infrastructure.

Municipal Systems Improvement Grant – Over the MTEF, a portion of the grant will be utilised to continue to support institutionalisation of the district development model.

Municipal Disaster Relief Grant – The name of the *Municipal Disaster Relief Grant* is changed to the *Municipal Disaster Response Grant*. The objective of the grant remains the same and the change aligns to existing National Disaster Management Centre (NDMC) processes in responding to disasters that have occurred.

Local Government Financial Management (FMG) Grant – Over the 2022 MTEF, the grant framework for the FMG will make provision for the preparation of asset registers.

3. IDP Consultation Process Post 2021 Local Government Elections

Municipalities are advised to refer to the guidance (refer to the email sent by the Department of Cooperative Governance and Traditional Affairs (CoGTA) to all municipalities on 20 October 2021) provided through the joint South African Local Government Association (SALGA)/ Department of Cooperative Governance (DCoG) and National Treasury (NT) Joint Circular No.1 on the transitional measures in relation to the integrated development plan (IDP) consultation process. This circular indicates that the previous municipal councils had an obligation to ensure that the legislative stipulations were complied with. Therefore, they were expected to continue the process

of the development of the IDP starting with the development and adoption of the process plans as provided for in section 28 of the Municipal Systems Act,

2000. Municipalities should then implement the adopted budget process plan and conduct the public engagements as per dates they have indicated in the process plan.

4. Municipalities unable to pass the annual budget after 1 July

The provincial executive council must urgently request the Mayor to submit a report outlining detailed reasons and or circumstances that led to failure to approve the annual budget by the 1 July.

The provincial executive council must intervene in terms of section 139(4) of the Constitution and take appropriate steps by issuing a directive to the municipal council to approve a budget and any revenue raising measures necessary to give effect to the budget within a reasonable period.

Section 26(4) and (5) of the MFMA provides for how the expenses can be met pending the approval of a budget through a directive. Provincial Treasuries should establish clear internal processes for reviewing and recommending the approval of withdrawals by their MEC for Finance (templates can be obtained from National Treasury).

The provincial executive council must upon issuing of a directive to the Municipal Council conduct an assessment of the budget tabled by the Mayor against the norms and standards, approved budget process plan, and the outcome of public participation processes.

In the event the Municipal Council fails to approve a budget due to walk out or individual misconduct by a majority of councillors, the Speaker must immediately investigate the conduct of those identified councillors in terms of the Code of Conduct for councillors as provided for in the Municipal Systems Act, 2000.

If in terms of the assessment by the provincial executive council of the tabled budget, it is found that there are no justifiable grounds for not approving the budget, the former must submit/ present the outcome of the assessment to the Municipal Council with a directive to consider the assessment and adopt the budget. If the assessment of the provincial executive council of the tabled budget finds that it does not adhere to the required norms and standards, the directive from the provincial executive council should instruct the council to first amend the budget to remedy this before adopting the budget.

The provincial executive council must, if necessary give the municipal council a further 14 days to approve a tabled budget that complies with norms and standards and incorporates the outcome of public participation, failing which the provincial executive council must consider dissolution of municipal council, approval of a temporary budget and appointment of an administrator as a last resort.

5. Municipal Standard Chart of Accounts (mSCOA)

5.1 Release of Version 6.6.1 of the Chart

Version 6.6.1 of the chart will be released through a patch to accommodate the following changes/conditions published in the 2022 Division of Revenue (DoR) Bill:

- The capital leg of the Local Government Financial Management (FMG) grant that was retired in chart version 6.2 of the chart. As per the conditions published in the 2022 DoRBill, the grant may be used, inter alia, for the acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, service

- delivery and budget implementation plans, annual financial statements, annual reports and automated financial management practices including the *mSCOA*;
- Allocation-in-kind for the MIG grant to make provision for the indirect grant portion of the grant; and
- The name change from Municipal Disaster relief grant to Municipal Disaster Response Grant. Municipalities should take note of this change when they report on COVID-19 in terms of *mSCOA* Circular No. 9.

Version 6.6.1 of the chart will be effective from 01 July 2022 and must be used to compile the 2022/23 MTREF. The patch is available on the link below:
<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandandChartOfAccountsFinal/Pages/default.aspx>

5.2 Funding Depreciation

From the analysis of the *mSCOA* data strings it is evident that a number of municipalities are allocating non-funding as the funding source in the fund segment for depreciation charges. Depreciation charges must be funded from operational funds such as service charges for electricity if assets are utilised for electricity purposes, service charges water for water management purposes, waste and wastewater management in the same manner and property rates for services like roads that is primarily funded from property rates.

When depreciation is funded, it will assist the municipalities to accumulate sufficient surpluses that must be transferred to cash backed reserves. Depreciation is the method to provide for the replacement of the assets. If depreciation remains a journal without the funds being ring-fenced, municipalities will not be in a financial position to fund future infrastructure assets.

5.3 Application of Costing

The mapping for Table A2 on Financial Performance of the regulated Schedule A was updated to include the costing segment. The costing segment in *mSCOA* provides for the recording of the full cost for the four core municipal functions, namely: electricity, water, wastewater and waste management. It also allows for the charge out of costs between functions and projects. Costing: recoveries was previously recorded as 'revenue: default' in the item segment. However, as the charge out of cost does not present revenue, municipalities must use 'expenditure: default' in the item segment to record the debit and credit of all costing transactions where the charges increase cost and the recoveries decrease the cost per function or project.

Municipalities are also reminded that one of the validation rules that are applied when *mSCOA* data strings are submitted is that costing transactions for charges and recoveries must balance to zero.

5.4 Change in calculation of consumer deposits

The addition of consumer deposits as a funding source in version 6.6 of the *mSCOA* chart impacts on the population of Tables SA30 and A7 in the Schedule A. The calculation will be changed in the 6.6 chart version to the following:

CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in consumer deposits	Consumer deposits FD001001001014 linked to IA001 Deposits

(Decrease) in consumer deposits	Consumer deposit IL001002 :Withdrawals
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All payments received in respect of consumer deposits will be picked up utilising the consumerdeposit fund source linked to the bank: deposits posting level. The payment of consumer

deposits will be picked up from item liability: consumer deposits: withdrawals posting levels, which represent the outflow of cash.

5.5 NERSA reporting

Municipalities are reminded to complete the D-Forms that the National Energy Regulator of South Africa (NERSA) requires. The National Treasury is currently looking into ways of how the mSCOA data strings can be used to populate the NERSA reports and will provide guidance in this regard during 2022.

5.6 Restructuring of the Long-Term Component of Trade Payables

In an effort to assist municipalities to get to a funded budget position, the National Treasury have requested municipalities to negotiate with their major trade creditors like Eskom, Water Boards and the Department of Water Affairs to restructure their outstanding trade creditors. Where the debt owed by a municipality was restructured, in terms of a debt repayment agreement, and the repayment period exceeds a period of 12 months, the debt will remain under *current liabilities trade payables* as per the version 6.6 of the mSCOA chart.

The restructuring of debt in the Statement of Financial Position to include the non-current portion through the reclassification of the debt to a *non-current liability of trade payables* under non-current liabilities has a major impact on the working capital requirement disclosure in the funding compliance assessment on Table A8 of the Schedule A and on the entire funding methodology of the National Treasury. The restructuring of debt also affects a number of liquidity measurement ratios such as the Current Ratio, Liquidity Ratio and Creditors to Cash Ratio.

Detailed analysis and careful consideration of the appropriate accounting treatment to ensure that future adjustments to the chart will not compromise the funding methodology of the National Treasury is required. Therefore, any changes required to the mSCOA Chart to accommodate the restructuring of the long-term component of trade payables will only be considered for inclusion in version 6.7 of the chart.

The restructuring of the non-current portion should not only impact on the Statement of Financial Position as it requires that municipalities include additional cost in the operation budget for the repayment of the non-current liability, including any finance charges that may be payable as per the repayment agreement. The restructuring of the trade payables without the inclusion of the interest and redemption payments of the non-current liability on the cash flow statement will significantly misstate the funding position of the municipality.

The Budget Funding Assessment Tool used by the National and provincial treasuries to assess the funding position of municipal budgets has been enhanced to include a *Restructuring of Trade Payables Module* to assess the full impact of the restructuring on both the Statement of Financial Position and the impact of interest charges and repayment of the non-current liability on the cash flow position of the municipality. Municipalities that have restructured their trade payables should:

- Indicate this to the respective National and provincial treasuries when submitting their tabled and adopted 2022/23 MTREF budget; and
- Submit the approved agreement with the supplier to the respective National and provincial treasuries with their budget documentation.

The necessary restructuring will then be taken into account in the funding assessment by the respective National and provincial treasuries prior to determining the funding position of the municipality.

5.7 mSCOA eLearning

A web-based eLearning course on mSCOA will be available on the National School of Government (NSG) website from April 2022. This is a self-paced course aimed at all government and municipal officials, especially new employees and interns to on-board them on mSCOA.

The course is structured as follows:

Module 1 – The fundamentals of mSCOA (for financial and non-financial officials)

- An overview of the Local Government Budget and Financial Management Reform Agenda and mSCOA Legislative Framework;
- mSCOA implementation oversight (including the role of internal audit, risk management and councilors); and
- Understanding the mSCOA segments.

Module 2 – System and reporting requirements (for financial and non-financial officials)

- An overview of the reporting requirements in a mSCOA environment;
- Key business processes that underpin mSCOA;
- Minimum system specifications required to comply with the mSCOA Regulations;
- Submission of documents and data strings to the National Treasury (i.e. registration process and upload process); and
- Period Control and how to transact and report in period 13, 14 and 15.

Module 3 – Budgeting and transacting on the mSCOA chart (for financial officials)

An understanding of accounting principles and GRAP is required to complete this module.

Municipalities are reminded to budget for the course in their 2022/23 MTREF.

For further information, contact the NSG on their website link: <https://www.thensg.gov.za>.

6. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. The weak economic growth has put pressure 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.

Municipalities must ensure that they render basic services, maintain their assets and clean environment. Furthermore, there must be continuous communication with the community and other stakeholders to improve the municipality's reputation. This will assist in attracting investment in the local economy which may result in reduced unemployment. Some municipalities are experiencing serious liquidity challenges. Therefore, the new leadership is advised to:

- Decisively address unfunded budgets by reducing non-priority spending and improving revenue management processes to enable collection; and
- Address service delivery failures by ensuring adequate maintenance,

upgrading and renewal of existing assets to enable reliable service delivery.

It should be noted that it is easier for consumers to pay for services if they are reliable and when the environment is well maintained.

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 lower 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 2022/23** in their budget narratives and pay careful attention to 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.

6.1 Maximising the revenue generation of the municipal revenue base

Reference is made to MFMA Circulars No. 93, paragraph 3.1 and No. 98, paragraph 4.1. The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their 2022/23 MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this is a fundamental reason for municipalities not attaining their desired collection rates.

It is essential that municipalities reconcile their most recent valuation roll data to that of the billing system to ensure that revenue anticipated from property rates are accurate. Municipalities should undertake this exercise as a routine practice during the budget process so that supplementary adjustments to the valuation roll are kept up to date. The list of exceptions derived from this reconciliation will indicate where the municipality may be compromising its revenue generation in respect of property rates. A further test would be to reconcile this information with the Deeds Office registry. In accordance with the MFMA Circular No. 93, municipalities are once more requested to submit their reconciliation of the valuation roll to the billing system to the National Treasury on a quarterly basis.

The above information must be uploaded by the municipality's approved registered user(s) using the GoMuni Upload Portal at: <https://lguploadportal.treasury.gov.za/>. If the municipality experience any challenge uploading the information a request for an alternative arrangement may be emailed to linda.kruger@treasury.gov.za.

6.2 Setting cost-reflective tariffs

Reference is made to MFMA Circular No. 98, paragraph 4.2. The setting of cost-reflective tariffs is a requirement of Section 74(2) of the Municipal Systems Act, 2000 which is meant to ensure that municipalities set tariffs that enable them to recover the full cost of rendering the service. This forms the basis of compiling 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 (Financial and Fiscal Commission (FFC), 2011). Credible budgets are critical for local government to fulfil its mandate and ensure financial sustainability.

A credible expenditure budget reflects the costs necessary to provide a service efficiently and effectively, namely:

- A budget adequate to deliver a service of the necessary quality on a sustainable basis; and
- A budget that delivers services at the lowest possible cost.

Municipalities are encouraged to utilise the tariff setting tool referenced in MFMA Circular No. 98, item 4.2. This tool will assist in setting tariffs that are cost-reflective and would enable a municipality to recover costs to fulfil its mandate. 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>

It is also imperative that every municipality is utilising the mSCOA cost segment correctly.

6.3 Bulk Account Payments and Concessions

During 2018/19, intense work was undertaken to resolve systemic and structural issues pertaining to the electricity function in municipalities. Core to this work was addressing the escalating Eskom debt that threatened the sustainability of Eskom as well as that of municipalities.

During the process, Eskom agreed to provide relieve in certain areas. Municipalities are reminded of the following concessions that remain in place:

- The interest rate charged on overdue municipal bulk accounts were reduced from primeplus 5 per cent to prime plus 2.5 per cent;
- Payment terms were extended from 15 days to 30 days for municipal bulk accounts; and
- Eskom allocation of municipality payments to capital first and then to interest.

These concessions align to the MFMA and are meant to curb municipal growing debt levels by allowing a more conducive payment regime than what was previously employed. In addition, municipalities are urged to budget for and ring-fence their payment of bulk services. Bulk current account payments must be honoured religiously to avoid stringent application of the bulk suppliers' credit control policy.

Municipalities are also advised to enforce a culture of payment for services through their normal credit control processes. In this regard it should be noted that municipalities are only compensated for free basic services based on an indigent user component calculation through the equitable share. As such, a municipality's allocation of free basic services to all of the municipality's consumers is not funded in the equitable share. Every municipality, during the budget process, must consider the affordability to the municipality when allocating free basic services above the national norm and to consumers other than indigent consumers. **If a municipality has any arrears on any of its bulk supplier's accounts, it must limit its provision of free basic services to registered indigent consumers only.**

In this regard municipalities are reminded to take note of the Constitutional Court decision in **Mazibuko and Others vs City of Johannesburg and Others (CCT 39/09) [2009] ZACC 28; 2010 (3) BCLR 239 (CC); 2010 (4) SA 1 (CC) (8 October 2009)**. The Constitutional Court confirmed that a municipality has the right to disconnect the water service in the event of non-payment. In the case of registered indigent users, water may not be disconnected but can and should be restricted to the national policy limit of 6 kilolitres of water monthly.

6.4 Timeous allocations and clearing of the control accounts

Municipalities are encouraged to clear the control accounts on a monthly basis and to allocate trade and other receivable payments in these suspense accounts to the

relevant debtor accounts regularly before the monthly submissions as required by the MFMA. Implementing and enforcing the credit control policy of the municipality whilst payments are not cleared in the control account is negligent and irresponsible. Municipalities are warned against this bad practice, and this must be avoided at all costs.

6.5 Smart Prepaid Meters Solution

The Inter-Ministerial Task Team (IMTT) of the 5th administration appointed a panel to investigate the electricity function to better understand what is causing the non-payment to Eskom. Cabinet subsequently endorsed the panel's recommendation that a smart prepaid solution for all municipalities must be explored. Municipalities are advised that the National Treasury, through the Office of the Chief Procurement Officer (OCPO), will soon facilitate a transversal contract to standardise prepaid smart meter solutions for electricity that align to minimum and critical technical specifications for local government.

If your municipality or entity is currently in the process of procuring any smart meter solution or is planning to, you are cautioned:

- Against proceeding prior to the OCPO having issued and awarded the transversal prepaid smart meter Terms of Reference (ToR); and
- That, with immediate effect, you must obtain the National Treasury's input prior to proceeding with any current procurement or proposed procurement for any smart meter solution or similar system solution. This is to prevent unnecessary and wasteful expenditure on such solutions. Any request for National Treasury's input on the current or planned procurement of any smart meter solution or similar system solution or component thereof, must be directed to the National Treasury for the attention of the Local Government Budget Analysis Unit (Mr. Sadesh Ramjathan) Sadesh.Ramjathan@treasury.gov.za.

Your assistance in proactively ensuring that the municipality and/ or its entities are not adversely affected by these processes will be appreciated.

6.6 Critical Notice Affecting STS Meters

Municipalities are alerted that there is a pending business risk to the prepayment metering industry that requires urgency of action. The token identifiers (TID) used to identify each credit token will run out of available numbers in November 2024, at which point all STS meters will stop accepting credit tokens. The remedy is to visit each meter and enter a special set of key change tokens in order to reset the meter memory. Municipalities are advised that the National Treasury, through the Office of the Chief Procurement Officer (OCPO), will soon facilitate a transversal contract for the provision of auditing, re-calibration and re-configuration services for standard transfer specification compliant prepayment meters that align to minimum and critical technical specifications for local government.

If your municipality or entity is currently in the process of procuring for a solution or is planning to, you are cautioned:

- Against proceeding prior to the OCPO having issued and awarded the transversal contract for the provision of auditing, re-calibration and re-configuration services for standard transfer specification compliant prepayment meters Terms of Reference (ToR); and
- That, with immediate effect, you must obtain the National Treasury's input prior to proceeding with any current procurement or proposed procurement for this purpose or any related solution or similar. This is to prevent unnecessary and wasteful expenditure on such solutions. Any request for National Treasury's input on the current or planned procurement of any related solution or similar or component thereof, must be directed to the National Treasury for the attention of the Local Government Budget Analysis Unit (Mr. Sadesh Ramjathan) Sadesh.Ramjathan@treasury.gov.za.

In this regard, municipalities will have two options to choose from:

- Firstly, to pursue the route of auditing, re-calibrating and re-configuring services for standard transfer specification compliant prepayment meters; and
- Secondly, to replace the old meter with a new smart prepaid meter.

For both options, the municipality will have to budget accordingly as no additional funding will be available through the national fiscus.

Your assistance in proactively ensuring that the municipality and/ or its entities are not adversely affected by these processes will be appreciated.

6.7 Completeness and credibility of revenue related information in the Budget

The Municipal Budget and Reporting Regulations (MBRR) regulates the minimum level of information required from municipalities when compiling, implementing, monitoring, and evaluating the municipality's financial management situation. Failure to include the minimum required information hampers the municipal council, the public and stakeholders' ability to make informed decisions and engage on the matter. It also limits research, studies, and benchmarking undertaken for local, provincial, and national purposes.

The National Treasury would like to take this opportunity to caution municipalities that the MBRR prescribe the minimum level of information municipalities must include as part of their legal reporting obligations.

Going forward the Treasuries will place increased attention and focus on the adequacy of municipalities' submissions. The National Treasury regards this non-compliance to include the minimum level of information as serious and if persistent will consider applying the available legal sanctions, including recourse in terms of section 216(2) of the Constitution. In this context, National Treasury will particularly focus on the completeness of asset management related information as well as the statistical information required in the A, B and C schedules during the 2022/23 MTREF.

6.8 Eskom Bulk Tariff increases

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. Bulk electricity costs are consistently much higher than inflation, having gone as high as 17.8 per cent in the 2021/22 municipal financial year. Eskom's need for increased funding means that over the period ahead they are applying for much higher tariff increases. In their Multi-Year Price Determination (MYPD 5) application Eskom requested approval for municipal bulk tariff increases of 20.5 per cent in 2022/23, 15 per cent in 2023/24 and 10 per cent in 2024/25. NERSA rejected this revenue application at the end of September 2021 and in October 2021 ESKOM filed an application in the High Court to review NERSA's decision. Following the deliberations, NERSA has approved a 9.6 per cent tariff increase for Eskom starting from April 2022 and this figure accounts for a 3.49 per cent increase in 2022/23.

6.9 Long Term Financial Strategies

National Treasury is supporting municipalities to develop and implement long-term financial models and strategies. This reform seeks to develop more sustainable, and integrated infrastructure development programmes over the longer term, informed by strategic plans, and financed in the most effective and efficient manner.

Although some municipalities have long-term financial models (LTFM), they are not always integrated with municipal plans, or based on actual cash flow analysis and investment programmes, or able to consider alternative financial scenarios and outcomes in relation to the ability to borrow and the structuring of market transactions.

Municipalities need to develop LTFM that support decisions on investment selection and assesses the financial impact of policy choices, by forecasting future financial performance and the impact of infrastructure projects on borrowing capacity. The LTFM needs to inform the municipality's long-term financial strategy, which must articulate a sustainable, efficient

and effective borrowing strategy and practices for the municipality and provide a clear statement of intent for lenders and other stakeholders.

National Treasury has initiated this reform in the metropolitan municipalities and some of the Intermediate City municipalities and will continue with this reform in the next financial year. Based on the piloting of this reform, guidance will be provided to all municipalities to develop and implement LTFM's and strategies.

6.10 Water management

Reference is made to the 2011, Chapter 8 of the Local Government Budget and Expenditure Review (LGBER) which emphasizes the importance of water management.

It has been observed recently in various platforms where municipalities engage with treasuries and the sector departments that there is no uniformity in reporting water and electricity losses. These are material items and need to be disclosed in planning, budgeting, reporting and in the annual report and Annual Financial Statements in uniform ways in order to track performance. In order to ensure consistency of reporting, the following information must be provided:

Accounting for water sold, non-revenue water and water losses:

- System input volume (kl)
- Water Billings (sum of accounts issued) – volume in kl and rand value
- Free basic water allowance (not included in billings) - volume in kl and rand value
- Physical water losses (estimated): volume in kl and rand value
- Water revenue collected (Rand value)

Accounting for electricity sold and electricity

losses:

- Electricity purchased and generated (Electricity input) (kWh)
- Electricity Billings (sum of accounts issued) (KWh and Rand value)
- Free basic electricity allowance (not included in billings) (KWh and Rand value)
- Technical losses (estimated) (KWh and Rand value)
- Electricity revenue collected (Rand value)

In addition, the norms articulated in MFMA Circular No. 71 should also be taken into consideration.

6.11 Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFW)

Cabinet adopted the Medium-Term Strategic Framework (MTSF) for 2019-2024 wherein it amongst others, committed that government will reduce irregular expenditure by 75 per cent and fruitless and wasteful expenditure by 100 per cent by 2024. It is important to note that these targets are applicable to each sphere of government. To this end, the Minister of Finance approved the UIFW Reduction Strategy for municipalities which was issued through MFMA Circular No. 111 in November 2021. The latter strategy advocated for municipalities to develop UIFW reduction plans that is approved by the municipal council, with the aim being for municipalities to utilize their 2018/19 UIFW figures as contained in their audited annual financial statements for that financial year as a baseline to develop the reduction plans. Whilst progress has been slow in terms of municipalities developing and submitting these plans to the National Treasury, some municipalities have made strides in this regard.

National Treasury would like again to encourage municipalities to develop the UIFW reduction plans and have it approved by the municipal councils through a council resolution for submission to the National Treasury to the MFMA helpdesk at mfma@treasury.gov.za for the attention of Mr. Wayne McComans on wayne.mccomans@treasury.gov.za. Municipalities are also advised to report progress against these UIFW reduction plans as part of their monthly

section 71 reporting to enable the necessary monitoring and oversight by the National Treasury on the implementation of these plans.

Going forward the Treasuries will place increased attention and focus on the processing of UIFW by municipalities as required by section 32(2) of the MFMA read with MFMA Circular No. 68. The National Treasury regards this consistent non-compliance for failure to adequately process and investigate UIFW as serious and if persistent will consider applying the available legal sanctions, including recourse in terms of section 216(2) of the Constitution.

7. Funding choices and management issues

Municipalities are under pressure to generate revenue as a result of the economic landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services. 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 2022/23 MTREF budgets:

- Improving the effectiveness of revenue management processes and procedures;
- Cost containment measures to, amongst other things, control unnecessary spending on nice-to-have items and non-essential activities as highlighted in the Municipal Cost Containment Regulations read with MFMA Circular No. 82;
- Ensuring value for money through the procurement process;
- The affordability of providing free basic services to all households;
- Not taking on unfunded mandates;
- Strictly control the use of costly water tankers and fix the water infrastructure to enable the sustainable provision of water;
- Prioritise the filling of critical vacant posts, especially linked to the delivery of basic services; and
- Curbing the 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.

7.1 Employee related costs

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 dated 15 September 2021 through the agreement that was approved by the Bargaining Committee of the Central Council in terms of Clause 17.3 of the Constitution should be used when budgeting for employee related costs for the 2022/23 MTREF. In terms of the agreement, all employees covered by this agreement shall receive with effect from 01 July 2022 and 01 July 2023 an increase based on the projected average CPI percentages for 2022 and 2023. The forecasts of the Reserve Bank, in terms of the January 2022 and January 2023, shall be used to determine the projected average CPI. Municipalities are encouraged to perform an annual head count and payroll verification process by undertaking a once-a-year manual salary disbursement, in order

to root out ghost employees.

7.2 *Remuneration of Councillors*

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. It is anticipated that this salary determination will also take into account the fiscal constraints. Municipalities should also consider guidance provided above on salary increases for municipal officials during this process. Any overpayment to councilors 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 councilor(s) concerned.

7.3 Equitable Share allocation

As highlighted in Minister Enoch Godongwana's 2022 Budget Speech, municipalities must be mindful that the Equitable Share is meant to fund basic municipal services to the indigent. Municipalities must ensure that monies are used for the purpose they were allocated for.

8. Transfers to Municipalities

The circular reiterates the requirements of the rollover and unspent conditional grants process in line with conditions outlined in the annual Division of Revenue Act. Municipalities are required to request for a rollover approval against any unspent conditional grants that were allocated through the annual Division of Revenue Act, therefore this section provides guidance to municipalities with regard to the preparation for the 2021/22 unspent conditional grants and roll-over process and should be referenced against previous annual budget circulars.

8.1 Criteria for the rollover of conditional grant funds

In terms of Section 21 of the Division of Revenue Act, 2021 (Act No.9 of 2021) (DoRA) read in conjunction with the Division of Revenue Amendment Act, 2021 (Act No. 17 of 2021) (DoRAA), the Act requires that any conditional allocation or a portion thereof that is not spent at the end of the 2021/22 financial year reverts to the National Revenue Fund (NRF), unless the rollover of the allocation is approved in terms of subsection (2). Furthermore, the receiving officer, provincial treasury and transferring national officer is required to prove 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 21(2) of the 2021 DoRA, municipalities must include the following information with their submission to National Treasury:

- A formal letter, signed by the accounting officer addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 21(2) of the 2021 DoRA;
- 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;
- The following evidence indicating that work on each of the projects has commenced, as applicable to the specific rollover(s):
 - a) Proof that a contractor or service provider was appointed for delivery of the project before 31 March 2022; or
 - b) Proof of project tender and tender submissions published and finalised before 31 March 2022 with the appointment of contractor or service provider for delivery of the service before 30 June 2022 in cases where additional

funding was allocated during the course of the final year of the project. Further, municipalities must note the letters issued by National Treasury dated 25 February and 03 March 2022 respectively regarding the Preferential Procurement Regulation, 2017;

- c) Incorporation of the Appropriation Statement; and

- d) Evidence that all projects linked to an allocation will be fully utilised by 30 June 2022 (attach cash flow projection for the applicable grant).
- A progress report (also in percentages) on the status of each project's implementation that includes an attached legible implementation plan);
 - The value of the committed project funding, and the conditional allocation from the funding source;
 - Reasons why the grants were not fully spent during the year of original allocation per the DoRA;
 - Rollover of rollovers will not be considered therefore municipalities must not include previous year's unspent conditional grants as rollover request;
 - An indication of the time-period within which the funds are to be spent if the roll-over is approved; and
 - 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 2022, the application will not be considered.

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:

- Compliance with the in-year reporting requirements in terms of sections 71 and 72 of the MFMA and section 12 of the 2021 DoRA, including the municipal manager and Chief Financial Officer signing-off on the information sent to National Treasury;
- Submission of the pre-audited Annual Financial Statements to National Treasury by 31 August 2022;
- Accurate disclosure of grant performance in the 2021/22 pre-audited Annual Financial Statements, (i.e. correct disclosure of grant receipts and spending in the notes to the AFS);
- Despite the fact that local government is required to comply to different norms and standards prescribed by different legislations, municipalities are expected to fully comply with the provisions of DoRA that relates to rollover processes and disclose conditional grant performance in the 2021/22 pre-audited Annual Financial Statements in order to verify grant expenditure; and
- Cash available in the bank (net position including short-term investments) as at 30 June 2022 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 also not approve portions of rollover requests.

It should be noted that under no circumstances will the National Treasury consider requests for roll-over:

- The entire 2021/22 allocation to the municipality, in cases whereby the rollover request is more than 50 per cent of the total allocation, National Treasury will

- approve the rollover amount up to 50 per cent of the 2021/22 allocation;
Rollover request of the same grant for the third consecutive time;

- 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
- A portion of an allocation where the proof of commitment for the rollover application is linked to invoices that were issued before or on 31 May 2022.

8.2 Unspent conditional grant funds for 2021/22

The 2021/22 unspent conditional process will be managed in accordance with section 21 of DoRA, in order to ensure that the unspent conditional grants against the 2021/22 financial year return to the National Revenue Fund (NRF). In addition to the previous MFMA Circulars, the following practical arrangements will apply:

- Step 1: Municipalities must submit their 30 June 2022 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 2022. 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; and
- Step 3: If the receiving officer wants to motivate in terms of section 21 (2) of the 2021 DoRA that the unspent funds are committed to identifiable projects, the rollover application pack must be submitted to National Treasury by no later than 31 August 2022.

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 21 October 2022;
- Step 5: National Treasury will communicate the unspent conditional grants amount by 08 November 2022. A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment arrangement to the National Revenue Fund (NRF) by 18 November 2021; and
- Step 6: Any unspent conditional grant funds that should have, but has not been repaid to the National Revenue Fund (NRF) by 18 November 2021, and for which a municipality has not requested a repayment arrangement, these funds will be offset against the municipality's 07 December 2022 equitable share allocation.

Annexure to MFMA Circular No. 86 addresses all the issues pertaining to Appropriation Statement and reporting on approved roll-overs.

8.3 Importance of section 16 of the Division of Revenue Act

The circular again reiterates the importance of compliance to section 16 of DoRA in relation to the allocation or transfer of funds by municipalities to other organs of state in order to implement projects on behalf of the municipalities.

Section 16 (3) of DoRA states that a receiving officer may not allocate any portion of a schedule 5 allocation to any other organ of state for the performance of a function, unless the receiving officer and the organ of the state agree on the obligation of both parties and a payment schedule, the receiving officer has notified the transferring officer, the relevant provincial treasury and National Treasury of the agreed payment schedule and:

- The allocation
 - i) Is approved in the budget for the receiving provincial department or municipality; or
 - ii) If not already approved;
 - aa) the receiving officer notifies the National Treasury that the purpose of the allocation is not to artificially inflate the expenditure estimates of the relevant municipality and indicates the reasons for the allocation; and
 - bb) the National Treasury approves the allocation; or
- The allocation is for the payment for goods or services procured in accordance with the procurement prescripts applicable to the relevant province or municipality and, if it is an advance payment, paragraph (a) (ii) applies with the necessary changes.

Further, section 16 (4) states that the receiving officer must submit a copy of the agreement envisaged in subsection (3) to the transferring officer and the National Treasury before payment is made.

This section requires municipalities to comply with section 16 (3) before any DoRA allocated funds that are allocated or transferred to any organ of state and the municipality should first seek approval from National Treasury. The allocation includes transfers made to any organ of state in order to perform a function using conditional grants allocated through the DoRA.

Note that National Treasury considers the following when assessing the request from the municipality for approval:

- If the municipality is benefitting and utilising from the five per cent from capital grants that may be utilized for Project Management Unit (PMU). In terms of the capital grant framework (i.e. MIG and the Integrated Urban Development Grant (IUDG) and three per cent for the Urban Settlements Development Grant (USDG) municipalities are allowed to utilise a certain per cent of the grant for PMU or capacity support in order to implement capital projects. Therefore, if municipalities are benefitting from this initiative the PMU should be capacitated enough to implement capital project;
- Municipalities that are benefitting from the added technical support from Municipal Infrastructure Support Agent (MISA) will not be granted approval because MISA would assist with providing support and develop technical capacity towards sustained accelerated municipal capacity and service delivery. This implies that the municipality would be capacitated and be in a better position to implement capital projects; and
- If the request does not comply to the grant conditions, framework and if the transfer artificially inflates the expenditure estimates.

The following information must be submitted to National Treasury before approval is granted to municipalities to transfer funds to other organs of the state:

- In consultation with the relevant transferring officer municipalities must submit their request to National Treasury for approval;
- Provide the time frames regarding the duration of this arrangement between the municipality and the organ of the state;
- Provide the Service Level Agreement (SLA) between the municipality and the organ of state in consultation with the relevant transferring officer;

- Provide the agreed payment schedule reflecting the disbursement of the funds;
- Must provide the reasons why such a decision has been taken by the municipality;
- If amongst the reasons for the request is related to capacity challenges the municipality must therefore prove beyond reasonable doubt that there are capacity challenges and the reasons thereof; and
- Upon approval the municipality must submit the approved budget that includes the allocation.

Note that once the allocation or transfer has been approved the payment for goods or services must be procured in accordance with or in compliance to the procurement prescripts applicable to the relevant municipality. If there is an agreement for an advancement, subsection (a) (ii) will apply in order to determine if the payment does not artificially inflate the expenditure estimates. Further, before funds are transferred, the transferring national officer and National Treasury must agree on the payment schedule.

Therefore, if any expenditure incurred which emanates from such an arrangement while there was non-compliance with section 16, grant conditions and framework, such expenditure will not be recognised by both National Treasury and relevant transferring officer and will be classified as unauthorised expenditure.

9. The Municipal Budget and Reporting Regulations

9.1 Schedule A - version to be used for the 2022/23 MTREF

National Treasury has released Version 6.6.1 of the Schedule A1 (the Excel Specimen) which is aligned to Version 6.6.1 of the mSCOA classification framework and must be used when compiling the 2022/23 MTREF budget.

All municipalities **must** prepare their 2022/23 MTREF budgets in their financial systems and produce the Schedule A1 directly from their financial system.

Municipalities must start early enough to capture their tabled budget (and later the adopted budget) in the budget module in the financial system and must ensure that they produce their Schedule A1 directly out of the budget module. **Manual capturing on A1 schedule version**

National Treasury has protected the A1 schedule version 6.6 in order to ensure that the Schedule A1 generated directly from the financial system and not populated manually.

The budget, adjustments budget and Section 71 monthly reporting Schedules that have been regulated in terms of the MBRR have also been aligned to the mSCOA chart version 6.6.1. The revised MBRR Schedules for the 2022/23 MTREF and its linkages to the financial and non-financial data string are available on the link below:

<http://mfma.treasury.gov.za/RegulationsandGazettes/Municipal%20Budget%20and%20Reporting%20Regulations/Pages/default.aspx>

9.2 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	Abigail Maila	012-395 6737	Abigail.Maila@Treasury.gov.za
	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Free State	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za

Gauteng	Matjatji Mashoeshoe	012-315 5553	Matjatji.Mashoeshoe@treasury.gov.za
Johannesburg and Tshwane	Abigail Maila	012-395 6737	Abigail.Maila@Treasury.gov.za
Ekurhuleni	Willem Voigt	012-315 5830	WillemCordes.Voigt@treasury.gov.za
	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
KwaZulu-Natal	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
eThekweni	Kevin Bell	012-315 5725	Kevin.Bell@treasury.gov.za
	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
Limpopo	Sifiso Mabaso	012-315 5952	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
	Lesego Legasa		Lesego.Legasa@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
Western Cape	Willem Voigt	012-315-5830	WillemCordes.Voigt@treasury.gov.za
Cape Town	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
George	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Technical issues with Excel formats	Sephiri Tlhomeli	012-406 9064	lgdataqueries@treasury.gov.za

National and provincial treasuries will analyse the credibility of the data string submissions.

9.3 Assessing the 2022/23 MTREF budget

National and provincial treasuries will assess the 2022/23 MTREF budgets to determine if it is complete, funded and complies with the mSCOA requirements. The mSCOA data strings for the tabled (TABB) and adopted (ORGB) budgets will be used for this assessment.

The **assessment period** of all municipal budget will therefore be from **01 April to 30 June 2022 for both the tabled and adopted budgets**. In this period, the National and provincial treasuries will 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.

Importantly, in order to generate an adopted budget (ORGB) data string, the budget must be locked on the financial system by the 10th working day of July each year. Therefore, once the ORGB data string has been generated, errors in the ORGB can only be corrected via an adjustments budget in February of each year. In terms of the design principles of mSCOA, municipalities are not allowed to open the budget on the system for corrections after it has been locked. This means that the tabled budget data string (TABB) should in fact be verified and errors in the TABB should be corrected in the ORGB **before the adopted budget is locked on the financial system and the ORGB data string is generated**.

Amending an unfunded, incomplete and erroneous budget through an adjusted budget is also not encouraged as the National Treasury only considers an adjusted budget in the third and fourth quarter of the financial year for analysis and publication purposes. This will result in overspending and unauthorised expenditure not been monitored in the first six months of the financial year.

The National Treasury would like to emphasise that ***where municipalities have adopted an unfunded budget without a credible funding plan, they will be required to correct the funding plan and ensure that it is credible. The credible funding plan must be***

immediately adopted by the Municipal Council, and the changes to the budget must be effected in the main adjustments budget to ensure compliance with Section 18 of the MFMA.

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 in pdf format.

In the past it was noted that municipalities have challenges to align the audited outcomes on the financial system to A1 Schedule. Municipalities must ensure that the audited figures and adjusted budget figures captured on the A1 Schedule aligns to the annual financial statements and Schedule B respectively.

10. Submitting budget documentation and A1 schedules for 2022/23 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 2022**, the final date of submission of the electronic budget documents and corresponding mSCOA data strings is **Friday, 01 April 2022**; and
- Section 24(3) of the MFMA, read together with regulation 20(1) of the MBRR, 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. However, given that municipalities are generating the annual budgets directly from the financial system as required by the mSCOA Regulations and that the budgets must be verified before it is locked on the financial system and transacted against, municipalities must submit the approved budget to the National Treasury and the relevant provincial treasury in electronic formats **immediately** after approval by the municipal council. Therefore, if the annual budget is tabled to council on **31 May 2022**, the final date of submission of the electronic budget documents and corresponding mSCOA data strings is **Wednesday, 01 June 2022**.

Since the 2020/21 MTREF, municipalities are no longer required to submit hard copies of all required documents including budget related, Annual Financial Statements and Annual Reports to National Treasury via post or courier services. Electronic copies must be submitted in pdf format to the GoMuni Upload portal.

10.1 Expected submissions for 2022/23 MTREF

The following information should be submitted for the 2022/23 MTREF:

- The budget documentation as set out in the MBRR. The budget document must include the main A1 Schedule Tables (A1 - A10);
- The non-financial supporting tables (A10, SA9, SA11, SA12, SA13, SA22, SA23, SA24 etc. and any other information not contained in the financial data string) in the A1 schedule must be submitted in the prescribed mSCOA data string in the format published with Version 6.6 of the A1 schedule;
- The draft and final service delivery and budget implementation plan (SDBIP) in electronic PDF format;
- The draft and final IDP;
- The council resolution for the tabled and adopted budgets;
- Signed Quality Certificate as prescribed in the MBRR for the tabled and adopted budgets;
- D Schedules specific for the entities; and
- A budget locking certificate immediately at the start of the new municipal financial year on 1 July.

10.2 GoMuni Upload Portal

The development work on the GoMuni Upload portal has been concluded and municipalities must submit all documents required for the 2022/23 MTREF in terms of legislation, as per the guidance provided in MFMA Circular No 112 dated 06 December 2021, via the GoMuni Upload Portal. The upload portal can be accessed on <https://lguploadportal.treasury.gov.za> from 01 April 2022.

All municipal officials that currently have access to the LG Upload portal will be granted access to the GoMuni Upload portal. New users will have to complete and submit a Request for Access to lgdataqueries@treasury.gov.za. The request form will be available on the GoMuni login page under new registrations.

10.3 Additional validation rules applicable to data string submissions

To ensure that credible data strings are submitted to the GoMuni Upload portal, additional validation rules will be introduced in the 2022/23 MTREF. The credibility and accuracy of the data strings must be verified by municipalities before submission on the GoMuni Upload. The additional validation rules will be implemented on the stage 1 validation. In other words, a data string that fails the validation will be rejected. The additional rules are as follows:

1. A balanced data string must be submitted. This means that the data strings that is submitted must always be in balance. All the transactions should be included for Revenue, Expenditure, Gains and Losses, Assets, Liabilities and Net Assets;
2. All secondary cost data strings may only be linked to Item: Expenditure: Default. All costing transactions must be linked to Item: Expenditure default as it refers to the reallocation of cost from one function to another or one operational project to another operational project. Where cost is capitalised the costing segment is not used;
3. Inventory for water must be linked to the Function: Water Management. Bulk purchases of Water must only be recorded against the Water management

- function; and
4. Opening balances must be linked to Project default and Fund: non funding. All opening balances that are not linked to Project default and Non funding will not be valid.

The new validation rules will come into effect from 01 July 2022.

10.4 Publication of municipal documents

Going forward, the following municipal documents will be published on the GoMuni/ Go Public portal:

- Integrated Development Plans;
- Budget Documentation;
- Service Delivery and Budget Implementation Plans;
- Annual Financial Statements;
- Annual Reports; and
- Audit Reports.

Municipal documents submitted to the National Treasury prior to 2022 will be available on the MFMA webpage and can be accessed via the MFMP Share Point Documents option on GoMuni/ Go Public.

GoMuni/ Go Public can be accessed on the following link: <https://lg.treasury.gov.za>

10.5 Communication by municipal entities to National Treasury

Municipal entities should not request meetings directly from National Treasury. National Treasury will only engage the entities through the parent municipalities. This includes all communications apart from the legislative reporting requirements.

Contact



Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Post Private Bag X115, Pretoria 0001
Phone 012 315 5009
Fax 012 395 6553
Website <http://www.treasury.gov.za/default.aspx>

JH Hattingh
Chief Director: Local Government Budget Analysis
04 March 2022

ANNEXURE Q

PROCUREMENT PLANS

