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# BITOU MUNICIPALITY



## ACCOUNTS PAYABLE POLICY

2023/24

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**POLICY TITLE: ACCOUNTS PAYABLE POLICY**

FINANCIAL YEAR: 2023/24

**Status:** Final Review, submitted to Council on 29 May 2023 with Draft Budget per Item C/2/126/05/23

## **1. DEFINITIONS AND ABBREVIATIONS**

### **1.1. DEFINITIONS**

“Accounting Officer” - A person appointed in terms of section 82(1) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of the municipality in terms of section 60 of the MFMA.

“Accounts Payables” - In accounting terms, Accounts Payables means monies owed by an organization to its vendors/suppliers (Trade Creditors) for goods and services purchased on credit.

“Direct Payments” - Payments where transactions involved could not be initiated through the Supply Chain Management processes.

“Electronic Funds Transfer” - The electronic movement of funds from Bitou Municipality’s primary bank account to different vendor/supplier accounts in the same or different banks, through the use of host-to-host transaction method.

“Goods Received Note” - A confirmation document from the receiving department that shows that the ordered goods were received. It is used along with a purchase order in the three way match to authorized invoice for payment.

“Goods Returned Advise” - A confirmation document from the receiving department that shows that the ordered goods were sent back to the supplier. It is used along with a purchase order, the goods received note as well as the authorized invoice for payment.

“IDP” - Integrated Development Plan.

“Municipality” – Bitou Municipality.

“Payment Certificate” - A certificate attached to contract payments where progress payments are made.

“Payment Terms” - Are within 30 days from the date of receiving the statement or, in the absence of statement, from the date of receiving the invoice. In terms of section 65(e) of the MFMA or 15 days from receipt of invoice based on a current BBBEE certificate and allocated by SCM Compliance.

“Purchase Order” - A buyer generated document that authorizes a purchase transaction. When accepted by the seller, it becomes a contract binding on both parties.

“Statement” - Summary of all transaction debits or credits with a vendor or supplier or consultant that occurred during the previous month and their effect on an open-account balance. It is also known as a statement of account.

“Tax Invoice” - A document issued by a vendor/supplier/consultant to the municipality listing the goods or services supplied and stating the sum of money due.

“VAT” - Value Added Tax. VAT is a consumption tax levied on goods and services at each step of the production/distribution cycle.

“Suppliers’ Master File” - A comprehensive database file maintained by the SCM Unit that contains information about vendors/suppliers/consultants used to facilitate financial transactions. The information includes payment terms, address, names of directors, banking details and any other related information.

“Contracts Module” - Contract Module in Financial System that is used to capture contract payment information, tax invoices supported by Payment Certificates, raised against the Contract (by the Contractor).

## **1.2. ABBREVIATIONS**

BAC - Bid Adjudication Committee

IDP - Integrated Development Plan

GRN - Goods Received Note

GRA - Goods Returned Advise

EFT - Electronic Funds Transfer

MM - Municipal Manager (Accounting Officer)

DP – Direct Payments

SCMD - Supply Chain Management Division

EMD - Expenditure Management Division

SARS - South African Revenue Services

VAT - Value Added Tax

## **2. PROBLEM STATEMENT**

2.1. In compliance with the Municipal Finance Management Act (No. 56 of 2003), Local Government: Municipal Systems Act (No. 32 of 2000), the King IV Code on Corporate Governance in South Africa (2016), the Bitou Council approved Cost Containment Policy as adopted on 29 January 2021 and any other applicable legislation, the Municipality must establish and maintain an adequate internal financial control system.

2.2. Limited resources should be used effectively, efficiently and in accordance with the approved budget as well as any relevant financial policy as determined by the financial regulations for local authorities and guidelines by the Financial Management of the Bitou Municipality.

2.3. The Accounts Payable Policy document serves to support the concept of the control measures necessary within Expenditure Management Division.

2.4. Further, it is deemed to serve as:

(a) An information document in order that the users of the Expenditure Management Division have an understanding of what is required; and

(b) A working document to make the processes of Expenditure Management Division more effective.

### **3. DESIRED OUTCOME**

3.1. The primary desired outcome of this policy is to ensure that the municipality complies with Section 65 (2) (e) of the MFMA which requires the Accounting Officer to assume all reasonable steps to ensure:-

(a) That all money owing by the municipality be paid within 30 days from the date of receiving the statement or, in the absence of statement, from the date of receiving the invoice, unless prescribed otherwise for certain categories of expenditure.

(b) The Senior Manager: Supply Chain Management and Expenditure Management in supporting both the Chief Financial Officer and the Accounting Officer must ensure that all invoices are paid within 30 days from the date of receiving the statement or, in the absence of statement, from the date of receiving the invoice.

### **4. PURPOSE**

4.1. The purpose of this policy prescribes a process to be followed for the control and processing of all payments in terms of the Municipal Finance Management Act, Act No 56 of 2003 by ensuring that:-

(a) The municipality conducts business with properly registered suppliers as prescribed by the Supply Chain Management Policy;

(b) The supplier database is updated with correct/valid information;

(c) No payments are made to suppliers placed on hold or blacklisted;

(d) Only valid tax invoices/invoices are processed for stock and non-stock purchase orders;

**POLICY TITLE: ACCOUNTS PAYABLE POLICY**

FINANCIAL YEAR: 2023/24

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- (e) Only valid tax invoices/invoices are processed for service purchase orders;
- (f) Only valid tax invoices/invoices are processed for contracts; and
- (g) Only qualifying valid tax invoices/invoices are processed as finance payments in accordance with applicable legislation, any relevant regulations and/or guidelines.

4.2. The policy shall apply to all payments processed by the municipality, except for salaries and wages for employees or deemed to be employees. However; salaries and wages must first be processed on the Payroll System prior to such payment being processed through the Accounts Payable Section.

4.3. This policy is a high level document and should be read in conjunction with the respective approved detailed business processes.

## **5. SCOPE**

5.1. This Policy is applicable to-

- (a) All official payments made by the Bitou Municipality to vendors/suppliers/consultants of the Bitou Municipality or other duly authorized payments;
- (b) Any exceptions with the specific authorization of the Senior Manager: SCM and Expenditure Management; and

(c) Any deviations in Sundry Payments which would require special authorization from the Senior Manager: SCM and Expenditure Management or the Chief Financial Officer as delegated by the Municipal Manager in terms of the Procurement Policy.

## **6. APPLICABLE LEGISLATION, REGULATIONS AND POLICIES**

6.1. This policy is developed and guided by the following legislations and regulations:

- (a) Municipal Finance Management Act (MFMA), Act No. 56 of 2003;
- (b) Value Added Tax Act 89 of 1991;
- (c) Local Government: Municipal Systems Act (Act No.32 of 2000);
- (d) Income Tax Act 58 of 1962 (as amended);
- (e) Treasury Regulations;
- (f) Supply Chain Management Regulations;
- (g) Supply Chain Management Policy;
- (h) GRAP 104: Financial Instruments;
- (i) King Code IV of Corporate Governance;
- (j) Integrated Development Plan;
- (k) Credit Control and Debt Collection Policy; and
- (l) Petty Cash Policy.

6.2. Section 38 1 (e) (i) of the Council's approved Supply Chain Management Policy addresses the processes that the Accounting Officer must follow when receiving any bid from a bidder with the municipal rates and taxes or municipal services charges, owed by the

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FINANCIAL YEAR: 2023/24

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bidder or any of its directors, in arrears for more than three (3) months. When submitting a tender for the provision of services or the delivery of goods, each potential contractor, service provider and supplier (hereinafter referred to as the 'tenderer') must prove to the satisfaction of the Municipality that all accounts for which the tenderer is liable, have been paid up to date, and that all accounts for which each and every director, owner, partner or trustee of the tenderer is liable, have also been paid up to date. Unless a suitable arrangement has been made between the bidder and the Bitou Municipality that the total amount in arrears be recovered directly from the bidder's invoices during the contract period".

6.3. By the direction of the Council's approved Credit Control & Debt Collection Policy, the Revenue Management Division shall request the Expenditure Management Division to deduct the arrears from the affected service provider/supplier/consultant.

## **7. ROLE PLAYERS AND STAKEHOLDERS**

7.1. The principal role player is the Chief Financial Officer. The Expenditure Management Division will be responsible for implementing the policy and administering its on-going management and evaluation.

7.2. Below is an outline of the affected role-players and stakeholders:

- (a) Expenditure Management Division;
- (b) Supply Chain Management Division;
- (c) Finance and Engineering Portfolio Committee;
- (d) Executive Mayor's Office;

- (e) Council of Bitou Municipality;
- (f) Western Cape Department of Cooperative Governance and Traditional Affairs;
- (g) Auditor-General South Africa;
- (h) SALGA;
- (i) SARS;
- (j) Other Government Departments; and
- (k) Registered suppliers/vendors/consultants on the Central Suppliers' Database.

## **8. POLICY PROVISIONS**

### **8.1. SUPPLIER ACCOUNT MAINTENANCE**

#### **8.1.1. Creating a new supplier.**

- (a) In order for a supplier to successfully make business with the municipality, the supplier is required to be registered in the Central Suppliers' Database (CSD).
- (b) The Supply Chain Management Division is responsible for creating supplier master records on the Financial Management System.
- (c) For the non-trade suppliers, the Expenditure Management Division must process a Direct Payment in place of a normal system generated requisition form.
- (d) The following documents are required when creating a new supplier:
  - (i) Supplier database form;
  - (ii) Stamped and signed original Banking EFT form; or
  - (iii) Original bank statement/confirmation of bank details;
  - (iv) Company letterhead;

- (v) Copy of company registration documents;
- (vi) Copy of ID documents of all shareholders/managing members (certified copy);
- (vii) Original valid tax clearance certificate;
- (viii) Copy of valid BEE certificate (certified copy); and
- (ix) Proof of delegated authority, i.e. Company Resolution

#### **8.1.2. Update of existing supplier record.**

- (a) Any changes to supplier details must be updated in the supplier account details screen on the Finance Management System.
- (b) The supplier must notify the municipality of the referred changes by attaching a letter (on the company's letterhead) reflecting the change of details.
- (c) Where banking details are changed, the **Controller** within the Accounts Payable Section must complete the application form to amend banking details, and attach copy of invoice to be paid, banking details reflecting on the Central Suppliers' Database (CSD) as well as the confirmation of the new banking details. The Accountant/Snr Accountant must validate the application form, and the Manager/Snr Manager must approve the application for the change of banking details.

#### **8.1.3. Placing a supplier account on hold or suspension.**

- (a) SCM Unit (Supplier Database Maintenance) may be requested to hold or suspend the supplier's account for the following reasons:
  - (i) Conflict of Interest;
  - (ii) BEE certificate expired;

- (iii) Tax Certificate expired;
- (iv) Change of banking details;
- (v) SARS VAT recovery;
- (vi) Supplier's bank account closed or EFT rejection;
- (vii) Council debts;
- (viii) Supplier under investigation;
- (ix) Supplier unable to deliver the services etc.

(b) The request to place the supplier account on hold may be initiated by:

- (i) User-departments;
- (ii) Expenditure Management Unit (Expenditure Management Unit);
- (iii) SCM Compliance;
- (iv) Internal audit.

(c) The request must be submitted in writing to the SCM Unit.

(d) The SCM Unit must ensure that the request is authorized by appropriate management level.

(e) Upon receiving the request to suspend the supplier account, SCM Unit must:

- (i) Place the supplier on hold and suspends on the system;
- (ii) Scan all documents for attachment to the supplier address book for record keeping.

(f) The hold status will not prevent further procurement from the supplier, but will prevent payments from being made.

(g) The suspension will prevent any further procurement from that supplier.

#### **8.1.4. Removing a supplier account from a hold or suspend status.**

(a) A written request must be initiated by user-departments and any other department mentioned in 8.1.3 (b) to remove a supplier's account from a hold or suspend status.

(b) The SCM Unit must ensure that the request is authorized by appropriate management level.

(c) The SCM Unit must remove the supplier from a hold or suspend status on the system and scans all documents for attachment on the supplier address book for record keeping.

### **8.2. Processing and Authorization of Invoices**

8.2.1. All tax invoices to be processed for payment must be in line with Section 20 of the Value Added Tax Act.

*Section 20(1) therefore places an obligation on a supplier to issue a tax invoice in respect of each taxable supply made by the supplier, and he must do so within 21 days of the supply*

8.2.2. Invoices received by Expenditure Management Division should be original invoices and/or PDF copies due to Covid-19.

8.2.3. Where a copy of an invoice is received, it can be processed for payment provided that verification is first performed to ensure that the invoice has not been previously paid and the invoice is endorsed accordingly (certified true copy of original).

8.2.4. Authorization of invoices should be as per the approved delegations of authority.

8.2.5. Authorization of invoices/payment documentation that fall outside the SCM processes should be in line with functional delegations of Divisional Managers and/or Heads of Department.

8.2.6. All invoice payments must be reviewed for compliance with SCM processes by the Expenditure Management Division delegated officials prior to payment being made.

### **8.3. Processing invoices for stock and non-stock purchase orders.**

8.3.1. The following will apply when processing invoices related to stock and non-stock payments:

*(a) Goods received notes (GRN's) are authorised in order for payment by the relevant delegated officials and forwarded to Expenditure Management Division for matching with the Suppliers' invoice and processing of payment.*

(b) An order number must be confirmed prior to processing an invoice.

(c) Each invoice must not be reflected in multiple order numbers.

(d) An invoice cannot be processed for payment unless it has a valid purchase order which has been receipted through the SCM system.

### **8.4. Processing invoices for service purchase orders.**

8.4.1. Service purchase orders are raised by various user-departments for any services which are undertaken by the service provider for the department.

8.4.2. The sourcing of quotations is the responsibility of the SCM Division.

8.4.3. Expenditure Management Division checks or performs the vetting on the SCM generated purchase order before processing invoices.



8.4.4. The following applies when processing invoices related to service purchase orders:

- (a) Service orders must be receipted;
- (b) An invoice must be signed for payment approval by the user-department.

8.4.5. Attach the following documents to the invoice

- (a) GRN;
- (b) Purchase Order form;
- (c) Quotations used in sourcing of service
- (d) Procurement requisitions signed by SCM Division; and
- (e) Any other applicable supporting documents (where required by Expenditure Management Division):
  - (i) Memo;
  - (ii) Council Approval; and
  - (iii) Motivation as signed by the Department Head.

8.4.6. Invoices must not be reflected in multiple order numbers.

## **8.5. Processing invoices related to contracts.**

8.5.1. The following applies when processing invoices related to contract payments:

- (a) The user-department must compile a contract file relating to the payment on hand and include all documentation listed below:
  - (i) Authorised Tax Invoice/Invoice (Refer 8.2.3 for copy of invoice);
  - (ii) Authorised Payment Certificate;

- (iii) Letter of Appointment/Award;
- (iv) Completion Certificate (where applicable);
- (v) Copy of SCM Purchase Order
- (vi) Penalties (where applicable);
- (vii) Payment Cession documentation (where applicable);
- (viii) Guarantee Retention (where applicable); and
- (ix) Variation Orders (where applicable); and

8.5.2. Where any of the required documentation in 8.5.1 (a) above is missing from the contract file or invoicing information, Expenditure Management Division will contact the referred user-department and payment will not be effected until all issues are resolved.

8.5.3. The Expenditure Management Division must ensure that there are sufficient funds available in the U-Keys indicated on the payment certificate.

8.5.4. Where funds are to be allocated from a different U-Key, and the amount to be allocated to a new U-Key, the user-department must supply the Expenditure Management Division with an amended payment certificate.

## **8.6. Processing invoices using a Direct Payment method.**

8.6.1. Invoices processed for payment using a Direct Payment method should be generally the invoices where it is impractical to raise a purchase order with the supplier before a service is rendered.

8.6.2. Direct Payment method will only be considered where transaction values could not be determined through the SCM process.

8.6.3. A prescribed standard Direct Payment method form must be completed where a manual payment needs to be made.

8.6.4. Where the user-department has chosen to prepare a payment voucher, the invoice must be attached to the payment voucher.

8.6.5. Where high volume invoices are received from the supplier, Expenditure Management Unit must forward the invoices to the user-departments for authorization and to endorse the U-Keys against which the costs on the invoice are to be charged.

8.6.6. The user-departments must obtain the budget validation certificate from the Budget Office prior to invoices being processed on the Creditors' System.

8.6.7. Where invoices relate to public liability claims, third-party insurance claims, workmen's compensation, etc., the following documents must be attached to the payment voucher where applicable:

(a) Invoice;

(b) Quotation; and

(c) Assessor's/SAPS/Medical Reports.

## **9. SUBMISSION AND RECEIPTING OF INVOICES**

9.1. Invoices may either be received from user-departments or directly from the supplier.

9.2. All invoices received must be promptly forwarded to Expenditure Management Division to allow the necessary processing to be undertaken.

9.3. Where invoices are received directly from the suppliers, the Expenditure Management Division must refer the invoices to the relevant user-departments for verification and approval.

9.4. Invoices will be returned by the user-departments together with the above applicable mentioned documents in 9.1.

9.5. All invoices are to be submitted with all the required documentation attached.

9.6. All invoices received by Expenditure Management Division must be stamped with the receipt date once being received by the personnel within the Account Payable Section. However; such invoice do not need to be stamped by the Accounts Payable personnel if the user-department had already applied a date stamp and/or written the date on the invoice during the payment approval process.

9.7. The date stamp and/or the date reflected on the invoice as per paragraph 9.6 above, will determine the ageing of the invoice in terms of the standard of measurement on 30 days payment to invoices per Sec 65 (e) of the MFMA.

9.8. All invoices must be addressed to Bitou Municipality, Expenditure Management Division and the applicable post office address and/or email address stated below:

(a) Bitou Municipality, Private Bag x1002, Plettenberg Bay, 6600; or

(b) Bitou Municipality, Office 63, Melville's Corner Shopping Centre, Plettenberg Bay, 6600.

(c) email address: [creditors@plett.gov.za](mailto:creditors@plett.gov.za)

## 10. DELEGATIONS OF AUTHORITY ON PROCUREMENTS AND PAYMENTS

### 10.1

Task Grading	Procurement/Payment Range	Types of payments
T14 and above	0 – 2 000	Petty Cash related payments

T15 and above	2 001 – 30 000	Three Quotations related payments
T17 and above	30 001 – 200 000	Request for Formal Quotations related payments
Directors & MM	200 001 and above	Tender related payments

10.2. The user-departments must forward specimen signatures of all personnel falling under 10.1 above to the Finance Department.

10.3. The Finance Department must utilize the specimen signatures to validate the authorization levels on all procurements as well as payments requests.

## **11. SETTLEMENT DISCOUNTS**

11.1. Expenditure Management Division must maintain a control register to record all documents received.

11.2. Where settlement discounts are offered, it will be conducted taking into consideration the municipality's cash flow status as well as the negative impact it might have on the normal work flow within the payment section.

11.3. All payments processed should be in line with the municipality's payment terms taking cognizance of any potential settlement discounts.

11.4. Early settlement discount should only be considered from 2.5% and above.

11.5. The municipality's "survivalist creditors" will be exempted from the early settlement discount process.

## **12. DISPUTED INVOICES**

12.1. It is the duty of the user-departments to resolve all queries related to disputed invoices in relation to the following:

- (a) Where invoices are received without the required documentation being attached;
- (b) Where payment documentation is submitted to Expenditure Management Division without a budget check being performed;
- (c) Where procurements have been done without the SCM processes being followed leading to payments to creditors being delayed; and
- (d) Where an invoice was changed due to a dispute.

## **13. CESSION AGREEMENTS**

13.1. Payments to a cessionary will only be permitted on receipt of a fully signed Cession Agreement attached to the payment certificate and must be in line with Supply Management Policy of the Municipality.

13.2. Where a cession is to be enforced the relevant Payment Certificate must indicate the cessionary and the amount.

13.3. A Cession will be limited to a maximum 3 cessions per contract not exceeding 60% of the total contract.

13.4. Cessions will only be valid if authority to cede is sought from the Municipal Manager.

13.5. The awarded supplier of the order/contract must be the one issuing the municipality with an invoice and statement. The municipality will only change the banking details to the one of the cessionary partner. Payments will then be made to the cessionary creditor.

## **14. CREDITORS RECONCILIATION**

14.1. The creditors' reconciliation must be performed on monthly basis by Expenditure Management Division.

14.2. The Manager: Expenditure or any delegated senior official within the Expenditure Management Division must review and authorize the monthly reconciliations to confirm that the correct creditor account was raised.

## **15. PETTY CASH**

15.1. Maintenance of petty cash is a function of Expenditure Management Division and is guided in terms this policy, the Supply Chain Management policy, the Petty Cash Policy and regulations as well as any other applicable policy document. (For further details refer to the approved Petty Cash Policy).

15.2. A petty cash funds are intended to be used for small, incidental purchases.

15.3. A petty cash is not to be used to pay for personal expenses or normal operating expenses within the municipality.

## **16. RECORD KEEPING**

16.1. Expenditure Management Division must maintain a control register to record all documents received and filed after payment being made.

16.2. All processed documents must be stamped as paid and filed in a properly designated filing system/place.

16.3. All documentation processed by Expenditure Management Division shall be retained and will remain under the control of the Expenditure Management Division for at least five (5) financial years, thereafter transferred to the municipality's Archives.

## **17. IMPLEMENTATION, EVALUATION AND REVIEW**

17.1. This policy framework is important for the financial compliance of the municipality. It provides an all-inclusive administrative procedure for the management of Expenditure Management Division.

17.2. Senior Management must ensure that during the implementation stages of the policy, there is consistent monitoring and evaluation of the policy as indicators will result in challenges within the policy implementation phases.

17.3. This policy shall be reviewed on an annual basis.

## **18. CONSEQUENCE MANAGEMENT**

18.1. Any person who contravenes or fails to comply with any provision of this policy may be subjected to disciplinary action.

18.2. Any Councilor or official who deliberately or negligently commit, make or authorize an irregular expenditure will be liable for that expenditure.

18.3. Any Councilor or official who deliberately or negligently make or authorize a fruitless and wasteful expenditure will be liable for that expenditure.

18.4. The Municipal Manager must recover unauthorized, irregular or fruitless and wasteful expenditure from the person liable for that expenditure.

## **19. POLICY ADOPTION**

This policy will be implemented with effect on the day of approval by Council.

**POLICY TITLE: ACCOUNTS PAYABLE POLICY**

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31 March 2023

## Final Draft Budget Implementation and Monitoring Policy



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## 1. PREAMBLE

In the spirit of the Municipal Finance Management Act, (No.56 of 2003) “ to modernize budget and financial management practices by placing local government finances on a sustainable footing in order to maximize the capacity of municipalities to deliver services to all residents customers, users and investors” and,

Whereas chapter 4 of the Municipal Finance Management Act, (No 56 of 2003) determines that a municipality may, except where otherwise provided in the Act, incur expenditure only in terms of an approved budget; and within the limits of the amounts appropriated for the different votes in an approved budget,

In terms of the Budget and Reporting Regulations the municipality has to adopt a policy which include the following:

1. A policy dealing with the shifting of funds within votes
2. A policy dealing with the introduction of adjustment budgets
3. Policies dealing with unforeseen and unavoidable expenditure
4. Policies dealing with management and oversight

Therefore the Bitou Municipality revised its Budget Policy to give effect to the Budget and Reporting Regulations as set out in this policy.

## 2. DEFINITIONS

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

**"Allocation"**, means-

- (a) A municipality's share of the local government's equitable share referred to in section 214(l) 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, 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 tariff 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 legislation regulating municipal property rates; or
- (c) The credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

**"Budget transfer"** means transfer of funding within a function / vote subject to limitations.

**"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;

**"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;

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

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

**"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, and which has not been condoned by Council;
- (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/s"**, 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;

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

**"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;

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

**"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);

**"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;

**"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;

**"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;

**"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"** refer to the definition of budget transfer

**"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.

### 3. OBJECTIVES OF POLICY

The policy sets out the budgeting principles which Bitou Municipality will follow in preparing and implementing each annual budget. This policy shall give effect to the requirements and stipulations of the Municipal Finance Management Act and Municipal Budget and Reporting Framework in terms of the planning, preparation and approval of the annual and adjustments budgets.

The policy shall apply to all staff and councillors of the Bitou Municipality that are involved in budget implementation.

### 4. BUDGET PRINCIPLES

The municipality shall ensure that revenue projections in the budget are realistic taking into account actual collection levels. The expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.

Bitou Municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF)) which will be reviewed annually and will be approved by Council. The MTREF budget will at all times be within the framework of the Municipal Integrated Development Plan (IDP).

The annual budget will consist of a Capital and Operating Budget which will be discussed below:

#### 4.1. Capital Budgets

The capital budget refers to the allocations made to specific infrastructural projects and the purchase of equipment and other forms of assets having a lifespan of more than one year.

##### 4.1.1. Basis of Calculation

- a) The **zero based method** is used in preparing the new MTREF capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- b) The annual capital budget shall be based on realistically anticipated revenue (capital loans to be taken up will be deemed to be part of this), which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- c) The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analysed when the annual capital budget is being compiled.
- d) In addition, the council shall consider the likely impact of such operational expenses- net of any revenues expected to be generated by such item- on future property rates and service tariffs.



#### **4.1.2. Financing**

##### **Own Financing Sources**

The Council shall establish a Capital Replacement Reserve (CRR) for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following:

- a) Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes.
- b) Further amounts appropriated as contributions in each annual or adjustments budget; and
- c) Net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.
- d) Interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy.

##### **Other Finance Sources**

The Ad- Hoc capital budget shall be financed from external sources such as the following:

- a) Grants and subsidies as allocated in the annual Division of Revenue of Act.
- b) Grants and subsidies as allocated by Provincial government.
- c) External Loans
- d) Private Contributions
- e) Contributions from the Capital Development Fund (developer's contributions) and,
- f) Any other financing source secured by the local authority.

#### **4.1.3. Process and responsible parties**

The process to be followed in the compilation of the capital budget is as follows:

- a) The CFO, in conjunction with the Manager: Budget Office, and after consultation with the Portfolio Councillor of Finance sets the realistic growth level of the capital budget to be financed out of own sources (CRR).
- b) The draft capital budget is compiled based on the projects that emanated out of the engagements with the different stakeholders.
- c) The CFO, together with Councillors, the Manager: Budget and Treasury Office, engage with the Directors and the IDP Manager in order to determine the priorities for a particular financial year and to determine the ranking of projects based on these priorities.
- d) The draft capital budget is submitted to the Mayoral Committee for their perusal and suggestions.
- e) The draft capital budget is tabled to Council 90 days before the start of the new financial year (31 March).
- f) After the draft budget is approved by Council, it is released for public comment.

- g) Once the comments from the public have been submitted, noted and considered, amendments are made to the draft budget and the budget is tabled to Council for final approval 30 days before the start of the financial year (30 May).

#### 4.1.4. Implementation

- a) After the budget has been approved, the service delivery and budget implementation plan (SDBIP) should be compiled.
- b) The SDBIP must be tabled to the Mayor within 28 days after aforementioned approval.
- c) Each director has to indicate the intended spending patterns of both their capital and operating budgets. (Cash flows)
- d) These listed cash flows are consolidated into the Service Delivery and Budget Implementation Plan of the organisation.
- e) The SDBIP will be monitored on a monthly basis where actual spending will be compared with the planned spending as indicated by the directors at the beginning of the year.
- f) Each directorate can use their respective vote numbers as indicated on the capital budget

Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact of the capital component on the present and future operating budgets of the municipality in relation depreciation charges; repairs and maintenance expenses; interest payable on external borrowings; and other operating expenses.

#### 4.2. Operational Budget

The operational budget refers to the funds that would be raised in the delivery of basic services, grants and subsidies and any other municipal services rendered. These funds are in turn used to cover the expenses incurred in the day to day running of the organization.

##### 4.2.1. Basis of Calculation

- a) A combination of the **incremental approach and zero based method, with incremental in the main** being used in preparing the annual operating budget, except in cases where a contractual commitment has been made that would span over more than one financial year. In these instances the zero based method will be followed.
- b) The annual operating budget shall be based on realistically anticipated revenue.
- c) An income based approach shall be used whereby realistically anticipated income is determined first and the level of operating expenditure would be based on the determined income flows.

#### 4.2.2. Financing

The operating budget shall be financed from the following sources:

- a) Service Charges
  - (i) Electricity Charges
  - (ii) Water Sales
  - (iii) Refuse Removal Fees
  - (iv) Sewerage Fees
- b) Taxes - Increases in tariffs and rates will as far as possible be limited to inflation plus an additional percentage increase to accommodate the growth of the town.
- c) Grants and Subsidies - Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the organization.
- d) Interest on Investments - The budget for interest and investment shall be in accordance with the Cash Management and Investment policy of the organization.
- e) Rental Fees - Income from rental property will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year.
- f) Fines - Income from fines will be budgeted for based on the actual income received in the preceding year (calculated on the basis of actual receipts until end of February of each year, extrapolated over 12 months) and the percentage growth rate as determined by Financial Services for a particular budget year
- g) Other Income - All other income items will be budgeted for based on the actual income received in the preceding year (calculated on the basis of actual receipts until end of February of each year, extrapolated over 12 months) and the percentage growth rate as determined by Financial Services for a particular budget year.
- h) Notwithstanding the aforementioned, National and other benchmarks and ratios shall also be utilized to prevent uncontrolled negative growth of this source of income.

#### 4.2.3. Budget Categories

The following expenditure categories shall be accommodated in the operating budget:

- a) Salaries, Wages and Allowances - The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organised labour and the employer for a particular period. The remuneration of all political office bearers is based on the limitations and percentages as determined by the responsible National Minister.
- b) Employee related cost shall be separately prepared, and shall not exceed 34% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other councillors shall not be included in this limit.
- c) Collection Costs - It refers to costs attributed to the maintenance of the financial system used for the collection of outstanding amounts and is based on the service level agreement.
- d) Depreciation - The above is calculated at cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets.
- e) Interest External Borrowings - The above refers to interest that has to be paid on an external loan taken up by Council. The budget will be determined by the repayments

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that the municipality is liable for based on the agreements entered into with the other party.

- f) Bulk Purchases - The expenditure on bulk purchases shall be determined using the tariffs as stipulated by the Water Boards and NERSA and by any other service provider from time to time.
- g) Other General Expenditure - A percentage growth for all other general expenditure will be based on the percentage determined by Financial Services in line with prevailing growth rates, CPI and prior actual expenditure trends.
- h) Repairs and Maintenance - The budget of repairs and maintenance shall be based on the increment as determined by Financial Services in conjunction with the needs of the departments in terms of repairing their assets.
- i) Contributions to Funds - Refers to the contribution made to provisions (e.g. leave reserve fund) on annual basis and is determined based on the actual expenditure in the previous year and any other factor that could have an effect.
- j) Less: Debited Elsewhere - This category refers to interdepartmental charges within the organization. The performance of each of line item is analysed where after the budget is based on the preceding year's performance.
- k) Appropriations - Refers to the transfers to- and from the Capital Replacement Reserve, to offset depreciation charges. Appropriations are determined on an annual basis.

#### 4.2.4. Process

- a) The CFO, in conjunction with the Manager: Budget Office, and after consultation with the Executive Mayor and Portfolio Councillor of Finance, set the reasonable growth level of the operational budget based on the current financial performance and the prevailing industry growth levels. (i.e. CPI).
- b) After the income has been determined, an acceptable growth level for the operating expenditure is determined and the principles informing the compilation of the draft operating budget are discussed at Budget Steering Committee meeting.
- c) The draft operating budget is compiled based on realistically anticipated revenue resulting from detailed income modelling exercises.
- d) The draft operating budget is submitted to the Mayoral Committee for consideration.
- e) The draft operating budget is tabled to Council 90 days before the start of the new financial year (31 March).
- f) After the draft operating budget is approved by Council, it is released for public comment.
- g) Once the comments from the public have been submitted, same is considered in terms of the MFMA, where after the draft budget is tabled to Council for final approval, at least 30 days before the start of the new financial year (31 May).

#### 4.2.5. Implementation

- a) The draft SDBIP must be submitted with the draft budget as per the new treasury guideline and can be refined after budget approval.
- b) The SDBIP must be tabled to the Mayor within 28 days after aforementioned approval.
- c) Each director has to indicate the intended spending patterns of both their capital and operating budgets. (Cash flows)
- d) These listed cash flows are consolidated into the Service Delivery and Budget Implementation Plan of the organisation.

- e) The SDBIP will be monitored on a monthly basis where actual spending will be compared with the planned spending as indicated by the directors at the beginning of the year.
- f) Each directorate can use their respective vote numbers as indicated on the capital budget.
- g) The principles of efficient, effective and economic implementation should at all times be applied.
- h) Standard for income and expenditure where such have been determined via NT Circulars shall be adhered to, e.g. Water losses and electricity distribution allowable losses.

## **5. BUDGET STEERING COMMITTEE**

The Mayor of the Municipality shall establish a Budget Steering Committee as required by Regulation 4 of the Regulations.

The function of the Budget Steering Committee is to provide technical assistance to the Mayor in discharging the responsibilities set out in Section 53 and elsewhere in the MFMA.

The Budget steering committee will meet at least four times in a year as determined by the Chief Financial officer in consultation with the Mayor.

## **6. TIME SCHEDULE**

The IDP Manager in consultation with the Manager Budget and Treasury shall draft the budget time schedule as required by Section 21 (1) (b) for the ensuing financial year for the Council's approval.

Such time schedule shall indicate the target dates for the draft revision of the IDP and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, for the submission of all the budget-related documentation to the mayor, finance committee, executive committee and council.

Such time schedule shall provide for the deadlines, unless the Mayor, after consultation with the Chief Financial Officer, determines otherwise: provided that the requirements of the MFMA shall at all times be adhered to.

The Chief Financial Officer shall be responsible for ensuring that the time schedule is adhered to.

## **7. ADJUSTMENT BUDGET**

- a) An adjustments budget will be compiled only once a year if intended adjustments fall in one of the following categories:
  - (i) to appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
  - (ii) to authorise the utilisation of projected savings in one vote towards spending under another vote;
  - (iii) to authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to

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- include projected roll-overs when the annual budget for the current year was approved by the council;
- (iv) To correct any errors in the annual budget.

The adjustments budget for above mentioned categories will be tabled to council at any time after the mid-year budget and performance assessment but not later than 28 February of the that financial year.

- b) An adjustments budget will be compiled more than once a year if intended adjustments fall in one of the following categories:
- (i) To adjust the revenue and expenditure downwards if there is material under collection of revenue during the current year
  - (ii) To appropriate additional revenues from National and Provincial Government that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programs already budgeted for;
  - (iii) To authorise unforeseeable and unavoidable expenditure recommended by the Mayor
  - (iv) To authorise unauthorised expenditure as anticipated by section 28(2)(g) of the MFMA to authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council.
  - (v) To correct any errors in the annual budget.

The adjustments budgets for above mentioned categories will be tabled to council at the first available opportunity after above mentioned events occurred.

- c) The adjustments budget will be treated in the same manner as the annual budget in terms of calculation and implementation.
- d) The adjustments budget must be approved by Council.

## **8. BUDGET VIREMENTATION**

### **8.1 Virement Clarification**

Virement is the process of transferring budgeted funds from one line item number to another, with the recommendation of the relevant Director to the CFO or delegated finance official, to enable the Budget Office to effect the adjustments.

### **8.2. Virement Procedure**

- a) All virement proposals must be completed on the appropriate documentation and forwarded to the relevant Finance Officer for checking and implementation.
- b) All virements must be signed by the Director of the directorate within which the vote is allocated. (Section 79 MFMA)
- c) Projected cash flows in the SDBIP should be adjusted in line with the virement.
- d) All documentation must be in order and approved before any expenditure can be committed and incurred. (Section 79 MFMA)



- e) No virements of funds across votes (directorates) will be accommodated during the year; unless within the adjustments budget.
- f) All virementations must be motivated and need to be approved by the CFO or a delegated official after the Director of the department has recommended said transfer. The latter requires that such application reaches the office of the CFO prior to incurring expenditure. No virementation will be entertained if found to facilitate the incurring of unauthorized expenditure.
- g) No virementations will be considered after the February Adjustment budget facilitating fiscal dumping
- h) No Capital virementation will be considered if the transferred amount is more than 20% of the Capital projects' budgeted amount.
- i) Projects not having been committed in line with the approved SDBIP by the end of November, will be re-prioritized if the motivations regarding actual performance, are found to not be credible
- j) A project/s that will not materialize for one or the other reason will only be considered via the adjustment budget envisaged with the consideration of the mid-year budget performance assessment.
- k) No virementations after the closing of orders as stipulated in the financial protocol and/or formally communicated in line with the financial year-end preparation, will be considered unless in an absolute emergency that could reasonable not have been foreseen.

### 8.3. Virement Restrictions

In accordance with the mSCOA Regulations, municipalities are required to budget and transact in terms of a data string that consists of seven segments. These segments include Project, Function, Item, Fund, Region, Costing and Municipal Standard Classification. When considering a virement for approval, the municipality shall consider all seven segments to ensure that the Virement Policy is being adhered to all times.

Virements shall only be considered for approval, in accordance with the following:

- a) No funds can be vimented between the different types of budgets (E.g. virements can only be made from basic capital to basic capital and operating to operating).
- b) No virement may be made where it would result in over expenditure of a line item (section 32 MFMA).
- c) No virement shall create new capital projects without the approval as contemplated or allowed by the adjustments budget process.
- d) No virement that would result in an increase in the staff establishment will be allowed.
- e) The budget savings from the following line items (necessary adjustments) may only be considered and transferred by the CFO
  - i. Salaries and allowances in case of an absolute emergency per notification to MM and duly motivated
  - ii. Depreciation
  - iii. Finance Charges (Interest on Loan)
  - iv. Appropriations
  - v. Contributions to Funds
  - vi. Administration Cost
  - vii. Municipal Services Consumption (Water, Electricity, Refuse and Sewerage)
  - viii. Internal charges

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- ix. Bulk Purchases (Water and Electricity)
  - x. Agency Fees
- f) Virements shall not be permitted to increase or decrease the following items and/or projects
- i. Expenditure: Bulk Purchases
  - ii. Expenditure: Salaries and allowances in case of an absolute emergency per notification to MM and duly motivated
  - iii. Expenditure: Remuneration of Councillors
  - iv. Gains and Losses: Impairment Loss
  - v. Gains and Losses: Reversal of Impairment Loss
  - vi. Expenditure: Interest, Dividend, Rent on Land: Interest Paid
  - vii. Expenditure: Depreciation and Amortisation
  - viii. Expenditure: Transfers and Subsidies: Capital: Allocations in kind: Households
  - ix. Expenditure: Transfers and Subsidies: Capital: Monetary allocations: Households
  - x. Expenditure: Transfers and Subsidies: Operational: Allocations in kind: Households
  - xi. Expenditure: Transfers and Subsidies: Operational: Monetary allocations: Households
  - xii. Project: Operational: Typical Workstreams: Cost of Free Basic Services
  - xiii. Project: Operational: Typical Workstreams: Revenue Cost of Free Basic Services
  - xiv. Project: Operational: Typical Workstreams: Property rates rebates
  - xv. Expenditure: Operational costs: Insurance Underwriting
  - xvi. Assets: Current Assets: VAT Receivable
  - xvii. Liabilities: Current Liabilities: VAT Control (Payable)
  - xviii. Liabilities: VAT Credit: Output Accrual
  - xix. Liabilities: Output VAT
  - xx. Liabilities: Provision for Doubtful Debt Impairment
- g) An approved virement does not give expenditure authority outside of what is allowed by Council's Supply Chain Management Policy.
- h) Virements may not be made between Expenditure and Income.
- i) Virements across expenditure categories can only be authorised by the CFO.  
(E.g. from one "Repairs and Maintenance" vote number to a "General Expenses" vote number and will be limited to emergencies only.
- j) No virements are permitted in the first three months or the final month of the financial year without the express agreement of the CFO.
- k) Virement amount may not be rolled over to subsequent years, or create expectations on following budgets (Section 15 MFMA).
- l) Virements may not exceed a maximum of R2, 500, 000.00 per vote per financial year as periodically reviewed by Council.
- m) Virements shall not be permitted for items with the funding source being Fund: Operational: Transfers and Subsidies and/or Fund: Capital: Transfers and Subsidies, where this may result in items being funded for purposes that are not in accordance with the conditions in the relevant conditional grant framework

## 9. BUDGET IMPLEMENTATION

### 9.1 Monitoring (Section 71 of MFMA)



The Accounting Officer with the assistance of the Chief Financial Officer and other senior managers is responsible for the implementation of the budget, and must take all reasonable steps to ensure that:

- a) funds are spent in accordance with the budget;
- b) expenses are reduced if expected revenues are less than projected; and
- c) revenues and expenses are properly monitored.

## **9.2 Reporting**

### **9.2.1 Monthly budget statements (Section 71 of the MFMA)**

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.

#### **This report must reflect the following:**

- a) actual revenues per source, compared with budgeted revenues;
- b) actual expenses per vote, compared with budgeted expenses;
- c) actual capital expenditure per vote, compared with budgeted expenses;
- d) actual borrowings, compared with the borrowings envisaged to fund the capital budget;
- e) the amount of allocations received, compared with the budgeted amount;
- f) actual expenses against allocations, but excluding expenses in respect of the equitable share;
- g) 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;
- i) the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- j) 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.

### **9.2.2 Quarterly Reports (Section 52 of MFMA)**

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. The report submitted to National and Provincial Treasury must be both in electronic format and in a signed written document.

### **9.2.3 Mid-year budget and performance assessment (Section 72 and 88 of MFMA)**

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.

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.

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.

## **10. REVIEW OF POLICY**

This policy took effect on 1 July 2023 (excluding the amended sections for consideration) and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives, good governance, and prudent expenditure management and with relevant legislation.

31 March 2023

## Draft Cost Containment Policy

2023/24



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## 1. PREAMBLE

1.1 Each municipality must develop or revise and implement a cost containment policy which must -

be adopted by the municipal council as part of its budget related policies;

- a) define a municipality objectives for the use of consultants; and
- b) be consistent with the relevant legislation.

1.2 The cost containment policy of a municipality contemplated in 1.1 *supra* must -

- a) be in writing;
- b) give effect to the Regulations;
- c) be reviewed annually, as may be appropriate;
- d) be communicated on the municipality's website; and
- e) set out –
  - i) monitoring measures for ensuring implementation of the policy;
  - ii) procedures for the annual review of the policy; and
  - iii) consequences for non-adherence to the measures contained therein.

1.3 This policy document seeks to implement National Treasury Instructions and MFMA Circulars applicable to Cost Containment, as set out in 1.1 and 1.2 *supra*.

1.4 The object of the Policy, in line with Sections 62(1)(a), 78(1)(b), 95(a) and 105(1)(b) of the Act, is to ensure that resources of the Municipality are used effectively, efficiently and economically by implementing the cost containment regulations.

1.5 The following measures must be implemented, consistently with immediate effect to ensure the containment of costs, and will be updated if and when any revisions are done to the applicable legislation.

## 2. DEFINITIONS

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

**"Approved budget,"** means an annual budget-

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

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

- (a) The tariff 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 legislation regulating municipal property rates; or
- (c) The credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

**"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;

**"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;

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

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

**"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);

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

**"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);

**"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;

**"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;

**"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 a municipality to perform its functions to achieve the objects of local government in terms of section 152 of the Constitution;

**"Cost Containment"** means measures implemented to curtail spending in terms of this policy; and

### 3. APPLICATION OF POLICY

This policy shall apply to all officials and political office bearers in municipalities

### 4. USE OF CONSULTANTS

#### 4.1 Measures

- 4.1.1 A municipality may only appoint consultants if an assessment of the needs and requirements confirms that the affected municipality does not have the requisite skills or resources in its full-time employ to perform the function.
- 4.1.2 The reasons for the use of the consultants must be motivated by the Senior Manager concerned and endorsed by the Accounting Officer, in writing.
- 4.1.3 The remuneration framework of the Municipality will be-
  - 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
- 4.1.4 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 5.1.2 supra.
- 4.1.5 When negotiating cost-effective consultancy rates for international consultants, the accounting officer may take into account the relevant international and market-determined rates.
- 4.1.6 When consultants are appointed, an accounting officer must, where practical –
  - a) appoint consultants on a time and cost basis with specific start and end dates;
  - b) 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 a 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.
- 4.1.7 All contracts with consultants must include a fee retention or penalty clause for poor performance.
- 4.1.8 The municipality must ensure that the specifications and performance are used as a monitoring tool for the work to be undertaken and are appropriately recorded and monitored.



- 4.1.9 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.
- 4.1.9 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.
- 4.1.11 These provisions will only apply to contracts entered into and tender processes started after the approval of the Policy by Council

## **4.2 Controls:**

- 4.2.1 The use of consultants must be reviewed and curtailed.
- 4.2.2 Directors must review the utilisation of consultants in their respective Directorates to determine if their services are still required.
- 4.2.3 Requests for extension of consultants' contracts of appointment must be motivated in writing to the Municipal Manager, and he may in turn instruct the Director to table an item via the Bid Committee system to make recommendations in this regard.
- 4.2.4 Any SLA or contract signed with consultants, must include:
  - a) penalty clauses for poor performance,
  - b) clauses that deal with skills transfer,
  - c) period of the contract must be clearly stated, amongst other pertinent clauses.
- 4.2.5 Directorates who deal with Consultants must ensure compliance with the NT instruction, as it relates to disbursements for travelling and accommodation for consultants.
- 4.2.6 The Municipal Manager must give instructions to all Directorates to develop a consultancy reduction plan, indicating how the Directorates intend to comply with the National Treasury instruction.

## **5. VEHICLES USED FOR POLITICAL OFFICE-BEARERS**

- 5.1 The threshold limit for vehicle purchases relating to official use by political office – bearers must not exceed R700 000 or 70% (VAT inclusive) of the total annual remuneration package for the different grades of municipalities, 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.
- 5.2 The procurement of vehicles in 6.1 supra must be undertaken using the national government transversal contract mechanism, unless it may be procured at a lower cost through other procurement mechanisms; other procurement mechanisms may also be used should the transversal contract mechanism be proven to be too onerous or vehicles available on the contract will not be serviceable within a 100 km distance of the municipality.

- 5.3 Before deciding to procure a vehicle as contemplated in 6.2 supra, the accounting officer or delegated official must provide the council with information relating to the following criteria which must be considered:
- a) status of current vehicles;
  - b) affordability of options including whether to procure a vehicle through a cash purchase or a lease transaction, provided that the most cost effective option is followed and the cost is equivalent to or lower than that contemplated in 6.1 supra;
  - c) extent of service delivery backlogs;
  - d) terrain for effective usage of the vehicle; and
  - e) any other policy of council.
- 5.4 Regardless of their usage, vehicles for official use by political office bearers may only be replaced after completion of 120 000 kilometres.
- 5.5 Notwithstanding 6.5 supra, a municipality may replace a vehicle for official use by political office bearers before the completion of 120 000km only in instances where the vehicle has a serious mechanical problem and is in a poor condition and subject to obtaining a detailed mechanical report by the vehicle manufacturer or approved dealer.
- 5.6 An accounting officer must ensure that there is a policy that addresses the use of municipal vehicles for official purposes.

## **6. TRAVEL AND SUBSISTENCE**

- 6.1 An accounting officer –
- a) may approve the purchase of economy class tickets for all officials or
  - b) political office bearers where the flying time for the flights is five hours or less; and
  - c) 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.
- 6.2 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.
- 6.3 Notwithstanding 6.1 and 6.2 supra, an accounting officer, or the mayor in the case of an accounting officer, may approve the purchase of business class tickets for an official or a political office bearer with a disability or a medical certified condition.
- 6.4 The cost containment policy must limit international travel to meetings or events that are considered critical. The number of officials or political office bearers attending such meetings or events must be limited to those officials or political office bearers directly involved in the subject matter related to such meetings or events.
- 6.5 An 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.
- c) where the event is hosted on a site where making use of on-site
- d) accommodation is more practical, written motivation for the deviation must accompany the requisition for accommodation.

6.6 An official or a political office bearer of a municipality must –

- a) utilise the municipal fleet, where viable, before incurring costs to hire vehicles;
- b) follow the below guidelines, as per Table 1, for the short-term rental of vehicles

Table 1

<b>KM to be travelled</b>	<b>Drivers' position</b>	<b>Minimum Vehicles' Group Allowed</b>
<150	T13 and lower	Group B
<150	T14 - T18	Group C
<150	EMT & Cllrs	Group F
>151 <800	T13 and lower	Group C
>151 <800	T14 - T18	Group F
>151 <800	EMT & Cllrs	Group G
>801	T13 and lower	Group F
>801	T14 - T18	Group G
>801	EMT & Cllrs	Group H

- 6.7 The municipality must utilise the negotiated rates for flights and accommodation as communicated from time to time by the National Treasury through a notice or any other available cheaper flight and accommodation
- 6.8 The geographical location of the municipality makes the usage of public transport impractical and this policy therefore deviates from the Regulation relating to the use of public transport.

## 7. DOMESTIC ACCOMMODATION

- 7.1 An 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 from time to time by the National Treasury through a notice.
- 7.2 Overnight accommodation may only be booked where it is in line with the below Table on the Guidelines for Approval of Overnight Allowance per Section 5 of the Council's approved Subsistence and Travel Allowance Policy.

### GUIDELINES FOR APPROVAL OF OVERNIGHT ALLOWANCE

Table 2

Travel Distance	Time-frames of Event	Comment
Bitou to Destination >200km	Starting time: 10h00	No overnight allowance approved prior the event.
Bitou to Destination >200km	Starting time: 08h00	Overnight allowance approved prior the event.
Bitou to Destination <400km	Ending time: 15h00	No overnight allowance approved after the event.
Bitou to Destination >450km	Ending time: 15h00	Overnight allowance approved after the event.
Bitou to Destination <>100km	Starting time: 10h00 Ending time: 16h00	Overnight allowance will be approved provided that travelling will occur in three consecutive days.

## 8. SPONSORSHIPS, EVENTS AND CATERING

- 8.1 The municipality may not incur catering expenses for meetings which are only attended by persons in the employ of the municipality, unless the prior written approval of the accounting officer is obtained.

- 8.2 An accounting officer may incur catering expenses for the hosting of meetings, conferences, workshops, courses, forums, recruitment interviews, and proceedings of council that may not exceed five hours or where the attendees travelled in excess of 100 km to attend.
- 8.3 Entertainment allowances of qualifying officials may not exceed two thousand rand per person per financial year, unless approved otherwise by the accounting officer.
- 8.4 A municipality may not incur expenses on alcoholic beverages unless the municipality recovers the cost from the sale of such beverages.
- 8.5 An accounting officer must ensure that year-end functions, team building exercises, staff sporting events are not financed from the municipality's budgets or by any suppliers or sponsors; specific budgeted staff-wellness events are excluded where the specific events are separately budgeted, disclosed in the budget documentation of the municipality and approved by Council.
- 8.6 The municipality may not incur expenditure on corporate branded items like clothing or goods for personal use of officials, other than protective clothing, office supplies and tools of trade unless costs related thereto are recovered from affected officials or is an integral part of the business model. The protective clothing should be in line with Occupational Health and Safety standards instead of printing T Shirts and Golf Shirts as part of the PPE.
- 8.7 An accounting officer may incur expenditure not exceeding the limits for petty cash usage to host farewell functions in recognition of officials who retire after serving the municipality for ten or more years or retire on grounds of ill health. The petty cash limit is defined as per the limitations of the Supply Chain Management Regulations.

## **9. COMMUNICATION**

- 9.1 The municipality should, as far as possible, advertise municipal related events on its website instead of advertising in magazines or newspapers. No advertisements regarding the general information and functions of the municipality may be placed in any publication at cost.

- 9.2 The accounting officer must ensure that allowances to officials for private calls and data costs are limited to an amount as determined by the accounting officer, the municipal officer should review the staff receiving allowances and the amounts receivable at least annually.
- 9.3 Newspapers and other related publications for the use of officials must be discontinued on expiry of existing contracts or supply orders, unless required for professional purposes and where unavailable in electronic format.
- 9.4 The municipality may participate in the transversal term contract arranged by the National Treasury for the acquisition of mobile communication services.
- 9.5 The Councils policy relating to payment for private calls must be fully enforced by all Directorates. The cost for private calls must be recovered on monthly basis through salary deductions from the affected officials.

## **10. CONFERENCES, MEETINGS AND STUDY TOURS**

- 10.1 The accounting officer must establish policies and procedures to manage applications to attend conferences or events hosted by professional bodies or non-governmental institutions held within and outside the borders of South Africa taking into account their merits and benefits, costs and available alternatives. Applications for attendance must be completed on the Nomination/Request form to attend Education, Training and Development Course/Conference/Seminars/Workshops/Symposia/Lecture/Meeting and duly approved by either the Municipal Manager or the duly delegated senior official.
- 10.2 When considering applications from officials or political office bearers to attend conferences or events within and outside the borders of South Africa, an accounting officer or mayor as the case may be, must take the following into account –
- a) the official's or political office bearer's role and responsibilities and the anticipated benefits of the conference or event;
  - b) whether the conference or event addresses relevant concerns of the institution;
  - c) the appropriate number of officials or political office bearers, not exceeding three, attending the conference or event; and

- d) the availability of funds to meet expenses related to the conference
  - e) or event.
- 10.3 An accounting officer may consider appropriate benchmark costs with other professional bodies or regulatory bodies prior to granting approval for an official to attend a conference or event within and outside the borders of South Africa.
- 10.4 The benchmark costs referred to in 11.3 may not exceed an amount as determined from time to time by the National Treasury through a notice.
- 10.5 The amount referred to in 11.4 supra 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.
- 10.6 When considering costs for conferences or events these may not include items such as laptops, tablets and other similar tokens that are built into the price of such conferences or events.
- 10.7 The accounting officer of a municipality must ensure that meetings and planning sessions that entail the use of municipal funds are, as far as may be practically possible, held in-house.
- 10.8 Municipal or provincial office facilities must be utilised for conference, meetings, strategic planning sessions, inter alia, where an appropriate venue exists within the municipal jurisdiction.
- 10.9 An accounting officer must grant the approval for officials and in the case of political office bearers and the accounting officer, the mayor, as contemplated in 12.2 supra.
- 10.10 A municipality must, where applicable and practical, take advantage of early registration discounts by granting the required approvals to attend the conference, event or study tour, in advance.

## 11. OTHER RELATED EXPENDITURE ITEMS

- 11.1 All commodities, services and products covered by a transversal contract concluded by the National Treasury must be considered before approaching the market, to benefit from savings where lower prices or rates have been negotiated.
- 11.2 Municipal resources may not be used to fund elections, campaign activities, including the provision of food, clothing, printing of agendas and brochures and other inducements as part of, or during election periods or to fund any activities of any political party at any time.
- 11.3 Expenditure on tools of trade for political office bearers must be limited to the upper limits as approved and published by the Cabinet member responsible for local government in terms of the Remuneration of Public Office Bearers Act, 1998.
- 11.4 A municipality must avoid expenditure on elaborate and expensive office furniture.
- 11.5 A municipality may only use the services of the South African Police Service to conduct periodical or quarterly security threat assessments of political office bearers and key officials and a report must be submitted to the speaker's office.
- 11.6 A municipality may consider providing additional time-off in lieu of payment for overtime worked. Planned overtime must be submitted to the relevant manager for consideration on a monthly basis. A motivation for all unplanned overtime must be submitted to the relevant manager.
- 11.7 A municipality must ensure that due process is followed when suspending or dismissing officials to avoid unnecessary litigation costs.
- 11.8 The outsourcing of repairs and maintenance to municipal fleet should be reviewed to ensure that internal capacity is generated to save the costs.
- 11.9 The municipality should implement central printing system to reduce cost of printing and Managers should monitor that employees do not abuse municipal printing services.



## **12. ENFORCEMENT PROCEDURES**

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

## **13. DISCLOSURES OF COST CONTAINMENT MEASURES**

- 13.1 The disclosure of cost containment measures applied by the municipality must be included in the municipal in-year budget reports and annual costs savings disclosed in the annual report.
- 13.2 The measures implemented and aggregate amounts saved per quarter, together with the regular reports on reprioritisation of cost savings and 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.
- 13.3 The reports referred to in 14.2 must be copied to the National Treasury and the relevant provincial treasury within seven calendar days after the report is submitted to municipal council.
- 13.4 The reporting referred to in 14.1, 14.2 and 14.3 may be done as per the declaration from the Accounting Officer included in Annexure A that the Cost Containment Regulations and measures was considered and implemented by the municipality, this report will form part of the monthly, quarterly and annual reporting of the municipality. The detailed measures and aggregate amounts saved are not practically reportable at this stage. The reporting measures required in terms of the Policy will be revised on an annual basis.

## **14. IMPLEMENTATION DATE**

This policy will be implemented with effect on the day of approval by Council.

# BITOU MUNICIPALITY



## PETTY CASH POLICY

2023/24

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## **1. INTRODUCTION**

- 1.1. Petty cash is small amount of discretionary funds in the form of cash used for expenditure where *it* is impractical to follow the official procurement processes due to the nature of the goods and/or services required.

## **2. OBJECTIVES OF POLICY**

- 2.1. The objectives of the policy are to:
  - 2.1.1. Ensure goods and services are procured by the municipality in accordance with authorized processes only,
  - 2.1.2. Ensure that the municipality has and maintains an effective petty cash system for expenditure control,
  - 2.1.3. Ensure that sufficient petty cash is available when required,
  - 2.1.4. Ensure that the items required to be procured are approved petty cash items.

## **3. LEGISLATIVE FRAMEWORK**

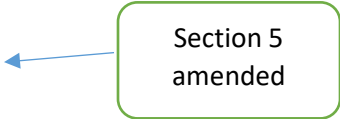
- 3.1. The legislative framework governing petty cash are:
  - 3.1.1. The Local Government Municipal Finance Management Act, Act 56 of 2003,
  - 3.1.2. The Municipal Supply Chain Management Regulations, Regulation 868, published under Government Gazette 27636, 30 May 2005,
  - 3.1.3. The municipal supply chain management policy.

## **4. AUTHORISED LIMIT FOR PETTY CASH**

- 4.1 Petty cash transactions will be processes directly against the departmental expenditure UKey.

- 4.2 The requisitioned amount must not exceed a maximum amount of R2 000.00 per transaction as outlined in the Municipal Supply Chain Management Policy unless otherwise motivated to and approved by the Chief Financial Officer with the provision that the amount may not exceed the limits as determined in accordance with the Municipal Supply chain regulations applicable to petty cash purchases.

## 5. PETTY CASH PURCHASES



Section 5  
amended

- 4.1 The Chief Financial Officer must delegate personnel from the Expenditure Management Division to keep petty cash registers and make petty cash payments up to the maximum amount as allowed per transaction.
- 4.2 Petty cash must be restricted to cash purchases up to a transaction value of R2 000,00 VAT included.
- 4.3 Petty Cash must not be used for any of the following:-
- a. Loans to any person or whatsoever,
  - b. Payroll related payments such as wages, salaries, travel allowances, subsistence and travel claims, etc.
  - c. Fuel and lubricants, etc.
  - d. Human resource related costs such as doctors' fees, employees' studies per study-aid policy, etc.
  - e. Instalment payments such as invoices relating to SCM contracts, stock items, and payments related to debit orders, rental of equipments, etc.
  - f. Any items which can be classified as an assets,
  - g. Safety equipment and clothing such as clothes, ear protectors, safety glasses, etc.
- 4.4 Petty cash will be drawn and paid to user-departments by means of an Instant Payment Method (also known as *eWallet System*).
- 4.5 The electronic voucher number as well as the withdrawal PIN code must be sent to the mobile number of the respective Manager.

- 4.6 A pre-numbered petty cash claim form must be completed and authorized by the relevant Manager prior to the claim being processed.
- 4.7 Petty cash purchases may not deliberately be broken up over two (2) or more transaction claims or be split over more than one (1) day for the same items in order to fall within the determined threshold of R2 000,00 VAT included.
- 4.8 In a quest of reducing the bank's service fees, procurements made from municipal suppliers will be through the SCM Petty Cash Order System.
- 4.9 Such purchases (per 4.6) will be subject to the following conditions:
- 4.9.1 The originator of the SCM Petty Cash Order must obtain a quotation from the supplier,
  - 4.9.2 The Manager must sign the quotation and supply with a U-Key,
  - 4.9.3 The Manager must complete and signs the "Request for Petty Cash Order Form" and attach the quotation,
  - 4.9.4 The originator must submit the request form to Budget Office for the validation of the U-Keys,
  - 4.9.5 The originator must submit the request form and quotation to Creditors Section for processing,
  - 4.9.6 The Principal Clerk: Creditors must complete an SCM Petty Cash Order and records the transaction in the SCM PCO Register,
  - 4.9.7 The Principal Clerk: Creditors must issue an SCM Petty Cash Order Number (as per register),
  - 4.9.8 The SCM PCO voucher must be submitted to the Manager: Expenditure and/or delegated official for approval,
  - 4.9.9 On receipt of the SCM PCO voucher, the originator must then collect the goods and be issued with an invoice which he/she must submit to Creditors Section for payment,
  - 4.9.10 The supplier must include the invoice per 4.7.9 on the referred monthly creditor's statement for payment,
  - 4.9.11 The Creditors Clerk must then reconcile the statement and process a direct payment to the supplier.
- 4.10 The SCM Petty Cash Order Register must be submitted to the Manager: Expenditure as part of monthly reporting.

## **6. OUT-OF-POCKET EXPENSES**

- 6.1. Where a staff member has made a purchase from own funds and seeks reimbursement from the petty cash, supporting documentation must be provided to substantiate the claim.
- 6.2. The responsibility to ensure that the purchase must be in accordance with all the prescriptions of this policy will be the sole responsibility of the purchaser of such items.
- 6.3. All the reimbursements relating to out-of-pocket expenses must be processed through the Supply Chain Management Division.
- 6.4. A reimbursement purchase order must be processed in this regard. And, such an order must be in the names of employee claiming to be reimbursed.
- 6.5. No Instant Payment Method must be allowed for Out-of-Pocket Expenses.

## **7. MANAGEMENT OF PETTY CASH**

- 7.1. A proper petty cash register must be kept where each disbursement of petty cash transactions are recorded.
- 7.2. The minimum detail to be recorded in the petty cash register is:
  - 7.2.1. department name,
  - 7.2.2. U-Key to allocate petty cash transaction,
  - 7.2.3. name of vendor,
  - 7.2.4. date,
  - 7.2.5. amount issued, and
  - 7.2.6. name of Manager,
  - 7.2.7. Instant Payment voucher number,
- 7.3. The petty cash register with all petty cash vouchers, receipts or slips must be attached to the Petty Cash Control Sheet.

- 7.4. The Principal Clerk: Creditors must reconcile the petty cash balances on the system against the Petty Cash Control Sheet.

## **8. DISBURSEMENT OF PETTY CASH**

- 8.1. All petty cash disbursements must be completed on the prescribed petty cash voucher, authorized by the delegated official of each department as approved by Council in terms of the delegation of authorities.
- 8.2. The authorized official must ensure that funds are available in the budget prior the submission of claims. The Budget Office may also provide with confirmation to the U-Key utilized and the availability of funds.
- 8.3. An invoice or an original receipt, clearly indicating the description of items purchased must support the petty cash voucher.
- 8.4. In the case where a petty cash advance has been granted in the form of Instant Voucher Payment; the recipient of the voucher must submit an invoice and/or original receipt within five (5) working days from receipt of the voucher to the petty cash official.
- 8.5. Where proof of expenditure could not be provided on petty cash advances within the prescribed period, the advance will automatically be deducted from the respective employee's salary.

## **9. INTERNAL CONTROLS**

- 9.1. Surprise petty cash audits must be concluded on random basis throughout the financial year.
- 9.2. Petty cash reconciliations with the general ledger must be reconciled before 30 June of each year.



- 9.3. The petty cash reconciliations must be verified by the Accountant: Creditors and approved by the Manager: Expenditure. A copy of the register must be submitted to the Manager: Annual Financial Statements for audit purposes.

## **10.REPORTING**

- 10.1. A monthly reconciliation report, including the total amount of petty cash purchases for that month, must be prepared by the petty cash holder.
- 10.2. The monthly reconciliation report of petty cash must be reviewed by the Accountant: Creditors or delegated official and verified by Manager: Expenditure.

## **11.GENERAL ADMINISTRATION**

- 15.1 **Petty cash will be reimbursed from Monday to Thursday between 14h00 until 16h00.**
- 

## **12.REVIEW**

- 12.1. This policy will be reviewed annually to be in line with municipal practices and legislation.

## **13.SHORT TITLE**

- 13.1. This policy shall be called the Petty Cash Policy of the Bitou Municipality.



# TRAVEL ALLOWANCE POLICY

**Bitou Municipality**

**2023/24**

## **BITOU LOCAL MUNICIPALITY**

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## 1. OBJECTIVES OF THE SCHEME

The scheme must provide for participation by employees of the municipality who, with the consent of the Council make use of private transport in the execution of official duties. The policy also provides for the payment of a travelling allowance as part of benefits payable to employees in terms of the position occupied and conditions of appointment. Participation is thus determined by the usage of private transport for official purposes, irrespective of whether the utilisation of such transport is temporary, occasional or continuous, as well as conditions of appointment, taking cognisance of the cost benefits and financial considerations.

## 2. PRINCIPLES OF A TRAVELLING ALLOWANCE SCHEME

- 2.1 Must be reasonable towards both the municipality and the employee.
- 2.2 Must primarily be aimed at compensating for actual transport cost incurred in the execution of duties.
- 2.3 Must provide a meaningful basis of compensation
- 2.4 Must prescribe benefits and conditions for employees who have to use private transport for the in the execution of official duties
- 2.5 Must be updated regularly to prevent over or under compensation.
- 2.6 Must take into consideration the geographical area of the municipality when limits or conditions are determined
- 2.7 Must provide for adequate compensation for employees travelling on an ad-hoc basis.
- 2.8 Must use up to date market related values for calculation of compensation amounts
- 2.9 Must provide for fixed as well as running cost components.
- 2.10 Must provide for minimum and maximum kilometres travelled.
- 2.11 Must provide for adequate control by supervisors.
- 2.12 Must provide for the suspension of benefits under certain conditions.

### 3. REQUIREMENTS FOR PARTICIPATION

- 3.1 Sole use of own transport by the incumbent must be a prerequisite in the execution of official duties.
- 3.2 Appropriate private transport, in accordance with the job requirements and duties of the position must be available for daily official use. The preferred vehicle to be used by the incumbent for the purpose of official travel must be registered on the scheme and a valid vehicle registration certificate which must be in the names of the incumbent must be presented prior to the payment of any allowance in terms of the scheme
- 3.3 Log sheets substantiating travelling may be required to be submitted to a relevant Departmental Director from time to time. Any official can be required by the respective Departmental Director to make use of an electronic trip logging system as supplied by the municipality to substantiate actual kilometres travelled and/or claimed.
- 3.4 Appointment on, promotion to, or grading as a level in the organization regarded as being management and to which a travelling allowance therefore accrues as part of the conditions of service.

### 4. TRAVEL ALLOWANCE FOR MANAGERS

Amended heading

- 4.1. Basis of calculation of monthly allowance:
- 4.1.1. The appropriate A.A. Rates Table should be used in determining the monthly travelling allowance.
- 4.1.2. The fixed cost component to be determined as follows: The basic salary of an incumbent, annual notch amount plus 13<sup>th</sup> cheque as a total value are to be used as an equivalent of the purchase price of the vehicle, the fixed cost per kilometre as reflected in the 10,000km column of the table equal to the fixed cost determined should then be multiplied by the kilometre allowance applicable to the incumbent to determine the monthly fixed cost amount. **(D)**
- 4.1.3. The Vehicle running cost to be determined as follows:
- 4.1.3.1. Calculate the fuel cost per kilometre relevant to the vehicle of the incumbent registered on the scheme to a maximum engine capacity of a 2150cc vehicles in accordance with column "A" of the running cost tables of the AA rates Table, by taking the fuel factor and multiplying it with the fuel price as updated bi-annually (1 April and 1 October) as follows: (Fuel factor) x (Fuel Price) = fuel cost per kilometre **(A)**
- 4.1.3.2. Add the service and repair cost in cent per kilometre as reflected in column "B" of the running cost table of the AA rates tables **(B)**

4.1.3.3. Add the tyre cost in cent per kilometre as reflected in column "C" of the running cost table of the AA rates tables **(C)**

4.1.3.4. Add together the result of **(A) + (B) + (C)** to determine the total vehicle running cost per kilometre.

4.1.3.5. Now add together the fixed cost per month **(D)** as determined in 4.1.2 above and **(A) + (B) + (C)** to determine the total cost per kilometre that the incumbent is entitled to. This amount is then to be multiplied by the kilometre allowance allocated to the position to determine the monthly travelling allowance.

4.2. The geographical area of the municipality as well as the level of seniority of the position must be taken into consideration in determining the kilometre limits and the following is proposed:

4.2.1 Positions qualifying will receive allowances based on the following kilometres

4.2.1.1 Post level T17 to T20 including all management staff and fixed terms contract employees where the T-level is determined by Council – 1 000Km

4.2.1.2 Post level T15 to T16 including all management staff and fixed terms contract employees where the T-level is determined by Council - 900Km

4.2.1.3 Employees in T14 level, all management staff and fixed terms contract employees where the T-level is determined by Council - 800 Km.

4.2.2 If the fixed kilometre allowance above is exceeded, running cost equal to that of the vehicle registered on the scheme will be paid for all kilometres in excess of the kilometre quota that is substantiated either by log sheets or electronic log sheets generated from the electronic trip logger system submitted.

4.2.3 The monthly fixed allowance as determined in terms of the post level applies to all official travel inside the area of jurisdiction of the Bitou.

4.2.4 No additional compensation will be paid to incumbents for official travel if travelling is less than the kilometre quota determined for the position.

## 5. ESSENTIAL-USER TRAVEL ALLOWANCE SCHEME

Section 5 is new

### 5.1. Aim of Scheme

**Policy Title:** TRAVEL ALLOWANCE POLICY

FINANCIAL YEAR: 2023/24

**Status:** Final Review, submitted to Council on 29 May 2023 with Final Budget per Item C/2/126/05/23

- 5.1.1. Employee may qualify for participation in the Essential-User Scheme where the duties of such employee necessitate the daily use of a vehicle, and Bitou Municipality not providing an official vehicle for such duties and where the employee per agreement provides a vehicle for the execution of the duties attached to the position of the employee.
- 5.1.2. The Essential-User Scheme is not linked to or reserved for any post designation or post level.
- 5.1.3. The Essential-User Scheme does not have the intention of providing a fringe or service benefit to any employee, but rather aims to compensate employees for costs incurred in utilizing private vehicles for the execution of duties attached to the position of the employees.

## 5.2. Criteria for Participation

- 5.2.1. Employees shall be considered for participation in the Essential-User Scheme with reference to the referred employee's employment contract,
- 5.2.2. Employees shall be considered for participation in the Essential-User Scheme, where the Bitou Municipality does not provide an official vehicle for use by the employee in the execution of duties attached to the position the employee holds,
- 5.2.3. The position the employee holds must require the regular use of a vehicle equal to not less than 700 kilometers per month, averaged over a six (6) months period,
- 5.2.4. Where an Employee travels less than 700 kilometers per month in the execution of the duties attached to the position the employee holds, the employee shall be compensated for costs incurred in traveling as per the provisions of the Subsistence and Travelling Policy of Bitou Municipality,
- 5.2.5. Appropriate private transport, in accordance with the job requirements and duties of the position must be available for daily official use. The preferred vehicle to be used by the incumbent for the purpose of official travel must be certified roadworthy with a valid license disk. The vehicle must be registered on the scheme and a valid vehicle registration certificate, which must be in the names of the incumbent, and presented prior to the payment of any allowance in terms of the scheme.
- 5.2.6. The department under which the employee is employed must ensure that sufficient funds have been provided in the budget to cover the cost of the Essential-User Scheme Allowance payable to the employee,
  - 5.2.6.1. Where insufficient funds have been provided in the budget, the employee shall be reimbursed for costs incurred in traveling as per the provisions of the Subsistence and Travelling Policy of Bitou Municipality until such time as budgetary provisions allows the employee participation in the Scheme,

5.2.7. Continued participation in the Scheme shall require the constant and continued completion of vehicle log sheet by the employee, with the necessary trip authorizations completed by the immediate supervisor of the employee and verified by the Head of the relevant Department,

5.2.7.1. Continued participation in the scheme shall require the monthly submission of vehicle log books at a date to be determined and specified by Bitou Municipality,

5.2.8. In considering applications for participation, the Head of the Department shall submit the following to the Municipal Manager for consideration:

5.2.8.1. The authorized vehicle log sheets for a period not less than six (6) months in respect of the employee in respect of which application is made for participation

5.2.9. A motivation for participation by the employee detailing the following aspects:

5.2.9.1. How is the department currently dealing with the transport needs?

5.2.9.2. Is there an existing municipal vehicle in use or an alternative vehicle?

5.2.9.3. Is participation in the Essential-User Scheme the most economic option?

5.2.9.4. What are the job requirements of the incumbent and does it require a specific type of vehicle for official use?

5.2.9.5. Does the duty of the employee require the frequent transportation of heavy goods and machinery?

5.2.9.6. Is the current vehicle of the employee suitable for official use?

### 5.3. Which Employees Qualify for The Scheme?

5.3.1. Where an employee on a regular basis must make use of transport to perform his/her official duties, the municipality may at its sole discretion approve an essential-user transport allowance to such employee for the use of his/her private vehicle,

5.3.2. The municipality also reserves the right to immediately withdraw an employee from the scheme, should any of the criteria under which the employee was allowed to participate in the scheme, not be met,

5.3.3. Participation in the scheme shall be restricted to an employee who:

5.3.3.1. Is permanently employed by the Bitou Municipality,



- 5.3.3.2. Need the continuous daily use of motor transport in order to perform his/her official duties efficiently,
- 5.3.3.3. Operate under circumstances where his/her regular use of an official municipal pool vehicle becomes impractical or uneconomical,
- 5.3.3.4. Is not required to drive either a 'functional' vehicle with special fittings or with a municipal logo/markings as part of their normal official duties,
- 5.3.3.5. Travel a minimum of 700 km per month and a maximum of 1665 km per month on official duties,
- 5.3.3.6. Has a suitable vehicle available, registered in the name of the employee.

#### 5.4. Calculation of Allowance

The allowance payable will consist of two elements:

##### 5.4.1. Capital (Fixed) Costs:

- 5.4.1.1. Fixed costs based on the maximum vehicle capacity of a 2,2 litre engine at **R5,50** per kilometer based on maximum of 1665 kilometers travelled per month,
- 5.4.1.2. In cases of any absence from duty, the allowance will not be paid except under the following circumstances:
  - a) When the employee is absent on annual leave. The employee shall be paid an amount calculated on the maximum of 1665 km norm,
  - b) When the employee is delegated on Municipality business,
  - c) When the employee is absent during the paid a portion of maternity leave. The employee shall be paid an amount calculated on the maximum of 1665 km norm,
  - d) When an employee is suspended on full pay, the employee shall be paid an amount calculated on the maximum of 1665 km norm.

##### 5.5. Running Costs:

- 5.5.1. Running costs is based on the monthly rates of **R2,16** based on a maximum of a 2,2 litre engine capacity vehicle,
- 5.5.2. All participants will be subjected to the same calculation criteria irrespective of post or level and travel claims outside the jurisdiction of Bitou Municipality shall be calculated on running costs only,

- 5.5.3. Running costs shall only be paid up to the maximum of 1665-kilometre limit and all claims for trips in excess of the 1665-kilometre limit must be substantiated through monthly authorized vehicle log sheets to be submitted at a date to be determined at the discretion of the employer to qualify for payment of additional kilometres travelled.

#### 5.6. Adjustment to Allowance

- 5.6.1. The segment comprising the subsidy will be reviewed annually by the Chief Financial Officer on recommendation of the Human Resource Management Division, and such an adjustment shall only occur on the 1<sup>st</sup> day of July each year if so required,

- 5.6.2. This review will however not amend or change the fixed cost allowance of users in any current cycle of 48 months.

#### 5.7. Home to Office Trips

The Essential-User Scheme allowance is only payable with regard to official kilometres travelled for the execution of official duties and shall not be paid for trips between the place of residence of the employee and place of work.

#### 5.8. Availability of Vehicle

- 5.8.1. Participation in the scheme contractually binds the participating employee to provide his/her own transport on a full-time basis in order to fulfil his/her duties as an official of the municipality in accordance with the requirements of his/her post,
- 5.8.2. If a vehicle, in respect of which a transport allowance is paid, breaks down resulting to it being unavailable for use, it shall be the employee's responsibility to provide a suitable replacement vehicle. If necessary, the employee will have to make available a temporary suitable vehicle for use at his/her own cost,
- 5.8.3. The employee shall at all times be responsible to inform the employer of any replacement vehicle provided and shall submit the following details relative to the replacement vehicle, type of vehicle, make, model and engine capacity,
- 5.8.4. The employer may adjust the allowance payable where the employee on a prolonged basis makes use of a vehicle with an engine size smaller than what the allowance has been calculated on.

#### 5.9. Further Conditions

- 5.9.1. Each Head of Department shall indicate the post that qualifies for participation in the scheme. The number of kilometers that are requested shall be verified and a final decision shall be made by the authorized authority,

- 5.9.2. A vehicle purchase/used in terms of the scheme shall be required by the employee's Head of Department, to be suited to the nature of the employee's post, e.g. if the job content requires the use of an LDV, the employee cannot purchase a sedan,
- 5.9.3. Monitoring of vehicle usage will be conducted on monthly intervals. Heads of Departments are therefore, required to ensure that records reflecting official trips and distance travelled of vehicle participating in the scheme are always in use and kept up to date,
- 5.9.4. Employees participating in the scheme shall be required to meet the maintenance repair costs of their vehicles and keep the vehicles in a roadworthy condition at all times,
- 5.9.5. No employee in any post shall be entitled to claim participation in the scheme as a right,
- 5.9.6. Where an employee chooses not to participate in the scheme, it shall be municipality's responsibility to provide the employee with official municipality transport for the performance of his/her duties, provided that an agreement to participate in the scheme shall contractually bind the employee to provide a vehicle for official purposes for at least six (6) months. The employee is thus under obligation to give six (6) months' notice to Bitou Municipality if the employee has the intention to withdraw from participating in the scheme,
- 5.9.7. If any employee participating in the scheme is promoted or appointed to a post which does not qualify for such benefits, a new contractual relationship is created, and the employee concerned will not be able to claim continuation of benefits,
- 5.9.8. Private vehicles including vehicles of subsidized employees shall not be permitted in the Municipal workshop, and no work shall be done on such vehicles,
- 5.9.9. Employees who participate in the scheme must comply with the following:
- 5.9.9.1. A daily log be completed on the prescribed form,
- 5.9.9.2. Claim must be submitted monthly on the first working day after the 7<sup>th</sup> day of the month, on the prescribed form after certification by the Supervisor,
- 5.10. Employees who do not qualify for Essential-User participation but are required to use their vehicles for official municipality purpose will be paid an ad-hoc allowance as determined by the Municipal Manager or his/her delegated official.
- 5.11. Termination
- 5.11.1. Bitou Municipality shall have the right to terminate participation in the Essential User Scheme in writing upon giving three (3) months' notice to the employee,

- 5.11.2. The employee shall be entitled to terminate participation in the scheme upon giving three (3) months written notice to Bitou Municipality,
- 5.11.3. Participation in the scheme shall automatically terminate on termination of service of the employee for whatever reason,
- 5.11.4. Non-compliance with the provisions of this policy is subject to disciplinary procedures, and may result in the immediate termination of participation of any employee irrespective of other notice periods that may be reflected in this policy.

## **6. AD-HOC TRAVELLING NON-PARTICIPANTS IN TRAVELLING SCHEME INSIDE AREA OF JURISDICTION**

- 6.1. An employee who does not qualify for participation in terms of the requirements of the scheme will be compensated for Ad-Hoc kilometres travelled through a reimbursement of the actual kilometres return trip, measured from the place of residence (accept if the employee is at work, when he/she is expected to travel for official purposes, in which case, the place of work will be used to calculate actual distance travelled) to the destination on the shortest possible route (return trip)
- 6.2 Reimbursement for travelling will be calculated at the rates approved by the Department of Transport for private transport used for official purposes.
- 6.3 Employees requesting re-imbursement for ad-hoc travelling must provide the municipality with proof of the vehicle particulars to enable the processing of the claim.
- 6.4 All ad-hoc travelling must be approved by the respective Departmental Directors in advance.

## **7. COMPENSATION**

- 7.1 The travelling allowances applicable to incumbents will be paid monthly in arrears.
- 7.2 Kilometres in excess of the maximum kilometre limit will be paid with the monthly travelling allowance in arrears.
- 7.3 Ad hoc travelling claims will be paid to employees upon submission of an approved claim on a weekly basis with the provision that not more than two (2) claims per employee will be paid per month.

- 7.4 Ad hoc travelling claims for trips outside the area of jurisdiction may be considered to be paid on an advance basis with the provision that no advance be paid to employees more than five (5) days prior to the scheduled trip.

## **8. REIMBURSEMENT FOR KILOMETERS OUTSIDE AREA OF JURISDICTION**

- 8.1 Staff taking part in the travelling allowance scheme – A reimbursement of the actual kilometres travelled return trip, measured from the place of work to the destination calculated at the rates approved by the Department of Transport for private transport used for official purposes. For the purpose of calculation the reimbursement the interval for a 1951-2150cc petrol sedan vehicle, category “A” on the rates table of the Department of Transport must be used.
- 8.2 Staff not taking part in a travelling allowance scheme and essential-user scheme participants - A reimbursement of the actual kilometres travelled return trip, measured from the place of residence to the destination calculated at the rates approved by the Department of Transport for private transport used for official purposes. For the purpose of calculating the reimbursement, the vehicle particulars used for the trip will be used subject thereto that the engine capacity will be capped at 2150cc
- 8.3 Councillors: A reimbursement of the actual kilometres travelled return trip, measured from the place of residence to the destination calculated at the rates approved by the Department of Transport for private transport used for official purposes as determined in terms of the Remuneration of Public Office Bearers Act.
- 8.4 Where the trip necessitates that travelling be done directly from the place of residence and back, the actual kilometres travelled will be calculated on a return trip basis from the place of residence instead of the place of work.

## **9. APPROVALS**

- 9.1 Participation: The Municipal Manager is mandated to approve participation in the scheme upon receipt of sufficient evidence that an incumbent qualifies in terms of the rules of the scheme.
- 9.2 Exceeding of monthly kilometres: The approval by the respective Departmental Director, upon the submission of log sheets by the incumbent substantiating the kilometres travelled.

- 9.3 Ad-hoc kilometres: The approval by the relevant Departmental Director, upon submission of a valid claim (including prior approval) by the respective officials.
- 9.4 All approvals in terms of the Travelling Allowance scheme, whether for participation in the scheme or for ad-hoc kilometres travelled must be confirmed in writing.

## **10. HOW TO TREAT EMPLOYEES ON CURRENT SCHEMES**

10.1 In order to ensure parity in the application of travelling allowance schemes it would be preferable to migrate all employees to the new scheme, employees have however been appointed under certain conditions of employment and the application of current policies have been applied in accordance with certain practices that will place a huge financial strain on recipients of the travelling allowances if all staff are migrated from the onset. Migration of employees will therefore be handled as follows:

10.1.1 Employees may exercise a once-off option to voluntarily migrate from the PERK-Scheme Travel Allowance to the current Council's approved Travelling Allowance Policy.

10.1.2 Employees may choose to remain on the current PERK-Scheme where-after their allowances will be fixed at the current amounts, with no possibility of an increase until they replace their vehicle where-after they will be transferred to the new scheme.

10.1.3 All new staff members qualifying to participate in the travelling allowance scheme from date of adoption of the policy will be placed on the new travelling allowance scheme.

10.1.4 Employees participating in the essential car user scheme will remain on that scheme with the exception that reimbursement for travelling outside the area of jurisdiction will be done in accordance with the provisions set out in point 6.2 of the policy.

10.2 Toll fees: Such fees will be reimbursed upon submission of Tollgate receipts by the incumbent. E-toll fees where applicable will be reimbursed on submission of a valid e-toll invoice made out to the official receiving the travelling allowance for the vehicle registered on the scheme.

10.3 Determination of kilometre distances: Council will determine the standard distances between the municipal offices at its nodal point and all other offices, municipalities, or venues that are visited on a regular basis by its employees. The standard kilometres must be used upon submission of log sheets to substantiate kilometres travelled.

- 10.4 If no standard distance measurements are available the shortest distance to the destination travelled to, must be used as actual kilometres travelled.
- 10.5 No official transport shall be provided to an incumbent receiving a travelling allowance.
- 10.6 Any official receiving a travelling allowance must at all times ensure that a fully functional and operational vehicle that suits the requirement of the job to be performed is available for the execution of his/her duties.
- 10.7 If the maximum kilometre limit for a specific incumbent or position is exceeded the actual kilometres travelled must be substantiated by log sheets, whereafter the excess kilometres travelled will be reimbursed on a running cost basis only, no additional fixed portion will be payable.
- 10.8 Should there be an abnormal fluctuation (> than 10%) in the fuel price (per price confirmation from local filling stations) measured over the review period, the CFO is authorised to recalculate the fuel component of the variable portion of the allowance payable to employees and update the allowances to employees accordingly. A fuel price adjustment will also be done concurrent with the implementation date of the annual budget being 1 July of each year.
- 10.9 Review of the amounts payable should be done Bi-Annually and the Municipal Manager or his delegated authority is authorised to do so in terms of the rules and provisions of this policy.

## **11. ALLOWANCES PAYABLE TO EMPLOYEES RECEIVING ANNUAL ALL INCLUSIVE SELF STRUCTURED REMUNERATION PACKAGES**

11.1 Employees paid an annual all-inclusive cost to company package that is not linked to a T-level may elect to receive a portion of their annual remuneration as a travelling allowance, this portion is not linked to the AA tables upon which the calculation of travelling allowances of full time employees are based, and will therefore not be adjusted in accordance with the changes of the AA rates from time to time.

11.2 The running cost reimbursement and other matters not covered by this policy will be contractually agreed upon with the respective incumbent.

## **12. TERMINATION**

12.1 Should the job requirements of an incumbent receiving a travelling allowance change through any process of re-deployment, re-structuring or amendment of the operational requirements of the municipality in any way whatsoever thereby causing that it is no longer necessary to regularly travel for official purposes, the travelling

allowance payable to the incumbent will cease to be paid within six (6) months of such re-deployment, re-structuring or amendment of the operational requirements of the municipality.

12.2 Should an incumbent, after the conclusion of a disciplinary process be demoted in rank resulting in the recipient of a travelling allowance to fall outside the applicable T-levels thereby disqualifying the incumbent from taking part in the travelling allowance scheme, the payment of the allowance will cease within three months from the date of such final ruling of demotion by the disciplinary committee or appeal authority.

12.3 Should any employee be found guilty of defrauding or attempting to defraud the municipality in any way with regards to the requirements for participation in the scheme or in respect of any claim submitted for travelling done, the Municipal Manager may immediately terminate the payment of any travelling allowance to such employee.

12.4 Should any allegations of an occurrence of fraudulent behaviour be received and be investigated, the Municipal Manager may suspend the payment of a travelling allowance to such employee until the outcome of the investigation.

### **13. REVIEW**

13.1. This policy will be reviewed annually to be in line with municipal practices and legislation.





# Borrowing Policy

## 2023/2024

## 1. Purpose

1.1. The purpose of this policy is to establish a borrowing framework for the Municipality and to set out the objectives, policies, statutory requirements and guidelines for the borrowing of funds, in order to:

- Manage interest rate and credit risk exposure;
- Maintain debt within specified limits and ensure adequate provision for the repayment of debt;
- Ensure compliance with all Legislation and Council policy governing borrowing of funds.

1.2 This Policy should be implemented in conjunction with the approved Liquidity, Funding and Reserves Policy.

1.3 This policy is implemented to provide guidance on the appropriation of capital funding resources on a sustainable basis in the longer term.

1.4 Although legislation provides guidance as to the broader framework to ensure financial management of resources to ensure the Council meets all of its obligations timeously, it is not prescriptive with regards to quantifying not only the prudent level of Borrowing but more so the optimal level hereof.

1.5 Therefore in this Policy cognisance has been taken of the legislative guidelines whilst more prescriptive guidelines are set for the optimal management and monitoring of external funding sources to the Municipality's avail based on sound financial practices.

## 2. Legislative Framework

2.1 All borrowings made by the Municipality shall be subject to the requirements of the Local Government: Municipal Finance Act, 2003 ( “the MFMA”) and the Municipal Regulations on Debt Disclosure ( “the Disclosure Regulations”) made thereunder and published under GN R 492 in Government Gazette 29966 of 15 June 2007.

2.2 Further the MFMA Circular 71 stipulates the following guidelines regarding borrowing:

### **Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure**

2.3 Capital Cost (Interest Paid and Redemption) / Total Operating Expenditure x100  
Criteria: 6% - 8%

### **Debt (Total Borrowings) / Revenue**

2.4 (Overdraft + Current Finance Lease Obligation + Non Finance Lease Obligation + Short Term Borrowings + Long Term Borrowings) / Total Operating Revenue  
Criteria: Maximum 45%

### **3. Definitions**

Any word or expression used in this policy shall, unless the context clearly requires a different interpretation, bear the same meaning attached to it in the MFMA or the Disclosure Regulations, as the case may be; provided that if there is any conflict between a definition contained in the MFMA and a definition contained in the Disclosure Regulations, then the definition contained in the MFMA shall prevail.

### **4. Types of Debt**

4.1 This policy applies to the debt incurred by the Municipality through the issue of municipal debt instruments or in any other way.

4.2 Without derogating from the generality of the preceding subparagraph, this policy will apply:

4.2.1 To any debt, whether short -term or long term;

4.2.2 To any debt incurred pursuant to any financing agreement, which includes any of the following agreements under which the Municipality undertakes to repay a long-term debt over a period of time:

4.2.2.1 Loan agreements;

4.2.2.2 Leases;

4.2.3 Instalment purchase contracts;

4.2.4 Hire purchase arrangements;

4.2.5 To any debt created by the issuance of municipal debt instruments, including:

4.2.5.1 Any note;

4.2.5.2 Bond; or

4.2.5.3 Debenture; and

4.2.6 To any contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

#### 4.3 Types of loan financing

4.3.1 Annuity Loans enable the Municipality to provide for the redemption of loans on an amortising basis which is generally the most cost effective method of financing often referred to as vanilla funding;

4.3.2 Bullet Redemption Loans are attractive as interest on the loan is serviced with the capital redemption only taking place at the end of the tenure of the loan. However, this method is more costly as interest is paid on the full debt throughout the term as the Capital does not reduce. This type of loan also requires an annual contribution to a sinking fund, which in essence then mimics the traits of an annuity loan although at a higher cost. The use of such structure warrants a detailed motivation based on the benefits to the implementation of the capital project;

4.3.3 Sculpted Repayment Loans offer a combination of the above two types, as loans are sculpted according to the potential cash flows to be generated from the capital project in future. For example the following can be included in a sculpted loan:

4.3.3.1 A capital grace period in the first years of the development of the capital project;

4.3.3.2 An incremental annual increase in the repayment in relation to the projected growth in revenue from the project.

## **5. Principles Guiding Borrowing Practices**

The following principle shall guide the borrowing practices of the Municipality, namely:

5.1 Risk Management: The need to manage interest rate risk, credit risk exposure and to maintain debt within specified limits is the foremost objective of the borrowing policy. To attain this objective, diversification is required to ensure that the Chief Financial Officer prudently manages interest rate and credit risk exposure;

5.2 Cost of Borrowings: The borrowings should be structured to obtain the lowest possible interest rate, on the most advantageous terms and conditions, taking cognisance of borrowing risk constraints, infrastructure needs and the borrowing limits determined by Legislation;

5.3 Prudence: Borrowings shall be made with care, skill, prudence and diligence. To this end, officials of the Municipality are required to:

5.3.1 adhere to this policy, and other procedures and guidelines;

5.3.2 exercise due diligence;

5.3.3 prepare all reports in a timely fashion;

5.3.4 ensure strict compliance with all Legislation and Council policy.

## **6. Factors to be taken into account when borrowing**

6.1 The Municipality shall take into account the following factors when deciding whether to incur debt:

6.1.1 the type and extent of benefits to be obtained from the borrowing;

6.1.2 the length of time the benefits will be received;

6.1.3 beneficiaries of the acquisition or development financed by the debt;

6.1.4 the impact of interest and redemption payments on both current and forecast income;

6.1.5 the current and future capacity of the Municipality's revenue base to pay for borrowings;

6.1.6 other current and projected sources of funds;

6.1.7 likely movements in interest rates for variable rate borrowings;

6.1.8 competing demands for funds;

6.1.9 timing of money market interest rate movements and the long-term rates on the interest rate curve.

6.1.10 The Borrowing and other financial ratios norms, standards and benchmarks applicable to comparable municipalities

6.2 The Municipality will, in general, seek to minimize its dependence on borrowings in order to limit future revenue committed to debt servicing and redemption charges.

## **7. Sources of Borrowings**

7.1 Subject to any particular determination of the Council of the Municipality, the Municipality may enter into financing agreements with:

7.1.1 Registered South African Banks;

7.1.2 ~~The Development Bank of Southern Africa~~ Development Finance Institutions;

7.1.3 Vendors or suppliers of goods acquired under leases, ~~installment~~ instalment purchase contracts or hire purchase arrangements;

7.1.4 Any other institution ~~al investors approved by the Council from time to time~~.

7.2 Unless the Council of the Municipality specifically determines otherwise, the Municipality shall not incur any debt by the issuance of any municipal debt instruments.

## **8. Short-term Debt**

8.1 The Municipality may incur short –term debt only in accordance with and in the circumstances contemplated in Section 45 of the MFMA.



8.2 In particular, the provisions of section 45 (1) of the MFMA must be noted, these requiring that the Municipality may incur short –term debt only when necessary to bridge:

8.2.1 Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year; or

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

8.3 Furthermore, as required by section 45 (4) of the MFMA, the Municipality must pay off short term debt within the financial year.

## **9. Overdraft Facility**

9.1 Overdraft facilities are regulated by Section 45(3) of the MFMA.

9.2 The current policy of the Council of the Municipality is that the Municipality shall not have an overdraft facility.

## **10. Long Term Debt**

10.1 The Municipality may incur long-term debt only in accordance with and in the circumstances contemplated in Section 46 of the MFMA.

10.2 Long-term debt may be incurred only for the purposes contemplated in Section 46(1) of the MFMA, namely:

10.2.1 Capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government, as set out in Section 152 of the Constitution; or

10.2.2 Re-financing existing long term debt, subject to section 46(5).

## **11. Council approval**

Sections 45(2) and 46(2) require that short-term debt and long-term debt respectively may be incurred only if:

11.1 A resolution of the Council, signed by the Mayor, has approved the debt agreement;

11.2 The accounting officer has signed the agreement or other document which creates or acknowledges the debt.

## **12. Refinancing**

12.1 Short-term debt may not be renewed or refinanced where that would have the effect of extending the short-term debt into a new financial year.

12.2 The Municipality may borrow in order to refinance long-term debt subject to the conditions contained in Section 46(5) of the MFMA.

## **13. Early repayment of loans**

13.1 No loans will be repaid before due date unless there is a financial benefit to the Municipality.

13.2 The Municipality shall therefore assess the nature and extent of any benefits of early repayment before it makes any such early repayment.

13.3 Cognisance must be taken of any early repayment penalty clauses in the initial loan agreement, as part of the assessment.

## **14. Debt Repayment Period**

14.1 As far as is practical, cognisance must be taken of the useful lives of the underlying assets to be financed by the debt for purposes of determining the duration of the debt.

14.2 Should it be established that it is cost effective to borrow the funds for a

duration shorter than that of the life of the asset, the Municipality should endeavour to negotiate terms for the loan agreement on a shorter duration.

## **15. Provision for Redemption of Loans**

15.1 The Municipality may set up sinking funds to facilitate loan repayments, especially when the repayment is to be met by a bullet payment on the maturity date of the loan.

15.2 Such sinking funds may be invested directly with the Lender's Bank.

15.3 The maturity date and accumulated value of such investment must coincide with the maturity date and amount of the intended loan that is to be repaid.

## **16. Non-Repayment or Non-Servicing of Loan**

16.1 The Municipality must honour all its loan obligations.

16.2 Failure to effect prompt payment may jeopardise the Municipality's credit rating and adversely affect the ability of the Municipality to raise loans in the future at favourable interest rates.

16.3 In addition to ensuring the timely payment of the loans, the Municipality must adhere to the covenants stipulated in the loan agreements, including, in particular, the following where applicable:

16.3.1 furnishing audited annual financial statements;

16.3.2 maintaining long-term credit rating;

16.3.3 reporting of material changes in financial position of the Municipality.

## **17. Borrowing for Investment Prohibited**

The Municipality shall not under any circumstances borrow funds for the purposes of investing them.

## **18. Interest Rate Risk Management**

18.1 The impact of interest and capital redemption payments on both the current and forecasted property rates and service charges through tariffs taking into consideration the current and future capacity of the consumer to pay therefore;

18.2 Likely movement in interest rates for variable rate borrowings. There are benefits to be yielded from borrowing on a variable rate if rates are projected to decrease in future, however it is prudent for the municipality to enter into fixed interest rate loans to accurately budget for expenses incurred.

## **19. Loan Covenants**

19.1 The municipality is to maintain a Loan Covenants Register detailing the covenants entered into with each active loan agreement until date of maturity thereof;

19.2 Compliance with all loan covenants are to be monitored and reported on semi-annually to council, following the compilation of the Annual Financial Statement (AFS) to ensure that the municipality does not breach any covenants;

19.3 Should a default be triggered based on non-compliance with loan covenants, the municipality is to alert Council and send the related Financial Institutions a written commitment to address the matter within a reasonable timeframe.

## **20. Level of gearing**

20.1 Gearing is not only limited by the level of debt against the Total Operating Income (excluding conditional grants) but also limited by other operational

factors including compliance with the stipulations of the approved Liquidity, Funding and Reserves Policy.

20.2 Should the municipality not be in contravention with any stipulations in the Liquidity Policy or any other approved financial policy, then it is recommended that the municipality maintain external gearing at levels not lower than 25% but not higher than 35%.

20.3 The ratios to be considered to take up additional borrowings are as follows, unless in contravention with any loan covenants:

20.3.1 Estimated long-term credit rating of BBB and higher;

20.3.2 Interest Paid to Total Expenditure not to exceed 5%;

20.3.3 Total Long-term Debt to Total Operating Revenue (excluding conditional grants and transfers) not to exceed 35%;

20.3.4 Operating Cash Surplus generated before loan repayments are made covers the Total Annual Repayment at least 1 time;

20.3.5 Percentages -of Total Annual Repayment (Capital and Interest) to Operating Expenditure to be less than ~~40~~8%.

## **21. Security**

21.1 Section 48 of the MFMA provides that the Municipality may provide security for any of its debt obligations in any of the forms referred to in Section 48(2).

21.2 Such security shall be given only pursuant to a resolution of the Council, which resolution must comply with the provisions of Section 48(3), (4) and (5) of the MFMA.

21.3 Unless sufficient motivation is provided and other than for the provision of a sinking fund for the redemption of a bullet loan, the provision of any security

against external borrowings, should be specifically motivated by the CFO for approval.

## **22. Disclosure**

22.1 Section 49 of the MFMA requires that any person involved in the borrowing of money by a municipality must, when interfacing with a prospective lender or when preparing documentation for consideration by a prospective investor, disclose all relevant information in that persons possession or within that person's knowledge that may be material to the decision of that lender or investor, and take reasonable care to ensure the accuracy of any information disclosed.

22.2 In addition the Disclosure Regulations establish detailed requirements for the disclosure of information to prospective lenders and investors. Regulations 2, 3, 4, 5, 15, 16 and 17 are of particular importance to the Municipality, given the nature of the borrowings which it intends to make.

## **23. Guarantees**

The Municipality may issue guarantees only in accordance with the provisions of Section 50 of the MFMA.

## **24. Internal Control**

The accounting officer shall ensure that mechanisms, procedures and systems are put in place to ensure that:

24.1 Duties are separated in order to prevent fraud, collusion and other misconduct;

24.2 loan agreements and contracts are kept in proper safe custody;

24.3 there is a clear delegation of duties relating to the borrowing process;

24.4 senior officials check and verify all transactions;

24.5 transactions and repayments are properly documented;

24.6 Code of ethics and standards is established and adhered to;

24.7 procedures relating to the borrowing process are established.

## **25. National Treasury Reporting and Monitoring Requirements**

The Municipality shall promptly submit all returns and reports relating to borrowings as required by National Treasury, including reports on the Municipality's external interest paid each month, and the quarterly itemization of all of its external borrowings.

## **26. Other Reporting and Monitoring Requirements**

26.1 The Municipality shall on a monthly basis perform the following control and reporting functions relevant to borrowings:

26.1.1 Reconciliation of bank accounts;

26.1.2 Payment requisition verification and authorization;

26.1.3 Completion of South African Reserve Bank returns;

26.1.4 Maintain schedule of payment dates and amounts;

26.1.5 Complete National Treasury Cash Flow returns;

26.1.6 Submission of particulars of borrowings as required by Section 71 of MFMA;

26.1.7 Perform analysis of ratios;

26.1.8 Scrutinise loan agreements to ensure compliance with loan covenants.

26.2 The Municipality shall on a quarterly basis perform the following control and

reporting functions relevant to borrowings:

26.2.1 Submit National Treasury Borrowings return

26.2.2 Prepare debt schedules for reporting to the Executive Committee.

## **27. Corporate Governance (Oversight)**

Compliance with the various stipulations as documented in this Borrowing Policy need to be monitored by the Chief Financial Officer and reported on to the Municipal Manager on a monthly basis and to the Executive Mayor on a quarterly basis.

Where compliance has been breached the Chief Financial Officer must present an action plan to correct the non-compliance. The Executive Mayor must monitor the successful implementation of the corrective action plans and report progress to Council.

## **28. Transitional Arrangement**

Upon adoption of this policy by the Council, the Municipal Manager in conjunction with the Chief Financial Officer must determine the current performance levels of the municipality against this Policy and present a plan of action towards achieving and maintaining the stipulation as set out in this policy thereby utilising a more blended funding mix for capital infrastructure investment.

The Council must approve an appropriate timeframe within which the municipality must achieve the approved stipulations as set out in this Policy. The period between the date of the policy adoption by Council and the target date for compliance shall be known as the Transitional Period.

The Executive Mayor must report progress during the approved Transitional Period to the Council.



## **29. Policy Management**

The Borrowing Policy forms part of the municipality overall financial objectives and therefore forms part of approved Budget Policies. The policy must be reviewed at least annually during the budget revision and presented to Council for approval.

## **30. Related Policies**

This policy must be read in conjunction with the following other policies of the Municipality:

- 30.1 Budget Process Policy;
- 30.2 Cash Management and Investment Policy;
- 30.3 Virement Policy
- 30.4 Liquidity, Funds and Reserves Policy.
- 30.5 Long term financial planning policy

## **31. Municipal Manager to Implement Policy**

The Municipal Manager, as accounting officer of the Municipality, shall be responsible for implementing this policy, provided that he or she may delegate in writing any of his or her powers under this policy to any senior finance official of the Municipality.

## **32. Commencement**

This policy shall come into force on the date ~~to be determined~~ as approved and resolved by Council of the Municipality.



# Tariff Policy

**Reviewed  
2023/2024**



**Policy Title:** TARIFF POLICY

FINANCIAL YEAR: 2023/24

**Status:** Final Review, submitted to Council on 29 May 2023 with Final Budget per Item C/2/126/05/23

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## 1. OBJECTIVE

1.1 The objectives of the Tariff Policy (Policy) are to ensure that –

- (a) All consumers within a specific category are treated equally and reasonably.
- (b) The income base of the municipality is optimally safeguarded by only approving exemptions, reductions and rebates that are reasonable and affordable.
- (c) The principles supporting the Councils Mission, Vision and IDP are supported.
- (d) Municipal tariffs are set in a manner that promotes the provision of reliable, sustainable and affordable services to all.

## 2. DEFINITIONS

2.1 In this Policy, unless the context otherwise indicates –

- (a) “**Availability tariff**” means where vacant properties are not connected to the municipal infrastructure but can reasonably connect to the service.
- (b) “**Accommodation 1-8 bedrooms**” means a facility that provides for lettable residential and non-residential units or homes, holiday or self-catering accommodation on a regular, seasonal, continuous or occasional basis where the number of lettable bedrooms does not exceed 8.
- (c) “**Accommodation 9+**” means a facility that provides for lettable residential and non-residential units or homes, holiday or self-catering accommodation on a regular, seasonal, continuous or occasional basis where the total number of lettable bedrooms exceeds eight or the property offers restaurant and/or bar and/or conference facilities.
- (d) “**Basic charge**” also referred to as a minimum charge, is the recovery of the distribution and billing-related costs, which include having a distribution system in place, plus the cost of the meter, servicing and reading the meter, mailing the bills and maintaining customer records.
- (e) “**Business**” means the activity of buying, selling or trading in goods or services and includes any office or other accommodation on the same erf, the use of which is incidental to such business, with the exclusion of agriculture, farming or, inter alia, any other business consisting of cultivation of soils, the gathering in of crops or the rearing of livestock or consisting of the propagation and harvesting of fish or other aquatic organisms.
- (f) “**Business unit**” in relation to any premises, means a building or section of a building occupied or used for shops, offices, hotel rooms and etcetera.
- (g) “**Industrial consumers**” means industrial undertakings, factories, warehouses, workshops, scrap yards, wine cellars, abattoirs, dairy processing plants, fish markets and suchlike consumers.

- (h) **“Community service”** means services in respect of which the tariffs are set at a level that the costs of the services are not recovered fully from public service charges and are of a regulatory nature.
- (i) **“Consumer”** means the owner of a premises, regardless of whether it is domestic, commercial, industrial or any other type and who has entered into an agreement with the Municipality for the supply of a service. A consumer must only be the owner and not a tenant or lessee.
- (j) **“Council”** means the Bitou Municipal Council, and "Municipal Council" shall have a corresponding meaning.
- (k) **“Domestic consumers”** means residential properties, group housing, town houses, semi-detached houses and suchlike properties.
- (l) **“Due date”**–
  - (i) In relation to accounts payable monthly on a recurring basis, the 07th of the month which follows on the month during which an account is rendered;
  - (ii) In relation to accounts payable annually, 30 September unless otherwise provided by any other law; and
  - (iii) In all other instances, as and when demand for payment is made by the Municipality.
- (m) **“Economic services”** means services in respect of which the tariffs are set at a level that the total costs of the services are recovered from customers.
- (n) **“Educational institutions”** means schools and suchlike institutions.
- (o) **“Fixed costs”** means costs which do not vary with consumption or volume produced.
- (p) **“Indigent households”** means households that are registered at the Municipality as such and meet the municipality's criteria in terms of its Customer Care, Credit Control, Debt Collection, Indigent and Tampering Policy and occupying a property within the jurisdiction of the Municipality and "poor households" shall have a corresponding meaning.
- (q) **“MFMA”** means the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003).
- (r) **“Minimum charge”** shall refer to the minimum amount payable by the consumer in respect of a particular service irrespective of the extent to which the service is used during any given period of time.
- (s) **“MSA”** means the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000).
- (t) **“Owner”** in relation to a property, means the person in whose name the property is registered in the Deeds Registry and such owner's successors.

- (u) **“Premises”** means any erf, immovable property or property which is capable of receiving municipal services whether it is receiving such services or not and whether occupied or not.
- (v) **“Property”** means –
  - (i) Immovable property registered in the name of a person, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person;
  - (ii) A right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property;
  - (iii) A land tenure right registered in the name of a person or granted to a person in terms of legislation; and
  - (iv) Public service infrastructure.
- (x) **“Public benefit organisations”** means an organisation conducting specified public benefit activities as defined in the Act and registered in terms of the Income Tax Act for tax reductions because of those activities.
- (y) **“Resident”** means a person who ordinarily resides in the municipal area.
- (z) **“Place of public worship”** means property used primarily for the purposes of congregation, excluding a structure that is primarily used for educational instruction in which secular or religious education is the primary instructive medium: Provided that the property is –
  - (i) Registered in the name of the religious community;
  - (ii) Registered in the name of a trust established for the sole benefit of a religious community; or
  - (iii) Subject to a land tenure right.
- (aa) **“Non-residential”** means all property other than those defined as residential.
- (bb) **“Service charge”** means the charged levied for the provision of a service on a daily, monthly or annual basis.
- (cc) **“Special agreements”** means special tariff agreements entered into with categories of consumers making significant economic contributions to the community and that create job opportunities.
- (dd) **“Sport and recreation facilities”** means properties used exclusively for sport and recreation purposes including school sport fields which are metered separately for water and electricity consumption.
- (ee) **“Total cost”** means the sum of all fixed and variable costs associated with a service.

- (ff) **“Trading services”** means services referred to in Paragraphs 7.1(a), 9.2 and 9.3 in the Policy in respect of which the tariffs are set at a level that the Council makes a profit on the delivery of the services.
- (gg) **“Units consumed”** means the number of units consumed of a particular service and are measured in terms of the tariff structure reflected in Paragraphs 9.2 and 9.3 in the Policy.
- (hh) **“Variable costs”** means costs that vary with consumption or volume produced.
- (ii) **“VAT”** means Value-Added Tax in terms of the Value-Added Tax Act, 1991, as amended.

### 3. ABBREVIATIONS

<b>Kg</b>	Kilogram
<b>Kl</b>	Kilolitre or 1,000 litres
<b>kVa</b>	Kilovolt Ampere
<b>kWh</b>	Kilowatt Hour
<b>m<sup>3</sup></b>	Cubic Meter

### 4. PURPOSE OF THIS POLICY

- 4.1 The Bitou Municipality wishes to achieve the following objectives by adopting this Policy –
- (a) To comply with the provisions of Section 62(1)(f) of the MFMA;
  - (b) To comply with the provisions of Section 74 of the MSA;
  - (c) To prescribe procedures for calculating tariffs where the municipality wishes to appoint service providers in terms of Section 76(b) of the MSA; and
  - (d) To give guidance to the Executive Mayor regarding tariff proposals that must be submitted to the Council annually during the budget process.

### 5. TARIFF PRINCIPLES

- 5.1 In setting its annual tariffs the Council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.
- 5.2 The Municipality wishes to record that the following tariff principles will apply –
- (a) Service tariffs imposed by the municipality shall be viewed as user charges and shall not be viewed as taxes, and therefore the financial ability of the relevant user of the

services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the relief measures for poor households and deserving categories of users approved by the municipality from time to time); and

- (b) The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.

5.3 Tariffs for service charges rendered by the Municipality, namely –

- (a) Electricity;
- (b) Water;
- (c) Sanitation; and
- (d) Refuse;

And the Municipality shall as far as possible recover the expenses associated with the rendering of each service concerned. The tariff, which a particular consumer or user pays shall therefore be directly related to the cost to the municipality of rendering the services that are used or consumed.

- 5.4 In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the Municipality may differentiate between different categories of users and consumers in regard to the tariffs which it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each annual budget.
- 5.5 The Municipality's Policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be disclosed to users.
- 5.6 The Municipality shall ensure that its tariffs shall be readily understandable by all users affected by the Policy.
- 5.7 The Municipality undertakes to render its service costs effectively in order to ensure the best possible cost of service delivery.
- 5.8 The consumption of such services shall be properly metered by the Municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The municipality must ensure that meters are functional and accurate to ensure that consumers are billed for their actual consumption. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.
- 5.9 The Municipality shall levy monthly availability or basic charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with the detailed policies. Generally, consumers of water and electricity shall therefore pay two charges: one, which is unrelated to the volume of consumption and is to recover the distribution on costs; and another directly related to the consumption of the service in question.



- 5.10 In considering the costing of its water, electricity and sewerage services; the Municipality shall take due cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as opposed to variable costs of operating these services. The Municipality therefore undertakes to plan the management and expansion of the services carefully in order to ensure that both current and reasonably expected future demands are adequately catered for, and that demand levels which fluctuate significantly over shorter periods are also met. This may imply that the services may at times or for certain periods operate at less than full capacity, and the costs of such surplus capacity must also be covered in the tariffs which are annually levied.
- 5.11 The Municipality shall, by adopting what is fundamentally a two-part tariff structure, namely a fixed minimum charge coupled with a charge based on consumption, endeavour to address the demands which both future expansion and variable demand cycles and other fluctuations will make on service delivery.
- 5.12 Part of the Municipality's Policy for electricity services will be to ensure that those consumers who are mainly responsible for peak demand, and therefore for the incurring by the municipality of the associated demand charges from Eskom, will have to bear the costs associated with these charges. Such consumers shall therefore pay the relevant demand charge as well as a service charge directly related to their actual consumption of electricity during the relevant metering period.
- 5.13 A property used for multiple purposes must for purposes of these tariffs be assigned to a category determined by the Council for properties used for a purpose corresponding with the dominant use of the property if the Municipality cannot readily make an apportionment in relation to the services concerned and the categories of users.
- 5.14 The different units on a single erf whether occupied as a residential unit or utilised as a business unit or any other use in line with this policy, will be levied for all basic services individually as provided for in the tariff structure in line with the use of such unit.
- 5.15 In order to provide the Municipality with appropriate security for payment of amounts owing to it from time to time for services rendered, the Council shall impose a system of deposits payable by customers. The deposits shall be set with due regard to the potential financial risk associated with the amounts owing from time to time. The level of the deposits shall be revised annually depending on the defaults instances.

## **6. CATEGORIES OF CONSUMERS**

- 6.1 Separate tariff structures may be imposed for the following categories of consumers (which the council may change) –
- (a) Residential consumers;
  - (b) Business or Commercial consumers;
  - (c) Industrial consumers;
  - (d) Municipalities;

- (e) Consumers with whom special agreements were made;
- (f) Educational institutions;
- (g) Public benefit organisations and suchlike institutions; and
- (h) Places of worship.
- (i) Agricultural consumers
- (j) State owned properties

- 6.2 Where substantially different demands are made on the infrastructure to provide a service to a specific group of users within a category or the standard of services required by such users, the Council may, after having considered a report by the Municipal Manager or the relevant Director, determine differentiated tariffs for the different consumers within the specific category.
- 6.3 The differentiation must be based on one or more of the following elements; infrastructure costs, volume usage, availability and service standards.
- 6.4 If, for purposes of determining the tariff applicable to a particular user or category of users, the user or category of users has not specifically by definition been included under a defined category of users, the Chief Finance Officer shall, by applying the closest match principle, determine the category under which the user or category of users fits in best taking into account the nature of the service concerned and the user or category of users involved.

## **7. SERVICE AND EXPENDITURE CLASSIFICATIONS**

### **7.1 Service classification**

The Chief Financial Officer may, subject to the guidelines provided by the National Treasury and the Mayoral Committee of the Council, make provision for the following classification of services:

(a) Trading Services:

- (i) Water; and
- (ii) Electricity.

(b) Economic Services:

- (i) Solid Waste; and
- (ii) Waste Water.

(c) Community services:

- (i) Air Pollution;
- (ii) Firefighting Services;
- (iii) Local Tourism;
- (iv) Town Planning;
- (v) Municipal Public Works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law;
- (vi) Storm Water management system in built-up areas;
- (vii) Trading Regulations;
- (viii) Fixed Billboards and the display of advertisements in public places;
- (ix) Cemeteries;
- (x) Control of Public Nuisances;
- (xi) Control of undertakings that sell liquor to the public;
- (xii) Facilities for accommodation, care and burial of animals;
- (xiii) Fencing and fences;
- (xiv) Licensing and control of undertakings that sell food to the public;
- (xv) Local Amenities;
- (xvi) Local Sport Facilities;
- (xvii) Municipal Parks and Recreation;
- (xviii) Municipal Roads;
- (xix) Noise Pollution;
- (xx) Pounds;
- (xxi) Public Places;
- (xxii) Street Trading / Street Lighting;
- (xxiii) Traffic and Parking;
- (xxiv) Building Control;
- (xxv) Licensing of Motor Vehicles and Transport Permits; and

(xxvi) Nature reserves.

(b) Subsidised Services:

- (i) Libraries and Museums;
- (ii) Proclaimed Roads; and
- (iii) Street lights.

## **7.2 Expenditure classification**

Expenditure will be classified in the following categories –

(a) Subjective Classification as per mSCOA Chart:

- (i) Employee Related Costs;
- (ii) Remuneration of Councillors;
- (iii) Bad Debt Impairment;
- (iv) Depreciation and Asset Impairment;
- (v) Finance Charges;
- (vi) Bulk Purchases;
- (vii) Other Materials;
- (viii) Contracted Services;
- (ix) Transfers and Subsidies;
- (x) Other Expenditure;
- (xi) Loss on Disposal of Property, Plant and Equipment; and
- (xii) Capital Expenditure for Capital Projects.

(b) Objective Classification:

- (i) Cost centres will be created to which the costs associated with providing the service can be allocated per –
  - (aa) Department;
  - (bb) Division; and

(cc) Section.

- (ii) The subjective classification of expenditure each with a unique vote will be applied to all cost centres.

### 7.3 Cost elements

The following cost elements will be used to calculate the tariffs –

- (a) Fixed costs which consist of the capital costs (interest and redemption) on external loans as well as internal advances and or depreciation whichever are applicable and any other costs as determined by the Council from time to time;
- (b) Variable costs: This includes all other variable costs; and
- (c) Total costs: Consist of the fixed cost and variable cost.

## 8. TARIFF TYPES

- 8.1 In determining the type of tariff applicable to the type of service the municipality shall make use of the following options or a combination of the same.

- (a) Single Tariff:

This tariff shall consist of a cost per unit consumed.

- (b) Two to Three Part Tariff – Electricity:

This tariff shall consist of two to three parts. Management, capital, maintenance and operating costs will be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and be recovered by a fixed charge, independent of consumption for all classes of consumers, while the variable costs may be recovered by a unit charge per unit consumed. Three part tariffs will be used to calculate the tariff for electricity and to provide for maximum demand and usage during limited demand.

- (c) Inclining Block Tariff – Electricity:

This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase. This tariff will only be used to subsidised free basic services and to prohibit the exorbitant use of a commodity. The first step in the tariffs will be calculated at break-even point. Subsequent steps will be calculated to yield profits and to discourage excessive use of the commodity.

(d) Declining Block Tariff – Electricity:

This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase. The first step will be calculated by dividing the fixed and variable cost and profit, determined by council from time to time, by the volume consumed. This tariff will only be used for special agreements.

(e) Regulating Tariff – Electricity:

This tariff is only of a regulatory nature and the Municipality may recover the full or a portion of the cost associated with rendering the service.

(f) Time-of-Use Tariff – Electricity:

This tariff is based on fixed charges and seasonally and time differentiated energy and demand charges.

## **9. TARIFF STRUCTURES AND METHODS OF CALCULATIONS**

### **9.1 Calculation of Tariffs for Major Services**

(a) In order to determine the tariffs, to be charged for the supply of water and electricity, the municipality shall endeavour to include at least the operational costs of the undertakings concerned.

(b) To determine the basic or minimum charge the following categories within the operating budget will be included as a basis for calculation –

- (i) Capital costs (interest on loans);
- (ii) Maintenance of infrastructure and other fixed assets;
- (iii) Salary costs; and
- (iv) Depreciation expenses.

(c) To determine the unit charges the following categories within the operating budget will be used as a basis for calculation –

- (i) Cost of bulk purchases in the case of electricity;
- (ii) Distribution costs (General Expenses);
- (iii) Distribution losses;
- (iv) Administration and service costs, including –

- (aa) Service charges levied by other departments such as finance, human resources and legal services;
  - (bb) Reasonable general overheads, such as the costs associated with the office of the Municipal Manager;
  - (cc) Adequate contributions to the provisions for bad debts and obsolescence of stock; and
  - (dd) All other ordinary operating expenses associated with the service concerned including, in the case of the electricity service, the cost of providing street lighting in the municipal area.
- (d) The intended surplus to be generated for the financial year, such surplus to be applied –
- (i) As an appropriation to capital reserves; and/or
  - (ii) Generally, in relief of rates and general services; and/or
  - (iii) The cost of approved indigent relief measures.
- (e) The Municipality shall provide the first 50 kWh of electricity per month to registered indigent, qualifying pensioners and qualifying disabled consumers free of charge. The Municipality shall further consider relief in respect of the tariffs for sewerage, water and refuse removal for such registered indigents, pensioners and disabled persons to the extent that the Council deems such relief affordable in terms of each annual budget. Multiple step inclining block tariffs are utilised to enable the consumer to exercise control over the cost to themselves.
- (f) The Municipality shall adhere the requirements of the National Energy Regulator insofar as the tariff modelling of the municipality is concerned and prepare and submit a cost of supply study to NERSA as and when required for the approval of the tariff structure to be implemented by the municipality.

## 9.2 Water

- (a) Fixed costs plus rising block tariffs will apply to all consumers.
- (b) The following blocks will apply:

<b>DOMESTIC PROPERTY :-</b>		
<b>Residential Indigent, Pensioners and People with Disabilities</b>		
Consumption Charge : First 0 - 6 Kl	per kl	As per Tariff Book
Consumption Charge: 7kl - 10 Kl	per kl	As per Tariff Book
Consumption Charge: 11kl -15 Kl	per kl	As per Tariff Book
Consumption Charge : 16kl - 25 Kl	per kl	As per Tariff Book
Consumption Charge : Above 25kl	per kl	As per Tariff Book
<b>Residential Other</b>		

Consumption Charge : > 0 -25 Kl	per kl	As per Tariff Book
Consumption Charge: 26kl - 30 Kl	per kl	As per Tariff Book
Consumption Charge: 31kl - 40 Kl	per kl	As per Tariff Book
Consumption Charge : 41kl - 50 Kl	per kl	As per Tariff Book
Consumption Charge : 51kl – 60kl	per kl	As per Tariff Book
Consumption Charge: 61 kl – 70 kl	Per kl	As per Tariff Book
Consumption Charge: Above : 70 kl	Per kl	As per Tariff Book
<b>BUSINESS :-</b>		
Service Charge per annum	per premises / per business unit/per shop unit /per Hotel room /per annum	
<b>COMMERCIAL CONSUMPTION CHARGE</b>		
Consumption Charge : > 0 - 60 Kl	per kl	As per Tariff Book
Consumption Charge: 61kl - 100 Kl	per kl	As per Tariff Book
Consumption Charge: 101kl -200 Kl	per kl	As per Tariff Book
Consumption Charge : Above 200kl	per kl	As per Tariff Book
AGRICULTURAL (RURAL)		
<b>COMMERCIAL CONSUMPTION CHARGE</b>		
Consumption Charge : > 0 - 20 kl	per kl	As per Tariff Book
Consumption Charge: 21kl - 30 kl	per kl	As per Tariff Book
Consumption Charge: 31kl -40 kl	per kl	As per Tariff Book
Consumption Charge : Above 40kl	per kl	As per Tariff Book

(d) Method of calculation

- (i) Indigent, pensioners and people with disability consumers will receive the appropriate 6 Kl free water.
- (ii) The fixed costs of the service shall consist of the costs indicated as such by the council per premises/per unit/ per dwelling.
- (iii) The number of users and estimated volume consumed per category will be used to determine the fixed tariff per category.
- (iv) Where properties are not connected to the water service but can reasonably be connected to the service an **availability tariff** will be payable.
- (v) Where council decide to make a profit on the service the profit will be added to the fixed and variable cost before tariffs are calculated.

(e) Drought tariffs



(i) Drought Situation Stage 1

This tariff will be applied only if the **Roodefontein** Dam is at 80% - 60% volume

(ii) Drought Situation Stage 2

The tariff will be applied only if the **Roodefontein** Dam is at 40% or the river flow of the Keurbooms River is at 400 litres per second and **when consumption is more than 20kl per month**. The sliding scale will be charged from 21 - 30kl of consumption.

(iii) Drought Situation Stage 3

The tariff will be applied only if the **Roodefontein** Dam is at 25% or the river flow of the Keurbooms River is at 300 litres per second and **when consumption is more than 50kl per month**. The sliding scale will be charged from 16kl of consumption.

(iv) Drought Situation Stage 4

The tariff will be applied only if **the Roodefontein** Dam is at 35% - 21%. On **consumption greater than 15kl per month per household connection**. The sliding scale will be charged from 16kl of consumption.

(v) Drought Situation Stage 5

The tariff will be applied only if **the Roodefontein** Dam is at 20%. On **consumption greater than 15kl per month per household connection**. The sliding scale will be charged from 16kl of consumption.

### 9.3 Electricity

(a) Tariff structure

- (i) Maximum demand (kVA) plus fixed tariff plus kWh consumed.
- (ii) Fixed tariff plus kWh consumed.
- (iii) Unit tariff (KWh consumed) (Pre-payment meters).
- (iv) Basic charge calculated in accordance with the size of connection (AMP Charge per ampère per month)

(b) Method of calculation

- (i) Guidelines issued by the National Electricity Regulator from time to time will form the basis of calculating tariffs.
- (ii) To recover the capital cost of supplying electricity through a fixed charge will make electricity unaffordable to many low consumption users. Cross subsidisation between and within categories of consumers will be allowed based on the load factors of the categories and consumers within the category. Portions of the fixed costs will be recovered through an energy or time-of-use charge. To apply the abovementioned principle, the cost allocation basis, cost groupings, tariff components and tariff types reflected in the following tables will be used.

Cost groupings	Underlying cost-allocation bases		
	Capacity costs: expressed as Rands/kVa/month	Variable costs: expressed as Cents/kWh	Customer specific costs: expressed as rands/ customer/month
Purchase cost	√	√	
Capital costs	√	√	√
Support costs	√		√

Tariff types	Tariff components			
	Fixed charge (rands/ customer/ month)	Energy charge (cents/kWh)	Time-of-use energy charge expressed as (cents/kWh)	Capacity charge expressed as (rands/kVa/ month)
One-part single energy rate tariff (Lifeline tariff)		√		
Two-part tariff	√	√		
Three-part tariff	√	√		√
Three-part time-of-use	√		√	√

- (iii) The one-part single energy rate tariff:

For the one-part single energy rate tariff, all costs are expressed in a single cents/kWh charge. The recommended methodology for allocating costs into this tariff is as follows:

- (aa) The rands/kVa/month cost must be allocated into a cents/kWh charge through consideration of the average load factor of the types of customer who are likely to use the one-part single energy rate tariff.
- (bb) The rands/customer/month fixed cost should also be allocated into the cents/kWh charge and allocated to the kWh purchase costs in such a way

as to ensure that at a level of monthly consumption of kWh, the full amount of the fixed costs would have been recovered through the cents/kWh charge.

- (iv) The three-part tariff:
  - (aa) The rands/kVa charge recovers the capital cost elements. Some of this cost must be reallocated into different tariff elements.
  - (bb) The cents/kWh charge therefore recovers the full variable costs as well as a portion of the reallocated rands/kVa costs.
  - (cc) The rands/customer/month charge is not reallocated.
- (v) The three-part time-of-use tariff:
  - (aa) As with the standard three-part tariff, a portion of the rands/kVa/month charge is reallocated into the various time-of-use cents/kWh charges. The amount of the reallocation takes place with regard to the customer's load factor. The time-variation of the capacity costs is taken into account in the reallocation of the rands/kVa charge into the various time-of-use cents/kWh charges.
  - (bb) The cents/kWh charge therefore recovers the full variable costs as well as a portion of the reallocated rands/kVa charges.
  - (cc) The rands/customer/month charge is not reallocated.
- (vi) Where council decides to make a profit on the service the profit will be added to the fixed and variable cost before tariffs are calculated.
- (vii) Where properties are not connected to the electricity service but can reasonably be connected to the service an availability tariff will be payable. The Town Electrical Engineer will annually determine the tariff.

#### **9.4 Solid Waste (Refuse removal)**

##### **(a) Tariff structure**

- (i) Wheelie Bin or equivalent volume per number of removals per week.

##### **(b) Method of calculation**

- (i) The costs per unit of measurement will be determined by dividing the total costs of the service by the total volume of refuse disposed of during the year. The total cost of the service includes the removal cost plus the operating cost associated with the service.

- (ii) The cost associated with the removal of bulk containers will be determined by calculating how many of the smallest removal units will be absorbed by a specific container.
  - (iii) After council has consulted with owners or occupiers of commercial and industrial undertakings which do not make use of the standard black bags or mass containers, tariffs will be determined based on the estimated volume that will be removed per month.
  - (iv) Costs for once-off removals will be calculated per truckload.
  - (v) Private dumping at the disposal site will be allowed after a tariff based on the estimated volume of the dumping has been paid.
  - (vi) Compulsory use - A refuse removal tariff will be raised and is payable by all owners or occupiers of each situated on the waste removal network, irrespective of whether they making use of the service of the council or any other service provider or those who have applied to be connected whether such owner or occupier uses the refuse removal service or not or those who are not connected to the distribution networks to whom a refuse removal service is rendered on request.
  - (vii) No refuse removal tariffs will be raised in areas where council has not introduced a refuse removal service.
- (c) Reallocation of consumers due to excessive consumption
- (i) Where a consumer is found exceeding the tariff applicable to their category of solid waste for which they are levied –
    - (aa) They will be moved to the appropriate corresponding tariff category.
    - (bb) They may approach Council for reinstatement to the original tariff. Subject to evidence provided.

## **9.5 Waste Water (Sewerage/emptying of conservancy tanks)**

### **(a) Tariff structure**

- (i) Properties connected to the sewerage reticulation network.
- (ii) Tanker vehicle per load.

### **(b) Method of calculation**

- (i) A fixed basic charge will be payable for each property connected to the sewerage reticulation network irrespective of number of toilets or size of business units. Per dwelling/ per unit/ per premises –
  - (aa) Domestic

(bb) Business

- (ii) Where properties are not connected to the sewerage network but can reasonably be connected to the service an **availability tariff** will be payable. The tariff will be calculated by adding a surcharge to the fixed costs applicable to connected consumers per category.
- (iii) An effluent charge will be charged to promote more efficient use of council's sewerage infrastructure.
- (iv) The cost of emptying conservancy tanks will be based on the load, During normal working hours, outside normal working hours, Sunday and Public holidays
- (v) For the operation of the septic tank effluent drainage system [STED] in Areas with septic Tanks and Areas with septic Tanks an annual sewerage charge shall be levied for the effluent discharged into the Council's sewer system.
- (vi) In respect of the vacuum tanker removals from the STED system no charge shall be levied by Council for such service.

## 9.6 Calculation of minor tariffs

- (a) All minor tariffs (being tariffs in respect of services and facilities other than the major services referred to in Paragraphs 9.1 to 9.5 above) shall be approved by the Council in each annual budget, and shall, when deemed appropriate by the Council, be subsidised by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.
- (b) All minor tariffs over which the Municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.
- (c) The following services shall be considered as community services, and no subsidised tariffs shall be levied for their use –
  - (i) Municipal lending library (except for fines set out below);
  - (ii) Maintenance of graves and garden of remembrance (cremations);
  - (iii) Rentals for the use of municipal halls and other premises (subject to the proviso set out below).
  - (iv) Building plan fees;
  - (v) Clearance certificates for purposes of property transfers; and
  - (vi) Town planning fees.

- (d) The following services shall be considered as economic services, and the tariffs levied shall cover 100% or as near as possible to 100% of the budgeted annual operating expenses of the service concerned –
- (i) Housing rentals;
  - (ii) Sales of plastic refuse bags;
  - (iii) Sales of refuse bins;
  - (iv) Cleaning of stands;
  - (v) New connection fees: electricity, water, sewerage; and
  - (vi) Photostat copies and fees.
- (f) The following charges and tariffs shall be considered as regulatory or punitive, and shall be determined at a reasonable level (with due regard to direct and indirect costs involved, need for discouraging undesirable practices and advantages enjoyed by user) in each annual budget –
- (i) Fines for lost or overdue library books;
  - (ii) Advertising sign fees;
  - (iii) Pound fees;
  - (iv) Disconnection and reconnection fees: electricity, water;
  - (v) Penalty and other charges imposed in terms of the approved policy on credit control and debt collection; and
- (g) Market-related rentals shall be levied for the lease of municipal properties defined as investment assets.
- (h) In the case of rentals for the use of municipal halls and premises, if the Municipal Manager is satisfied that the halls or premises are required for non-profit making purposes and for the provision of a service to the community, the Municipal Manager may allow a discount or exemption on the rental that would otherwise have applied.
- (i) The Municipal Manager shall determine whether an indemnity or guarantee must in each instance be lodged for the rental of municipal halls, premises and sports fields, and in so determining shall be guided by the likelihood of the municipality sustaining damages as a result of the use of the facilities concerned.
- (j) Tariff structure:
- (i) The unit of measurement as reflected in the separate list of tariffs approved annually will be used to determine regulatory community and subsidised services.
- (k) Overdue Amounts
- (i) The municipality shall be entitled to levy an administration fee on a month-to-month basis on all overdue accounts subject to such maximum amount per month as the Council may determine.
  - (ii) The municipality may at its discretion enter into a repayment schedule with a consumer in respect of overdue amounts, which repayment schedule will be incorporated into an acknowledgment of debt in favour of the municipality and

signed by the consumer. Upon signature of such an acknowledgment of debt, the consumer will become liable for payment of an administration fee in such amount as the Council may determine for attending on the debtor and entering into the acknowledgment of debt with the consumer.

## **10. CAPITAL CONTRIBUTIONS**

10.1 For purposes of these tariffs the under mentioned words and expressions shall have the following meanings assigned to them unless the context otherwise requires –

(a) “**capital contributions**” means the tariffs (augmentation fees) payable in respect of the water, electricity, sewerage, storm water, roads and refuse removal infrastructure of the Municipality as determined by Council and which amounts exclude amounts payable towards the operational and maintenance costs of such infrastructure.

## **11. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES**

11.1 The tariffs will be approved as part of the annual budget.

11.2 The tariffs will come into effect as and when determined by the Council.

## **12. IMPLEMENTATION OF THE POLICY**

12.1 The principles contained in this Policy will be reflected in the various budget proposals submitted to Council on an annual basis, service by-laws as promulgated and adjusted by Council from time to time and the tariff by-laws referred to in Section 75 of the Systems Act.

12.2 The Council may determine conditions applicable to community service of a regulatory nature. These conditions will be reflected in the standing orders of Council.

## **13. ADJUSTMENT OF ACCOUNTS**

13.1 Where incorrect debits were raised, the accounts under query will be rectified as necessary for the current financial.

13.2 Where the property rates levied on a particular property have been incorrectly billed or omitted or false information provided by the property owner concerned or a contravention of the permitted use to which the property concerned may be put, the property rates payable shall be appropriately adjusted. Property rates will be adjusted for the period extending from the date on which the error or omission is detected back to the date on which rates were first levied in terms of the current valuation roll. Interest on the unpaid portion of the adjusted property rates payable shall be levied at the applicable prime interest rate plus 1% from the date the correction was made. This section does not prevent the Municipality from retrospectively levying rates where the Municipality is able to prove the claim in a normal legal process.

13.3 Where the property rates levied on a particular property have been incorrectly billed due to incorrect categorisation by the municipality, the property rates payable shall be appropriately

adjusted. Property rates will be adjusted for the period extending from the date on which the error or omission is detected back to the date on which rates were first incorrectly levied in terms of the current valuation roll.

- 13.4 Where the service charges levied on a particular property have been incorrectly billed to the detriment of the consumer, the correction will be made retrospectively from the date that charges were incorrectly levied. Where the municipality, through its processes discovers that a service has not been charged on a customer's account by error, due to the service not been activated or any other reason, the municipality may bill the service after having informed the customer retrospectively for up to three (3) years. This section does not prevent the Municipality from retrospectively levying service charges where the Municipality is able to prove the claim in a normal legal process.

#### **14. SHORT TITLE**

- 14.1 This policy is called the Tariff Policy of the Bitou Municipality.





# **BITOU MUNICIPALITY**

## **SCM POLICY, 2023/2024**

**FINAL SUBMITTED TO COUNCIL 31 MAY 2018**  
**(POLICY PREVIOUSLY APPROVED BY COUNCIL 31 MAY 2017 PER RESOLUTION**  
**C/2/45/05/17)**

**SUPPLY CHAIN MANAGEMENT POLICY**

The Supply Chain Management Policy, adopted in terms of Section 111 of the Local Government: Municipal Finance Management Act, No. 56 of 2003 and the Municipal Supply Chain Management Regulations, Notice 868 of 30 May 2005.

**Council** resolves in terms of Section 111 of the Local Government Municipal Finance Management Act (No. 56 of 2003), to adopt the following as the Supply Chain Management Policy of the Bitou Local Municipality:

VERSION CONTROL					
<b>POLICY OWNER:</b>		Bitou Municipality Supply Chain Management Unit			
<b>POLICY EFFECTIVE DATE:</b>		January 2023			
Version	Date	Revision	Section	Page	Reason for change
1	14 December 2005		All	All	Policy Approval
2	2007	Yes	All	All	Annual Review
3	29 May 2013	Yes	All	All	Annual Review
4	31 March 2014	Yes	All	All	Alignment of SCM Policy to the National Treasury Model Policy.
5	31 March 2015	Yes	All	All	Annual review of Budget-related policies
6	31 May 2016	Yes	1	6	Definition of Close Members of the Family for GRAP Disclosure
6	31 May 2016	Yes	2	9	Withdraw exception from the Policy relating to public notices & advertisements
6	31 May 2016	Yes	14	15	Introduce the use of the National Treasury Central Suppliers Database as a primary vehicle for the accreditation of suppliers
7	18 March 2017	Yes	All	All	The separation of the Preferential Procurement Policy from the SCM Policy as an incorporation. The PPP will become the main driver of

**Policy Title:** Supply Chain Management Policy

**FINANCIAL YEAR:** 2023/24

**Status:** Final Review, submitted to Council on 29 May 2023 with Final Budget per Item C/2/126/05/23

VERSION CONTROL					
POLICY OWNER:		Bitou Municipality Supply Chain Management Unit			
POLICY EFFECTIVE DATE:		July 2023			
Version	Date	Revision	Section	Page	Reason for change
					procurement in the organization in terms of the Council's strategic goal to increase localized procurement to emerging enterprises. The SCM Policy will focus on goods & services, with a potentially new Infrastructure Delivery Policy for construction-related (1 <sup>st</sup> draft distributed earlier), with both policies subservient to the Preferential Procurement requirements of the PPP.
7	18 March 2017	Yes	1	8	Amendment of definition of "in the service of the state". The Government Gazette removes the ambiguities related to Non-Executive Directors serving on the board of government entities and excludes this category of directors from the definition.
7	18 March 2017	Yes	22	22	Clarification of the term "long term nature" in Section 22(1)(b)(i). To be interpreted as contracts longer than 3 years vs long term contracts, which are for longer than 1 year. Therefore, advertisements for tenders with implementation periods of less than 3 years, do not have to be advertised for 30 days.
8	31 May 2017	Yes	All	All	Final Approved
9.	27 March 2018	Yes	16		Align Petty Cash requirements with SCM Regulations
10.	27 March 2018	Yes	29		Align with MFMA requirements
11.	27 March 2018	Yes	45		Align with MFMA NT Circular 90 Tax Compliance requirements

**Policy Title:** Supply Chain Management Policy

FINANCIAL YEAR: 2023/24

**Status:** Final Review, submitted to Council on 29 May 2023 with Final Budget per Item C/2/126/05/23

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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 **Municipal Finance Management Act, no 56 of 2003**, has the same meaning as in the Act, and –

<b>“Accounting Officer”</b>	in relation to a Municipality means the Municipal Manager as described in Section 60 of the Local Government: Municipal Finance Management Act, no 56 of 2003 as well as Section 82 of the Municipal Structures Act, no 117 of 1998.
<b>“Bid”</b>	means a written offer in a prescribed or stipulated form in response to an invitation by an organ of state for the provision of services, works or goods
<b>“Close Family Member”</b>	means: (i) spouse or partner, (ii) child, (iii) parent
<b>“Close Members of the Family for GRAP Disclosure”</b>	Means – (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; (c) dependants of that person or that person's spouse or domestic partner; (d) a grandparent, grandchild, parent, brother or sister; and (e) a parent-in-law, brother-in-law or sister-in-law.”
<b>“Competitive Bidding Process”</b>	means a competitive bidding process referred to in paragraph 12 (1) (d) of this Policy;
<b>“Competitive Bid”</b>	means a bid in terms of a competitive bidding process;
<b>“Consultants”</b>	means consulting firms, engineering firms, legal firms, construction managers, management firms, procurement agents, inspection agents, auditors, other multinational organizations, investments and merchant banks, universities, research agencies, government agencies, non-governmental (NGO's) and individuals.
<b>“contract”</b>	means the agreement that results from the acceptance of a bid by the Municipality;
<b>“Contract Manager”</b>	means the official within a specific department, responsible for all day to day activities (including performance management and dispute resolution) during the life cycle of the contract (with delegated powers to perform this function), as the contract champion. The Contract Manager can also be seen as the Budget holder accountable for expenditure from, and income to, particular budget.

<b>“Contract Owner”</b>	means the official who is, as the owner of a budget vote, ultimately accountable for all the activities during the life cycle of a contract.
<b>“delegation”</b>	in relation to a duty, includes an instruction a request to perform, or to assist in performing the duty.
<b>“Emergency”</b>	means a serious, unexpected, unforeseen, <b>disastrous</b> , and potentially dangerous and damaging situation requiring immediate action and which is not due to a lack of planning.
<b>“Exceptional Case”</b>	means unusual not typical circumstances where it is impractical or impossible in practice to follow procurement processes.
<b>“Final Award”</b>	in relation to bids or quotations submitted for a contract, means the final decision on which bid or quote to accept;
<b>“Formal Written Price Quotation”</b>	means quotations referred to in Section 12 (1) (c) of this Policy;
<b>“Director”</b>	means a person in the employment of Bitou Municipality who heads a department or who reports to the Municipal Manager
<b>“IDP”</b>	means Integrated Development Plan
<b>“In the service of the State”</b>	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; (g) an employee of state agencies and State Owned Enterprises,
<b>“Irregular Expenditure”</b>	For the purpose of this Policy means expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the Supply Chain Management Policy of the municipality, and which is not been condoned in terms of the Policy
<b>“Long Term Contract”</b>	means a contract with a duration period exceeding one year;



<b>“List of Accredited Prospective Providers”</b>	means the list of accredited prospective providers which the municipality must keep in terms of Section 14 of this Policy;
<b>“Municipality”</b>	means Bitou Local Municipality
<b>“Municipal Systems Act”</b>	means the Local Government: Municipal System Act 32 of 2000
<b>“Notice Boards”</b>	means the official notice boards at the municipal offices, libraries and any notice boards at the dedicated directorates
<b>“Other Applicable Legislation”</b>	<p>means any other legislation applicable to municipal supply chain management, including –</p> <ul style="list-style-type: none"> <li>a) the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000);</li> <li>b) the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003);</li> <li>c) the Construction Industry Development Board Act, 2000 (Act No.38 of 2000);</li> <li>d) the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);</li> <li>e) the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000);</li> <li>f) the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);</li> <li>g) the Prevention and Combating of Corrupt Activities Act, 2000 (Act No. 12 of 2004);</li> <li>h) the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003): Municipal Supply Chain Management Regulations;</li> <li>i) the Preferential Procurement Regulations, 2017</li> <li>j) the Competitions Act 1998 (Act No. 89 of 1998)</li> </ul>
<b>“Policy”</b>	means the Supply Chain Management Policy of the Bitou Local Municipality
<b>“Quotation”</b>	means a stated price that a supplier expects to receive for the provision of specified services, works or goods;
<b>“Sole Supplier”</b>	means the only supplier in the South African market that can provide a particular product or service;
<b>“supply chain management practitioners”</b>	includes the Chief Financial Officer, the Head of the Budget and Treasury Office and the Head of Supply Chain Management;
<b>“Tender”</b>	means ‘bid’ or ‘quotation’ in relation to ‘Tender Box’
<b>“Treasury Guidelines”</b>	means any guidelines on supply chain management issued by the Minister in terms of Section 168 of the Act;
<b>“validity period”</b>	means the period for which a bid is to remain valid and binding as stipulated in the relevant tender document.

## CHAPTER 1

### ESTABLISHMENT AND IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY

#### 2. Supply Chain Management Policy

- 1) The Bitou Municipality resolved in terms of Section 111 of the Municipal Finance Management Act, No 56 of 2003, to have and implement a Supply Chain Management Policy 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 –
  - ii) the Regulations; and
  - iii) any minimum norms and standards that may be prescribed in terms of Section 168 of the Act; d) is consistent with other applicable legislation; e) does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres;
  - f) is consistent with national economic policy concerning the promotion of investments and doing business with the public sector;
  - g) applies the highest ethical standards; h)promotes local economic development; and  
i) assign responsibility for the implementation of the policy to the Accounting Officer of the Municipality.
- 2) The Municipality may not act otherwise than in accordance with this Supply Chain Management Policy when:
  - a) procuring goods or services; b)disposing of goods no longer needed;
  - c) 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
  - d) 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. Amendment of the Supply Chain Management Policy**

- 1) The Accounting Officer must –
  - a) at least annually review the implementation of this Policy; and b) 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 Provincial Treasury.
  - c) 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.
  - d) The Accounting Officer must, in terms of Section 62(1) (f) (i) of the Act, take all reasonable steps to ensure that the Municipality has and implements this Supply Chain Management Policy.

### **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 the Accounting Officer in terms of –
    - (i) Chapter 8 of the Act; and (ii) the Supply Chain Management Policy.
  - b) to maximize 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) Section 79 of the Act applies to the sub-delegation of powers and duties delegated to an Accounting Officer in terms of Sub-Section (1).
- 3) The Council or 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) Section 4(3) 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 Section 26 of this Policy.

### **5. Sub-delegations**

- 1) The Accounting Officer may in terms of Section 79 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 Sub-Section (2) of this Section and Section 4 of this Policy.
- 2) The power to make a final award –

**Policy Title:** Supply Chain Management Policy

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**Status:** Final Review, submitted to Council on 29 May 2023 with Final Budget per Item C/2/126/05/23

- a) above R10 million may not be sub-delegated by the Accounting Officer;
  - b) above R200 000 , but not exceeding R10 million, may be sub-delegated but only to –
    - (i) the Chief Financial Officer;
    - (ii) a Director; or
    - (iii) a Bid Adjudication Committee of which the Chief Financial Officer or a senior manager is a member.
  - 3) The Accounting Officer and Chief Financial Officer may further delegate the signing of SCM award letters, contracts and payment to invoices to the Manager: Supply Chain Management,
  - 4) An official or Bid Adjudication Committee to which the power to make final awards has been sub-delegated in accordance with Sub-Section (2) must within five working 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 –
    - a) the, amount of the award;
    - b) the name of the person to whom the award was made;and
    - c) the reason why the award was made to that person.
  - 5) A written report referred to in Sub-Section (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.
    - 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.
  - 6) Sub-Section (3) of this Section does not apply to procurements out of petty cash.
  - 7) This Section 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 Section 26 of this Policy.
  - 8) 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 – a) within 30 days of the end of each financial year, submit a report on the implementation of this Policy and the Supply Chain Management Policy of any municipal entity under the sole or shared control of the municipality, to the council of the municipality; and
    - b) 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.

- (3) The reports must be made public in accordance with Section 21A of the Municipal Systems Act.
- (4) The Accounting Officer will, within 60 days of the end of each financial year, submit to the Provincial Treasury any information concerning supply chain management in such format as the National Treasury and Provincial Treasury may determine.

**7. Supply Chain Management Unit**

- 1) The Accounting Officer must establish a Supply Chain Management Unit to implement this Policy.
- 2) The Supply Chain Management Unit operates under the direct administrative charge of the Chief Financial Officer, supervised by the Manager: Supply Chain Management, and the Unit's operations led by the Heads: Acquisition, Contract and Compliance, and Demand and Logistics Management, to whom this duty has been sub-delegated in terms of Section 82 of the Act.

**8. Training of supply chain management officials**

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

## CHAPTER 2

### SUPPLY CHAIN MANAGEMENT SYSTEM

#### 9. Format of supply chain management system

(1) This Supply Chain Management Policy provides systems for –

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

#### *Part 1: Demand Management*

#### 10. System of demand management

- 1) The Accounting Officer must establish and implement an appropriate demand management system in order to ensure that the resources required by the municipality to support its operational commitments and its strategic goals outlined in the Integrated Development Plan.
- 2) The demand management system must –
  - (a) include timely planning and management processes to ensure that all goods and services required by the municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost;
  - (b) take into account any benefits of economies of scale that may be derived in the case of acquisitions of a repetitive nature;
  - (c) provide for the compilation of the required specifications to ensure that its needs are met;
  - (d) undertake appropriate industry analysis and research to ensure that innovations and technological benefits are maximized; and
  - (e) include the following demand management considerations –
    - (i) understanding of future and current needs;
    - (ii) requirements are linked to the budget;
    - (iii) specifications are determined;
    - (iv) needs form part of the strategic plan and Integrated Development Plan of the Municipality;
    - (v) analysis of past and current expenditure;
    - (vi) optimum methods to satisfy needs;
    - (vii) frequency of requirements are specified;
    - (viii) calculation of economic order quantity; and
    - (ix) conducting of industry and market analysis.
- 3) The Demand Management Plan must be developed in conjunction with the IDP, Service Delivery and Budget Implementation Plan (SDBIP) and annual budget.

- 4) All user departments are required to submit their procurement plans to the Supply Chain Management Unit by 31 May in terms of the IDP and Budget processes.
- 5) The Demand Management Plan must be submitted to and approved by the Accounting Officer or his or her delegate before 30 June of each year.
- 6) The Demand Management Plan must be reviewed regularly and submitted to the Accounting Officer or his delegate on a quarterly basis.
- 7) Demand management must be coordinated by SCM officials of the Municipality in consultation with budget holders.
- 8) The outcome of this activity should be a detailed planning document that outlines what goods, works or services should be procured, the manner in which they should be procured as well as the time-lines to execute the procurement functions.

## ***Part 2: Acquisition management***

### **11. System of acquisition management**

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

### **12. Range of procurement processes**

- (1) Goods and services may only be procured by way of –
  - (a) petty cash purchases in terms of Council's Petty Cash Policy for procurement transactions with a value up to R2 000 (Incl. VAT);
  - (b) written quotations for procurement transactions of a value up to R10 000 inclusive of VAT ;
  - (c) formal written price quotations for procurement transactions of a value over R10 000 up to R200 000 (Incl.VAT); and
  - (d) a competitive bidding process for–
    - (i) procurement transactions with a value above of R200 000; and (ii) the procurement of long term contracts.
- (2) The Accounting Officer may, in writing-
  - (a) lower, but not increase, the different threshold values specified in Sub-Section (1); or (b) direct that –
    - (i) written quotations be obtained for any specific procurement of a transaction value lower than R2 000 (Incl.VAT); ;
    - (ii) formal written price quotations be obtained for any specific procurement of a transaction value lower than R10 000(Incl.VAT);; or

- (iii) a competitive bidding process be followed for any specific procurement of a transaction value lower than R200 000(Incl.VAT);.

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

### 13. General preconditions for consideration of written quotations or bids

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

- (a) has furnished that provider's –
  - (i) full name;
  - (ii) identification number or company or other registration number; and
  - (iii) tax reference number and VAT registration number, if any;
- (b) has authorised the Municipality to verify any of the documentation referred to in Sub-Section (a) above; and
- (c) has indicated –
  - (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
  - (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or
  - (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in Sub-Section (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.
- (d) has indicated the status of the providers municipal accounts with Bitou Municipality, where applicable.

### 14. Lists of accredited prospective providers

- 1) The Accounting Officer must –
  - a) As per National Treasury circular 90 makes provision that the Accounting Officer to make use of the National Treasury's Central Supplier Database as a list of accredited prospective that providers goods and services for the procurement requirements through written or verbal quotations and formal written price quotations;
- 2) The National Treasury's Central Supplier Database (CSD) was enhanced to enable institutions to search suppliers based on the criteria as per Preferential Procurement Policy Framework Act. The following steps can be followed:
  - (i) Step 1: Complete the basic search elements. The municipality's CSD user will be required to complete basic search elements like the supplier number, supplier name, commodity and B-BBEE status level. Once the municipality's CSD user clicks on the "Search" button, the matching records for the search input provided will be displayed. The multiple matching records resulting from the search will enable the additional filters.
  - (ii) Step 2: Refine the search using additional filters. The additional filters will enable the municipality's CSD user to refine commodities and locations, if required. Once commodities and/or locations are selected from the filter results, the municipality's CSD user may click on the "Apply" button. Results will be refined based on the additional criteria that were applied.

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(iii) Step 3: The filters can enable the municipality's CSD user to refine the search for potential suppliers based on:

- a) B-BBEE status level of contributor; or
- b) Enterprise type (exempted micro enterprise (EME) and/or Qualifying Small Enterprise (QSE)) and/or
- c) Designated groups which are at least 51 % owned by:
  - (i) black people
  - (ii) black people who are youth
  - (iii) black people who are women
  - (iv) black people with disabilities
  - (v) black people who are military veterans
  - (vi) black people that formed a cooperative (primary, secondary or tertiary cooperative)
  - (vii) black people living in rural areas or underdeveloped area or townships
  - (viii) EME or QSE

3) Once municipality's CSD user is registered on National Treasury's Central Supplier Database (CSD) they can acquire a list of prospective suppliers per commodity and per type of service, price quotations will be invited from the suppliers in a manner that promotes on-going competition, including on a rotation basis.

4) The registration and inclusion of any supplier on the National Treasury's Central Supplier Database (CSD) database does not exempt the supplier from the obligation to respond in the prescribed manner to notices of the municipality's supply chain management requirements.

5) Suppliers who wish to be included in the list of accredited suppliers on National Treasury's Central Supplier Database may do so by self-registering on National Treasury CSD website [www.csd.gov.za](http://www.csd.gov.za). All suppliers will be required to complete required information and must ensure it is complete, accurate and comprehensive. The following would be amongst the required information:

- (a) Supplier information i.e. supplier type, identification number, supplier name, trading name and country of origin;
- (b) Supplier contact i.e. preferred contact person, preferred communication method, email address, cellphone number, telephone number etc;
- (c) Supplier address i.e. country, province, municipality, city, suburb, ward and postal code.
- (d) Bank account information;
- (e) Supplier tax information;
- (f) Ownership information, i.e. name and identification number of directors, members etc;
- (g) Association to any other suppliers i.e. branch, consortium member etc;
- (h) Commodities the Supplier can supply

6) Once information has been verified with external data sources, a unique supplier number and security code will be allocated and communicated to the supplier. Suppliers will be required to keep data updated regularly and should confirm at least once a year that their data is still current and updated. Automatic re-verification of relevant supplier data against SARS, CIPC etc. will be done regularly (daily, weekly, monthly, etc.) as required.

**15. Petty cash purchases**

- 1) The conditions for the procurement of goods by means of petty cash purchases referred to in Section 12(1)(a) of this Policy must be stipulated in a Petty Cash Policy and must include the following:
  - a) the terms on which a manager may delegate responsibility for petty cash to an official reporting to the manager;
  - b) maximum number of petty cash purchases or the maximum amounts per month for each manager;
  - c) any types of expenditure from petty cash purchases that are excluded, where this is considered necessary; and
  - d) a monthly reconciliation report from each 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.
- 2) The Chief Financial Officer have the discretion to approve transactions that does not exceed R 2 000 per transaction.

**16. Written or verbal quotations**

- 1) The conditions for the procurement of goods by means of verbal quotations, for minor items with a value up to R2 000, are as follows:
  - a) Written quotations must be obtained from at least one prospective supplier or service provider preferably from, but not limited to, suppliers or service providers whose names appear on the list of accredited prospective providers of the Municipality provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria set out in Section 14(1) (b), (c) and (d) of this Policy; b) when using the list of accredited prospective providers the Accounting Officer must promote on-going competition amongst providers by inviting providers to submit quotations on a rotation basis if and when possible; and
  - c) if a written quotation was submitted, the order may be placed only against written confirmation by the selected provider.
- 2) The conditions for the procurement of goods or services for a value over R2 000 up to R10 000, through written quotations are as follows:
  - a) Written quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria set out in Section 14(1)(b) and (c) of this Policy; 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 another 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 3) Quotations must:
    - a) be signed by a person with the necessary authority to act on behalf of the prospective supplier;
    - b) comply with the specifications set out in the quotation notice;
    - c) be marked for identification in relation to the particular quotation.

- 4) Re-imbursements to personnel are subject to emergency situations only, and have to be authorized by the relevant Head of the Department as well as the Chief Financial Officer.

## 17. Formal written price quotations

- 1) The conditions for the procurement of goods or services for a value over R10 000 up to R200 000, through formal written price quotations are as follows:
- a) quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality;
  - b) quotations may be obtained from providers who are not listed, provided that such providers meet the listing criteria set out in Section 14(1)(b) and (c) of this Policy;
  - c) if it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the Chief Financial Officer 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) Quotations must:
- a) be in writing, and signed by a person with the necessary authority to act on behalf of the prospective supplier;
  - b) comply with the specifications set out in the quotation notice;
  - c) be marked for identification in relation to the particular quotation.
- 3) A designated official referred to in Sub-Section (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 Sub-Section.
- 4) **Minimum Requirements:**

- 4.1. If the Municipality decides to apply pre-qualifying criteria to advance the Bitou Municipality's Local Economic Development Strategy; the municipality must advertise the tender with a specific tendering condition.
- 4.2. A tender that fails to meet any pre-qualifying criteria stipulated in the tender documents is an unacceptable tender.
- 4.3. As per section 2 (d) the specific goals may include-
  - (i) contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability;
  - (ii) implementing the programmes of the Reconstruction and Development Programme as published in Government Gazette 16085 dated 23 November 1994

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

- 1) The procedure for the procurement of goods or services through written quotations or formal written price quotations is as follows:
- a) when using the list of accredited prospective providers the Accounting Officer must promote on-going competition amongst providers by inviting providers to submit quotations on a rotation basis;
  - b) all goods and services in excess of R30 000 that are to be procured by means of formal written price quotations must, in addition to the requirements of Section 17, be advertised for at least seven days on the website and an official notice board of the municipality;
  - c) re-imbursements to personnel are subject to emergency situations only, and have to be authorized by the relevant Director as well as the Chief Financial Officer;
  - d) offers received must be evaluated on a comparative basis taking into account unconditional discounts;

- e) 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;
  - f) offers below R30 000 must be awarded based on compliance to specifications and conditions of contract, ability and capability to deliver the goods and services and lowest price;
  - g) acceptable offers, which are subject to the preference points system (PPPFA and associated regulations), must be awarded to the bidder who scored the highest points; and
  - h) requirements for proper record keeping such as:
    - (i) filing of documents for audit purposes;
    - (ii) ensure the correctness of documents;
    - (iii) before awards proper checking of documents must be done.
- 2) Notwithstanding the above requirements for consideration, quotations not to specification may not be accepted.
  - 3) Only quotations complying with the specifications will be considered to be accepted, provided that there are sufficient funds within the appropriate budget.
  - 4) Where no quotation complies with the specification, as determined by the Head of the Department, the SCM Manager may re-invite quotations.
  - 5) Following are possible examples of not being in a position to obtain three written quotations or formal written price quotations: -
    - i. Publication of official and legal notices as well as advertisements in the media,
    - ii. Disciplinary hearings (Appointment of a Chairperson, Initiator) ,as per delegations of the Municipal Manager, the appointment of any legal person(s) to institute and defend any legal processes/proceedings and claims by or against Council, in any court of law, including the initiation, dealing with or settlement of such proceedings, training events, corporate branding and artwork, courses, seminars, membership fees, doctor consultations, medical specialists, local travel agencies, accommodation, subscription, tow in services, servicing agents for specific assets, franking machine postage, library books, books, monitoring of alarms, advertisements, motivational speakers, artists, subscription fees, security services in case of emergency, or as necessary and determined by the Accounting Officer to protect municipal infrastructure and facilities.
    - iii. In the event of a strip and quote or adhoc repairs to plant, equipment and machinery where it is not possible to ascertain the nature or extent of the work required in order to call for quotations, authorised by the Director engineering services.
    - iv. Payment of annual license and support charges, enhancements and additional functional modules to ensure compliance with the MSCOA classification framework and to move towards a municipal ERP system, to the provider of the core financial system of the municipality.

**19. Competitive bids**

- 1) Goods or services above a transaction value of R200 000 and long term contracts may only be procured through a competitive bidding process, subject to Paragraph 11(2) of this Policy.
- 2) The bid documentation will be prepared by the bid documentation will be prepared by the Bid Specifications Committee in consultation with the relevant directorate and displayed on notice boards, placed on the council's website, and advertised in commonly circulated local and/or provincial newspapers with a closing date of at least 14 days after the date that the advertisement first appears.
- 3) No requirement for goods or services above an estimated transaction value of R200 000 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.

**20. Process for competitive bidding**

- 1) The procedures for the following stages of a competitive bidding process are as follows:
  - a) Compilation of bidding documentation as detailed in Section 21;
  - b) Public invitation of bids as detailed in Section 22;
  - c) Site meetings or briefing sessions as detailed in Section 22;
  - d) Handling of bids submitted in response to public invitation as detailed in Section 23;
  - e) Evaluation of bids as detailed in Section 28;
  - f) Award of contracts as detailed in Section 29;
  - g) Administration of contracts; after approval of a bid, the Accounting Officer or by the delegated official and the bidder must enter into a written agreement.
  - h) Proper record keeping; Original / legal copies of written contract agreements should be kept in a secure place for reference purposes.

**21. Bid documentation for competitive bids**

- 1) The criteria with which bid documentation for a competitive bidding process must comply, must –
  - a) take into account – (i) the general conditions of contract and any special conditions of contract, if specified;
    - (ii) any Treasury guidelines on bid documentation; and
    - (iii) the requirements of the CIBD, in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure;
  - b) include the preference points system to be used, goals as contemplated in the Preferential Procurement Regulations and evaluation and adjudication criteria, including any criteria required by other applicable legislation;
  - c) include the compulsory submission of B-BBEE status level verification certificates and/or a Valid Sworn Affidavit or certified copies thereof;
  - d) include evaluation and adjudication criteria, including any criteria required by other applicable legislation;
  - e) include evaluation criteria for measuring of functionality (where applicable);
  - f) include conditions for sub-contracting according to applicable legislation;
  - g) ensure that a due diligence process is conducted to determine whether the preferred bidders have the capability and ability to execute the contract;
  - h) compel bidders to declare any conflict of interest they may have in the transaction for which the bid is submitted;

- i) 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; and
  - (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.
- j) 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;
- k) a requirement to supply tax references, tax pin, VAT registration numbers and identification or registration numbers;
- l) details of any contracts above R200 000 carried out on behalf of the municipality within the last five years;
- m) contract management processes and procedures including provision for the Accounting Officer to cancel the contract on the grounds of unsatisfactory performance; and
- n) any other matters as required by the MFMA and the Supply Chain Management Regulations.

2) Minimum Requirements

- 2.1. If the Municipality decides to apply pre-qualifying criteria to advance the Bitou Municipality's Local Economic Development Strategy; the municipality must advertise the tender with a specific tendering condition.
- 2.2. A tender that fails to meet any pre-qualifying criteria stipulated in the tender documents is an unacceptable tender.
- 2.3. As per section 2 (d) the specific goals may include-
  - (i) contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability;
  - (ii) implementing the programmes of the Reconstruction and Development Programme as published in Government Gazette 16085 dated 23 November 1994

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## **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 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, or which are of a long term nature (longer than 3 years), or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to Sub-Section (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.
- 2) The Accounting Officer may determine a closure date for the submission of bids which is less than the 30 or 14 days requirement, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.
- 3) Bid documents must be made available on Council's Website at no charge, as far as possible.
- 4) The Municipality charges a non-refundable fee for provision of bid documents. This is subject to annual review. Values of the fees will be determined annually and included in the official lists of tariffs.
- 5) Bids submitted must be sealed.

## **23. Procedure for handling, opening and recording of bids**

- 1) 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 Sub-Section (b), relating to the bid should be disclosed to bidders or other persons until the successful bidder is notified of the award; and
  - d) The Accounting Officer must – (i) record in a register all bids received in time; (ii) make the register available for public inspection; and (iii) publish the entries in the register on the website.
- 2) In order for a bid to be considered it must be placed in the official tender box located at the Supply Chain Management Unit.
- 3) The Manager: Supply Chain will ensure that tender boxes are sealed until the time of their official opening, and ensure that they are properly secured.

- 4) At the advertised time, the tender box will be unlocked by officials from the Supply Chain Management Unit.
- 5) A Supply Chain Management practitioner will open bid documents in the presence of bidders or other interested parties.
- 6) The tender box may be opened without any members of public being present provided that the appropriate procedure for advertising the time and venue has been followed.
- 7) The unmarked or incorrectly marked tenders will be opened for recording
- 8) The names and if practical, the total bid amounts will be read out and recorded in the tender register, which will be available for public inspection on request.
- 9) A copy of the record must be kept in the office of the SCM Manager and a complete schedule provided as soon as is practical.
- 10) Bid results will be published 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 –
  - a) does not allow any preferred bidder a second or unfair opportunity;
  - b) is not to the detriment of any other bidder; and
  - c) does not lead to a higher price than the bid as submitted.
- 2) Minutes of such negotiations must be kept for record purposes.
- 3) No unauthorised communication with bidders and prospective providers:
  - a) where bids and quotations have been submitted to the municipality, a bidder may not communicate with any councillor, official, or authorised service provider on any matter regarding his bid, quotation or offer other than a notice of withdrawal.
  - b) No municipal personnel may communicate with a bidder or any other party who has an interest in a bid, during the period between the closing date for the receipt of the bid or quotation (or date of receipt of an offer), and the date of notification of the successful bidder of acceptance of his bid, quotation or offer, except as provided for in paragraph (c) below. Every such case of unauthorised communication shall forthwith be reported to the Supply Chain Management Unit as well as the chairperson of the Bid Adjudication Committee. A bid or quotation in respect of which unauthorised communication has occurred may be disqualified.
  - c) The budget holder must approach the Bid Evaluation Committee, as determined in paragraph 28(2), to consider authorising an employee or authorised consulting service provider, in writing, to communicate with a bidder during the period mentioned in subsection
- (d) above for the purpose of:-
  - (i) Obtaining an explanation and verification of declarations made in the bid response;
  - (ii) confirming technical particulars and the compliance thereof with specifications;
  - (iii) clarifying delivery times/quantities;
  - (iv) extending the validity period of a bid;
  - (v) clarifying any other commercial aspect;
  - (vi) for the submission of substantiating documents;
  - (vii) any other clarifications
- e) In all cases where authority has been granted to communicate with bidders in terms of para[1]graph (c) above, it should be clearly stated in the submission to the Bid Adjudication



Committee the nature of the communication as well as by whom such authority to communicate has been granted.

**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) The Accounting Officer is required to establish a committee system for competitive bids of at least-
  - (i) a Bid Specification Committee;
  - (ii) a Bid Evaluation Committee; and
  - (iii) a Bid Adjudication Committee.
- 2) The Accounting Officer appoints the members of each committee, taking into account Section 117 of the Act.
- 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) Section 27, 28 and 29 of this Policy; and
  - b) any other applicable legislation.
- 5) The Accounting Officer may apply the committee system to formal written price quotations.

**27. Bid Specification Committees**

- 1) The bid specification committee must compile the specifications for each procurement transaction of goods or services by the municipality.
- 2) 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 Organization, or an authority accredited or recognized by the South African National Accreditation System with which the equipment or material or workmanship should comply;
  - c) must, where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design;
  - d) may not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labelling of conformity certification;
  - e) may not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible

way of describing the characteristics of the work, in which case such reference must be accompanied by the word "equivalent";

- f) must indicate each specific goal for which points may be awarded in terms of the points system set out in the Preferential Procurement Regulations 2022; and
  - g) Must state in the tender documents if the tender will be evaluated on functionality.
- (3) The evaluation criteria for measuring functionality must be objective.
- (4) The tender documents must specify-
- (a) the evaluation criteria for measuring functionality;
  - (b) the points for each criteria and, if any, each sub-criterion; and
  - (c) the minimum qualifying score for functionality.
- (5) The minimum qualifying score for functionality for a tender to be considered further-
- (a) must be determined separately for each tender; and
  - (b) 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.
- (6) Points scored for functionality must be rounded off to the nearest two decimal places.
- (a) A tender that fails to obtain the minimum qualifying score for functionality as indicated in the tender documents is not an acceptable tender.
- (1) 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 regulation 11.
- 2) must be approved by the Bid Specification Committee prior to publication of the invitation for bids in terms of Section 22 of this Policy.
- 3) A bid specification committee must be composed of at least three (3) officials of the municipality. The attendance of the relevant Project Manager is compulsory and the Committee 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) A quorum will be a minimum of four (4) members (i.e. the Chairperson, another member, an SCM Practitioner and the relevant Project Manager) of the Bid Specification Committee shall constitute a quorum for any formal sitting/meeting of the Bid Specification Committee. In case the Chairperson is not available the members present can appoint the Chairperson for the meeting. A member of the specification committee can also be a member of either the Bid Evaluation or Bid Adjudication Committee (but not both committees) that considers any of the bids for the same goods or services.
- 6) The advertisement must be approved by the Accounting Officer or the official or Bid Specifications Committee delegated by the Accounting Officer, prior to advertisement of the bid.

## 28. Bid evaluation committees

- 1) The SCM Unit must convene a technical evaluation committee, where,
  - a) The value of the tender for goods and services exceeds the amount of R2 million (excluding VAT),
  - b) The value of the tender for infrastructure exceeds the amount of R2,5 million (excluding VAT),

- 2) The committee must be composed of the Chairperson, at least three members, an SCM Practitioner and the relevant Project Manager.
- 3) The Committee must work through the entire tenders specifications to assess the bidders' ability to rendering service or delivering goods to the municipality.
- 4) The bid evaluation committee must –
  - a) evaluate bids in accordance with
    - (i) the specifications for a specific procurement; and
    - (ii) the points system set out in terms of Section 27(2)(f);
  - b) evaluate each bidder's ability to execute the contract;
  - c) check in respect of the each bidder whether municipal rates and taxes and municipal service charges are not in arrears,
  - d) check in respect of each bidder that their tax matters are in order and;
  - e) may use the following remedies where a bidder does not comply to any or certain requirements–
    - (i) disqualify bidders from the bidding process;
    - (ii) recover all costs, losses or damages the municipality has suffered from the bidder's non-compliance;
    - (iii) claim any damages as a result of having to make less favourable arrangements
  - f) submit to the adjudication committee a report and recommendations regarding the award of the bid or any other related matter.
- 5) 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) Technical experts, consultants or advisors, provided that these experts can only actively contribute to discussions, and not vote on the items
  - d) A quorum will be a minimum of four (4) members (i.e. the Chairperson, another member, an SCM Practitioner and the relevant Project Manager) of the Bid Evaluation Committee shall constitute a quorum for any formal sitting/meeting of the Bid Evaluation Committee.
  - e) Attendance of the relevant project manager is compulsory'
  - f) Members of the bid evaluation committees may not serve on any adjudication committee that adjudicates on any of the items that has been considered at a bid evaluation committee.
  - g) Notwithstanding the above requirements for consideration, bids not according to specification may not be accepted and the evaluation committee may recommend that new tenders be called if necessary.

**29. Bid Adjudication Committees**

- 1) The 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) The Bid Adjudication Committee must consist of at least four Directors 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) The BAC meeting must not continue if the members do not form a quorum.
- 5) 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.
- 6) 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 –
  - a) check in respect of the preferred bidder whether that bidder's municipal rates and taxes and municipal service charges are not in arrears,
  - b) check in respect of the preferred bidder whether the bidder's taxation matters are in order,
  - c) notify the Accounting Officer.
- 7) The Accounting Officer may –
  - a) 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
  - b) if the decision of the Bid Adjudication Committee is rejected, refer the decision of the adjudication committee back to that committee for reconsideration.
- 8) 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.
- 9) The Accounting Officer must:
  - a) Comply with Section 114 of the Act within 10 working days if a tender other than the one recommended in the normal course of implementing the supply chain management policy is approved.
  - b) Notify the Auditor-General, the Provincial Treasury and the National Treasury of the reasons for deviating from such recommendation, in writing,.

- c) This Section does not apply if a different tender was approved in order to rectify an irregularity.
- 10) The Accounting Officer must publish the bid results on the municipal website.

### 30. Procurement of banking services

- 1) A contract for banking services –
  - a) must be procured through competitive bids;
  - b) must be consistent with Section 7 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 Section 22(1). Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990).

### 31. 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) SITA may comment on the procurement needs submitted per Sub-Section(3)
- 5) If the municipality disagrees with comments made by SITA, the comments and the reasons for rejecting or not following such comments must be submitted to the Council, the National Treasury, the Provincial Treasury and the Auditor-General.
- 6) A contract for ICT related systems services –
  - a) may not be for a period of more than five years at a time; depending on the interest of the municipality on said ICT system a section 33 of the MFMA may be followed.

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

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

**33. 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 wherever possible.
- 2) Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership, cost advantages and environmental impact and must be approved by the Accounting Officer.

**34. Proudly SA Campaign**

- 1) The municipality supports the Proudly SA Campaign to the extent that, all things being equal, preference is given to procuring local goods and services from:
  - a) Firstly – suppliers and businesses within the municipality or district;
  - b) Secondly – suppliers and businesses within the relevant province;
  - c) Thirdly – suppliers and businesses within the Republic.

**35. Appointment of consultants**

- 1) The Accounting Officer may procure consulting services provided that any Treasury guidelines in respect of consulting services, as well as the Section 5 of the Bitou Council's Approved Cost Containment Policy, have been taken into account when such procurements are made.
- 2) Consultancy services must be procured through competitive bids if:
  - (a) the value of the contract exceeds R200 000; 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) The appointment of advisors must also follow the same competitive bidding process as set out in this Policy.
- 6) No advisor will take any part in the final decision-making process regarding the award of bids.
- 7) No decision-making authority may be delegated to an advisor.

**36. Deviation from, and ratification of minor breaches of, procurement processes**

- 1) The Accounting Officer may –
  - a) dispense with the official procurement processes established by this Policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –

- (i) in an emergency which is considered an unforeseeable and sudden event with materially harmful or potentially materially harmful consequences for the municipality which requires urgent action to address.
- (ii) where it can be demonstrated that goods or services are produced or available from a single provider only;
- (iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile;
- (iv) acquisition of animals for zoos and/or nature and game reserves; or
- (v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes.
- b) ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature; and
- c) may condone any irregular expenditure incurred in contravention of, or that is not in accordance with a requirement of this Policy, provided that such condonation and the reasons therefore shall be reported to Council at the next ensuing meeting.
- 2) The Accounting Officer must record the reasons for any deviations in terms of Sub-Sections (1)(a) and (b) of this policy and report them to the next meeting of Council and include as a note to the annual financial statements.
- 3) Sub-Section (2) does not apply to the procurement of goods and services contemplated in Section 11(2) of this policy.

### 37. Unsolicited bids

- 1) In accordance with Section 113 of the Act there is no obligation to consider unsolicited bids received outside a normal bidding process.
- 2) The Accounting Officer may decide in terms of Section 113(2) of the Act to consider an unsolicited bid, only if –
  - a) the product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
  - b) the product or service will be exceptionally beneficial to, or have exceptional cost advantages;
  - c) the person who made the bid is the sole provider of the product or service; and
  - d) the reasons for not going through the normal bidding processes are found to be sound by the Accounting Officer.
- 3) If the Accounting Officer decides to consider an unsolicited bid that complies with Sub-Section (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 Sub-Section (3), including any responses from the unsolicited bidder, to the National Treasury and the relevant provincial treasury for comment.
- 5) The adjudication committee must consider the unsolicited bid and may award the bid or make a recommendation to the Accounting Officer, depending on its delegations.

- 6) A meeting of the adjudication committee to consider an unsolicited bid must be open to the public.
- 7) When considering the matter, the adjudication committee must take into account –
  - a) any comments submitted by the public; and
  - b) any written comments and recommendations of the National Treasury or the 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 Provincial Treasury and the National Treasury the reasons for rejecting or not following those recommendations. 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.

### **38. 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) take cognizance of the provisions of Chapter 2 of the Competition Act no 89 of 1998, with specific reference to:
    - (i) restrictive practices;
    - (ii) abuse of a dominant position;
 and
    - (iii) exemption from application of Chapter 2 of the Act.
  - 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; unless a suitable arrangement has been made between the bidder and the Bitou Municipality that the total amount in arrears be recovered directly from the bidder's invoices during the contract period. The said debt repayment plans are selectively for local bidders, who reside within the Bitou Municipal area. All other bidders residing outside the Bitou area are excluded from such arrangements", 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 process or the execution of the contract that benefited that person; and
  - 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 willfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years; or has been listed in the Register for Tender Defaulters in terms of Section 29 of the Prevention and has been in contravention of the Competition Act no 89 Of 1998.
  - i) No person placing a procurement requisition for goods or Services shall knowingly understate the requirements of the estimated value with the intention of avoiding a more stringent procurement process. This includes the deliberate splitting of requirements to reduce individual order values. Procurement is limited to R200 000 per commodity type per month unless a competitive bidding process has been undertaken. The Municipal Manager shall promptly institute disciplinary action against any person infringing this requirement.
  - j) No official shall engage in contact with a prospective supplier in respect of a quotation or tender which the supplier intends to submit except where clarification of requirements is required from either party, or where the Accounting Officer may negotiate with identified preferred bidders. Any such communication must be recorded and appropriately filed with the bid documentation.
  - k) The Accounting Officer may, where a bidder has contravened the prescriptions of the Competition Act no 89 of 1998 –
    - (i) recover all costs, losses or damages the Municipality suffered as a result of the bidder's conduct;
    - (ii) cancel the contract and claim any damages which the Municipality has suffered as a result of having to make less favourable arrangements due to such cancellation;
    - (iii) restrict the bidder or contractor, its shareholders and directors, or only the shareholders and directors who acted on a fraudulent basis; and
    - (iv) forward the matter for criminal prosecution.
- 2) The Accounting Officer must inform the National Treasury and relevant Provincial Treasury in writing of any actions taken in terms of Sub-Sections (1)(b)(ii), (e) or (f) of this policy.

**Part 3: Logistics, Disposal, Risk and Performance Management****39. 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.
  - (h) monitoring and review of the distribution of items,
  - (i) monitoring and review of losses and surpluses.

**40. Disposal management**

- 1) The criteria for the disposal or letting of assets, including unserviceable, redundant or obsolete assets will be subject to Sections 14 of the Act, and asset transfer regulations;
- 2) Assets may be disposed of by –
  - (i) transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
  - (ii) transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
  - (iii) selling the asset; or
  - (iv) destroying the asset
- 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 charges relating to the letting of immovable property are reviewed annually;
- 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.

#### 41. Risk management

- 1) The criteria for the identification, consideration and avoidance of potential risks in the supply chain management system, must be identified.
- 2) Risk management must include –
  - (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 greater than that of retaining it;
  - (iv) the management of risks in a pro-active manner and the provision of adequate cover for residual risks; and
  - (v) the assignment of relative risks to the contracting parties through clear and unambiguous contract documentation.
- 3) The Accounting Officer must ensure that risks are identified utilizing the following methods –
  - (i) Focus group sessions;
  - (ii) Personal interviews;
  - (iii) Questionnaires;
  - (iv) Audit reports analysis;
  - (v) Statistical analysis of related risk data;
  - (vi) Trend analysis;
  - (vii) Scenario analysis; and
  - (viii) Forecasting methodologies.
- 4) The Accounting Officer must ensure that a risk register is implemented consisting of the following–
  - (i) Each risks identified with a unique number;
  - (ii) Description of the risk;
  - (iii) Assessment of occurrence or likelihood and its impact if it does;
  - (iv) Grading of risk;
  - (v) Responsibility for managing the risk; and
  - (vi) Proposed mitigation processes.
- 5) The Accounting Officer must ensure that all risks are assessed and indicating the magnitude of the risk as well as the probability of occurrence;

- 6) The Accounting Officer must ensure that a risk strategy is implemented which may include the following-
  - (i) avoiding the risk by eliminating the action;
  - (ii) treating the risk, how the risk can be prevented and if it were to occur how the impact can be minimized;.
  - (iii) transfer or outsource the risk;
  - (iv) tolerate the risk.
- 7) The Accounting Officer must ensure that all risk related matters are reported and that a communication plan which may consist of the following is implemented –
  - (i) responsibility for the communication;
  - (ii) frequency of communication;
  - (iii) format of communication;
  - (iv) record of communication.

#### 42. Performance management

- 1) 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;
- 2) The Accounting Officer must ensure that the following issues are reported on a quarterly basis –
  - (i) Achievement of preferential procurement goals and objectives;
  - (ii) Implementation of the Supply Chain Management Policy of the municipality;
  - (iii) Compliance to SCM norms and standards such as the municipal supply chain management regulations, National Treasury's model policy, standard bid documents and the general conditions of contract;
  - (iv) Savings generated, amongst others, by arranging contracts for the purpose of developing economies of scale;
  - (v) Stores efficiency, (the proper layout of stores through clear bin locations and bin numbering, promptly satisfying the users requirements, etc.)
  - (vi) Contract breach either by the municipality or contractors;
  - (vii) Cost efficiency of the procurement process;
  - (viii) That the supply chain objectives are consistent with Government's broader policy focus on trade, small business development, anti-corruption measures and the proudly South African.

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

- 1) No award above **R30 000** may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service to be in compliance.
- 2) Before making an award to a person the Accounting Officer must first check with SARS whether that person's tax matters are in compliance.
- 3) Where the recommended bidder is not tax compliant, the bidder should be notified of their non-compliant status and the bidder must be requested to submit to the municipality, within 7 working days, written proof from SARS of their tax compliance status or proof from SARS that they have made an arrangement to meet their outstanding tax obligations. The proof of tax compliance status submitted by the bidder to the municipality must be verified via the CSD or e-Filing.
- 4) The Accounting Officer should reject a bid submitted by the bidder if such a bidder fails to provide proof of tax compliance status within the timeframe stated above.

**44. Prohibition on awards to persons in the service of the state**

- 1) Irrespective of the procurement process followed, no award may be made to a person in terms of this Policy –
  - a) who is in the service of the state;
  - b) if that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is –
    - (i) a member of any municipal council, any provincial legislature or the National Assembly or the National Council of Provinces;
    - (ii) an official of any municipality;
    - (iii) 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);
    - (iv) a member of the board of directors of any municipal entity;
    - (v) an executive member of the accounting authority of any national or provincial public entity;
  - c) a person who is an advisor or consultant contracted with the municipality.

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

- 1) The Accounting Officer must ensure that the notes to the annual financial statements disclose particulars of any award of more than R2000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including –
  - a) the name of that person;
  - b) the capacity in which that person is in the service of the state;  
and
  - c) the amount of the award.

**46. Ethical standards**

- 1) All officials involved in supply chain management for the municipality must comply with the Code of Conduct prescribed in the Municipal Systems Act, the Supply Chain Management Framework and the Code of Conduct for Supply Chain Management role players as prescribed.
- 2) A code of ethical standards is hereby established for officials and other role players in the Supply Chain Management System 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.
- 3) An official or other role player involved in the implementation of the Supply Chain Management Policy:
  - 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 rewards, gift, favour, hospitality or other benefit directly, including to any close family member, partner or associate of that person, of a value more than R350;
  - d) notwithstanding Sub-Section 48(2)(c), 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 of, 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 be scrupulous in his or her use of property belonging to the Municipality;
  - h) must assist the Accounting Officer in combination fraud, corruption, favouritism and unfair and irregular practices in the supply chain management system; and
  - i) must report to the Accounting Officer any 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 Section 49(1) of this Policy; or
    - (iii) any alleged breach of this of this code of ethical standards.
  - j) Declarations in terms of Sub-Sections 49 (2) (d) and (e)-
    - (i) must be recorded in a register which the Accounting Officer must keep for this purpose;
    - (ii) by the Accounting Officer must be made to the Mayor of the Municipality who must ensure that such declarations are recorded in the register.
  - k) The National Treasury Code of Conduct must also be taken into account by supply chain management practitioners and other role players involved in supply chain management.

- l) The National Treasury Code of Conduct for Supply Management Practitioners, attached as Annexure A, is adopted by the Municipality and shall apply mutatis mutandis to and be binding on supply chain management of the Municipality.
- m) A breach of the code of conduct adopted by the Municipality must be dealt with in accordance with Schedule 1 (code of Conduct for Councillors) and Schedule 2 (Code of Conduct for Municipal Staff Members) of the Municipal Systems Act, No 32 of 2000.

**47. 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 Sub-Section (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) Sub-Section (1) does not apply to gifts less than R350 in value.

**48. Sponsorships**

- 1) 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.

**49. Objections and complaints**

- 1) 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.

**50. 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
    - (iii) to deal with objections, complaints or queries regarding any such decisions or actions or any matters arising from such contract.

- b) Suppliers must provide details of the reasons for their appeal including any noncompliance with this Policy, the MFMA and related legislation. The Accounting Officer shall provide written acknowledgement of the receipt of appeals to the appellant;
  - c) If the appeal is based on a technically complex matter, the Accounting Officer may engage an impartial external advisor, provided that their engagement is compliant with this Policy and sufficient budgetary provision exists. The Accounting Officer is not bound by any opinion provided.
  - d) The Accounting Officer will decide if an appeal constitutes sufficient grounds for delay of procurement from the approved supplier, and if a delay is practical. If the Accounting Officer determines there are grounds for delay, the approved supplier will be advised in writing of the reasons for the delay.
  - e) When a ruling on an appeal has been made, the Accounting Officer will advise the appellant in writing of the outcome.
- 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) The Provincial Treasury may refer the query to the National Treasury for resolution.
  - 6) This Policy must not be read as affecting a person's rights to approach a court at any time.

## 51. Appeals

- 1) A person whose rights are affected by a decision taken to award a tender by a municipality, in terms of a power or duty delegated or sub-delegated by a delegating authority, may appeal against that decision, by giving written notice of the appeal and reasons to the Accounting Officer within 21 days of the date of the notification of the decision.
- 2) When the appeal is against a decision taken by a staff member or committee other than the Accounting Officer, the Accounting Officer must consider the appeal or refer it to the appeal authority when appropriate;
- 3) The Accounting Officer must promptly submit the appeal to the appropriate appeal authority.
- 4) The appeal authority must consider the appeal, and confirm, vary or revoke the decision, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.
- 5) An appeal authority must commence with an appeal within six weeks and decide the appeal within a reasonable period.
- 6) This Policy must not be read as affecting a person's rights to approach a court at any time.



**52. Contracts and contract management**

- 1) A contract or agreement procured through the supply chain management system of the municipality must—
  - a) be in writing;
  - b) stipulate the terms and conditions of the contract or agreement, which must include provisions providing for—
    - (i) the termination of the contract or agreement in the case of non- or underperformance;
    - (ii) dispute resolution mechanisms to settle disputes between the parties;
    - (iii) a periodic review of the contract or agreement once every three years in the case of a contract or agreement for longer than three years; and
    - (iv) any other matters that may be prescribed.
- 2) The accounting officer must—
  - a) take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced;
  - b) monitor on a monthly basis the performance of the contractor under the contract or agreement;
  - c) establish capacity in the administration of the municipality or municipal entity—
    - (i) to assist the accounting officer in carrying out the duties set out in paragraphs (a) and (b); and
    - (ii) to oversee the day-to-day management of the contract or agreement; and
    - (iii) regularly report to the council of the municipality or the board of directors of the entity, as may be appropriate, on the management of the contract or agreement and the performance of the contractor.
  - d) A contract or agreement procured through the supply chain management policy of the municipality may be amended by the parties, but only after—
  - e) the reasons for the proposed amendment have been tabled in the council of the municipality or, in the case of a municipal entity, in the council of its parent municipality; and
  - f) the local community—
    - (i) has been given reasonable notice of the intention to amend the contract or agreement; and
    - (ii) has been invited to submit representations to the municipality or municipal entity.
- 9) Amendments, expansion, variation of contracts may be considered by the Accounting Officer if the value does not exceed 15% of the value of the contract or 20% of the value of the contract for construction-related contracts.

**53. Contract Management**

- 1) The Accounting Officer must ensure that all bids and contracts are subject to the General Conditions of Contract and any Special Conditions of Contract, if specified;
- 2) All contracts must be based on the General Conditions of Contract, issued by the National Treasury. Any aspect not covered by the General Conditions of Contract must be dealt with in the Special Contract Conditions;
- 3) Matters such as attendance of compulsory site meetings, briefing sessions and special delivery conditions must be covered in the Special Conditions of Contract with the proviso that the standard wording of the General Conditions of Contract should not be amended;
- 4) The General Conditions of Contract, International Federation of Consulting Engineers (FIDIC) regulations and the Joint Building Contracts Committee (JBCC) guidelines issued by the Construction Industry Development Board are utilized in cases of bids related to the construction industry;
- 5) Where the Special Conditions of Contract is in conflict with the General Conditions of Contract, the Special Conditions of Contract will prevail;
- 6) These conditions must form an integral part of the bidding documents.

**54. Contract Administration**

- 1) Contract administration includes all administrative duties associated with a contract that has arisen through one of the acquisition/procurement processes described in this policy.
- 2) All contracts must be administered by a contract manager, who will be an internal official assigned to ensure the effective administration of the contract. The contract manager will typically be the internal project manager assigned to the project as a whole, but may also be a cost centre owner or other responsible official.
- 3) A contract manager must be assigned to each contract and, where possible, should be involved from the earliest stages of the acquisition process.
- 4) The contract manager's duties and powers shall be governed by the conditions of contract and the general law.
- 5) The contract manager shall take all reasonable steps to ensure that a contract procured through the provisions of this policy is properly enforced.
- 6) In administering a contract, the contract manager will be required to form opinions and make decisions which, while in the Municipality's best interests, must be fair to all parties concerned.
- 7) Director shall be responsible for ensuring that contract managers:
  - a) are assigned to all contracts within the Director's area of responsibility;
  - b) are adequately trained so that they can exercise the necessary level of responsibility in the performance of their duties.
- 8) In discharging his duties, the contract manager shall:
  - a) ensure that all the necessary formalities in signing up the contract and/or issuing the purchase order(s) are adhered to;
  - b) ensure that contracts related to the procurement of goods and services are captured on the contract management system in the form of a price schedule;
  - c) ensure that all original contract documentation is lodged with the Supply Chain Management Unit for record purposes;
  - d) monitor, on a monthly basis, the performance of the contractor in order to ensure that all of the terms and conditions of the contract are met, including the contractor's

obligations as regards Broad-Based Black Economic Empowerment, targeted labour and/or resources and local production and content, as applicable;

- e) where necessary, take appropriate action where a contractor is underperforming or is in default or breach of the contract;
- f) manage contract variation or change procedures;
- g) administer disputes where necessary, in terms of this policy and the applicable Conditions of Contract;
- h) conduct, as appropriate, post contract reviews;
- i) maintain adequate records (paper and/or electronic) in sufficient detail on an appropriate contract file to provide an audit trail;
- j) act with care and diligence and observe all accounting and legal requirements.

**55. Contracts providing for compensation based on turnover**

- 1) 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.

**56. Contracts having future budgetary implications**

- 1) A municipality may enter into a contract which will impose financial obligations on the municipality beyond a financial year, but if the contract will impose financial obligations on the municipality beyond the three years covered in the annual budget for that financial year, it may do so only if—
  - a) the municipal manager, at least 60 days before the meeting of the municipal council at which the contract is to be approved—
    - (i) has, in accordance with section 21A of the Municipal Systems Act—
      - (aa) made public the draft contract and an information statement summarising the municipality's obligations in terms of the proposed contract; and
      - (bb) invited the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed contract; and
    - (ii) has solicited the views and recommendations of—
      - (cc) the National Treasury and the relevant provincial treasury;
      - (dd) the national department responsible for local government; and
      - (ee) if the contract involves the provision of water, sanitation, electricity, or any other service as may be prescribed, the responsible national department;
  - b) the municipal council has taken into account—
    - (i) the municipality's projected financial obligations in terms of the proposed contract for each financial year covered by the contract;
    - (ii) the impact of those financial obligations on the municipality's future municipal tariffs and revenue;

- (iii) any comments or representations on the proposed contract received from the local community and other interested persons; and
    - (iv) any written views and recommendations on the proposed contract by the National Treasury, the relevant provincial treasury, the national department responsible for local government and any national department referred to in paragraph (a)(ii)(cc); and
  - c) the municipal council has adopted a resolution in which—
    - (i) it determines that the municipality will secure a significant capital investment or will derive a significant financial economic or financial benefit from the contract;
    - (ii) it approves the entire contract exactly as it is to be executed; and
    - (iii) it authorises the municipal manager to sign the contract on behalf of the municipality.
- 2) The process set out in subsection (1) does not apply to—
  - a) contracts for long-term debt regulated in terms of section 46(3);
  - b) employment contracts; or
  - c) contracts—
    - (i) for categories of goods as may be prescribed; or
    - (ii) in terms of which the financial obligation on the municipality is below—
      - (aa) a prescribed value; or
      - (bb) prescribed percentage of the municipality's approved budget for the year in which the contract is concluded.
- 3) All contracts referred to in subsection (1) and all other contracts that impose a financial obligation on a municipality—
  - a) must be made available in their entirety to the municipal council; and
  - b) may not be withheld from public scrutiny except as provided for in terms of the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000).
- 4) Sub-Section (a)(i) does not apply to contracts in respect of which the financial obligation on the municipality is below a prescribed value.

## 57. Commencement

This Policy takes effect on the date as approved per Council resolution.



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

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.

### **1 General Principles**

- 1) The municipality commits itself to a policy of fair dealing and integrity in the conducting of its business. Officials and other role players involved in supply chain management (SCM) are in a position of trust, implying a duty to act in the public interest. Officials and other role players should not perform their duties to unlawfully gain any form of compensation, payment or gratuities from any person, or provider/contractor for themselves, their family or their friends.
- 2) 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.
- 3) 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**

- 1) An official or other role player involved with supply chain management –
  - a) must treat all providers and potential providers equitably;
  - b) may not use his or her position for private gain or to improperly benefit another person;
  - c) may not accept any reward, gift, favour, hospitality or other benefit directly or indirectly, including to any close family member, partner or associate of that person, of a value more than R350;
  - d) must declare to the Accounting Officer details of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person;
  - e) must declare to the Accounting Officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process, or in any award of a contract by the municipality;
  - f) must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of a contract in which that person, or any close family member, partner or associate, has any private or business interest;
  - g) must declare any business, commercial and financial interests or activities undertaken for financial gain that may raise a possible conflict of interest;
  - h) should not place him/herself under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties; and
  - i) should not take improper advantage of their previous office after leaving their official position.

**Policy Title:** Supply Chain Management Policy

**FINANCIAL YEAR:** 2023/24

**Status:** Final Review, submitted to Council on 29 May 2023 with Final Budget per Item C/2/126/05/23

### **3 Accountability**

- 1) Practitioners are accountable for their decisions and actions to the public.
- 2) Practitioners should use public property scrupulously.
- 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.
- 4) All transactions conducted by a practitioner should be recorded and accounted for in an appropriate accounting system.
- 5) Practitioners should not make any false or misleading entries into such a system for any reason whatsoever.
- 6) Practitioners must assist the Accounting Officer in combating fraud, corruption, favouritism and unfair and irregular practices in the supply chain management system.
- 7) 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:
  - a) any alleged fraud, corruption, favouritism or unfair conduct;
  - b) any alleged contravention of the policy on inducements, rewards, gifts and favours to municipalities or municipal entities, officials or other role players; and
  - c) any alleged breach of this code of conduct.
- 8) Any declarations made must be recorded in a register which the Accounting Officer must keep for this purpose.
- 9) Any declarations made by the Accounting Officer must be made to the mayor 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**

- 1) 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 / contractor's personal rights.
- 2) 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.

### **6 Bid Specification / Evaluation / Adjudication Committees**

- 1) Bid specification, evaluation and adjudication committees should implement supply chain management on behalf of the municipality in an honest, fair, impartial, transparent, cost-effective and accountable manner.
- 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.
- 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.
- 4) No person should –

- a) interfere with the supply chain management system of the municipality; or
- b) amend or tamper with any price quotation / bid after its submission.

## **7 Combative Practices**

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

- a) Suggestions to fictitious lower quotations;
- b) Reference to non-existent competition;
- c) Exploiting errors in price quotations / bids;



# Property Rates Policy

**Reviewed  
2023/2024**





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## BACKGROUND

1.1 In 2020, the Bitou Municipality initiated a process to prepare a General Valuation Roll of all property situated within the geographical boundaries of the municipality in terms of the Local Government: Municipal Property Rates Act, 6 of 2004 (MPRA), which became operative on 1 July 2021. The General Valuation Roll 2021/25 came into effect on 01 July 2021 and remains valid until 30 June 2025.

1.2 This policy is formulated in terms of Section 3 of the Local Government: Municipal Property Rates Act, No 6 of 2004 (MPRA).

## 2. LEGISLATIVE CONTEXT

2.1 In terms of Section 229 of the Constitution, a municipality may impose rates on property.

2.2 In terms of Section 4(1)(c) of the Local Government: Municipal Systems Act, No 32 of 2000 (MSA), a Municipal Council has the right to finance the affairs of the Municipality by imposing, inter alia, rates on property.

2.3 In terms of Section 2(1) of the MPRA, a municipality may levy a rate on property in its area in accordance with the other provisions of the MPRA.

2.4 This Policy must be read together with, and is subject to the provisions of the MPRA and the Bitou Municipality's Property Rates By-Law.

2.5 In terms of Section 8(1) of the MPRA, the Municipality may, in terms of its Policy, levy different rates for different categories of rateable property, determined in subsection (2) and (3) of the MPRA, which must be determined to the –

(a) Use of the property; and

(b) Permitted use of the property; or a combination of (a) and (b).

## 3. DEFINITIONS & INTERPRETATION

3.1 In addition to the definitions contained in the MPRA and the Bitou Municipality's Property Rates By-Law, the following words and phrases bear the meanings assigned to them below

3.1.1 **"Act"** means the Local Government Municipal Property Rates Act, 2004 (No 6 of 2004).

3.1.2 **"MPRA"** means the Local Government Municipal Property Rates Act, 2004 (No 6 of 2004).

3.1.3 **"Accommodation 1-8 bedrooms"** means a facility that provides for lettable residential and non-residential units or homes, holiday or self-catering accommodation on a regular, seasonal, continuous or occasional basis where the number of lettable bedrooms does not exceed 8.

3.1.4 **"Accommodation 9+"** means a facility that provides for lettable residential and non-residential units or homes, holiday or self-catering accommodation on a regular, seasonal, continuous or occasional basis where the total number of lettable bedrooms exceeds eight or the property offers restaurant and/or bar and/or conference facilities.

3.1.5 **"Agricultural property"** means property that is used primarily for agricultural purposes but excludes any portion thereof that is used commercially for the hospitality of guests, and excludes the use of the property for the purpose of eco-tourism or for the trading hunting of game. The definition includes agricultural properties used for subsistence farming.

- 3.1.6 **“Bona-fide farmers”** means genuine or real farmer whose dominant income is generated from farming activities, on an agricultural property, within the Bitou municipal area, and is taxed by SARS as a bona-fide farmer.
- 3.1.7 **“Business”** means the activity of buying, selling or trade in goods or services and includes any office or other accommodation on the same erf, the use of which is incidental to such business, with the exclusion of the business of mining, agriculture, farming, or inter alia, any other business consisting of cultivation of soils, the gathering in of crops or the rearing of livestock or consisting of the propagation and harvesting of fish or other aquatic organisms.
- 3.1.8 **“Category”** (a) in relation to property, means a category of property determined in terms of Section 8(2) of the Act; (b) in relation to owners of property, means a category of owners determined in terms of Section 15(2) of the Act.
- 3.1.9 **“Exemption”** in relation to the payment of a rate, means an exemption granted in terms of Section 15 of the Act.
- 3.1.10 **“Heritage”** means a property containing a building or other heritage resource of national, provincial, or municipal significance.
- 3.1.11 **“Indigent person”** means a person whose household income does not exceed the minimum household income as predetermined by the Council;
- 3.1.12 **“Market value”**, in relation to a property, means the amount the property would have realized if sold on the date of valuation in the open market by a willing seller to a willing buyer as per Section 46 of the Act.
- 3.1.13 **“New Business incentive rebate”** means a rebate granted, on a declining scale, on a property used for a new business brought to the Bitou municipal area. The definition excludes existing business where:
- (a) Change of ownership occurred;
  - (b) Name change occurred; and
  - (c) Current business operations are expanded.
- 3.1.14 **“Household income”** means the income accruing to all members of the household permanently residing at the address. It includes income of spouses.
- 3.1.15 **“Industrial”** means a building or usage, other than a noxious trade, which concurs with the meaning of factory as defined in the Machinery and Occupational Safety Act, 1983), and includes an office, caretaker’s quarters, or other building, the use of which is incidental to, and such as would ordinarily be incidental to, or reasonably necessary in connection with the use of such factory on the same site, and included all light industrial uses, but does not include a service trade.
- 3.1.16 **“Non-residential”** means all property other than those defined as residential.
- 3.1.17 **“Permitted use”**, in relation to a property, means the limited purposes for which the property may be used in terms of –
- (a) Any restrictions imposed by –
    - (i) A condition of title;

- (ii) A provision of a town planning or land use scheme; or
    - (iii) Any legislation applicable to any specific property; or
  - (b) Any alleviation of any such restrictions.
- 3.1.18 **“Place of public worship”** means property used primarily for the purposes of congregation, excluding a structure that is primarily used for educational instruction in which secular or religious education is the primary instructive medium:
- (a) Provided that the property is –
    - (i) Registered in the name of the religious community;
    - (ii) Registered in the name of a trust established for the sole benefit of a religious community; or
    - (iii) Subject to a land tenure right.
- 3.1.19 **“Private Open Space”** means any land in private ownership used primarily as a private site for play, rest, recreation without financial gain.
- 3.1.20 **“Property”** means –
- (a) Immovable property registered in the name of a person, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person;
  - (b) A right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property;
  - (c) A land tenure right registered in the name of a person or granted to a person in terms of legislation; or
  - (d) Public service infrastructure.
- 3.1.21 **“Protected area”** means an area that is listed in the register referred to in Section 10 of the National Environmental Management: Protected Areas Act 2003.
- 3.1.22 **“Public Benefits Organisation”** means an Organisation conducting specified public benefit activities as defined in the Act and registered in terms of the Income Tax Act for tax reductions because of those activities.
- 3.1.23 **“Public Service Infrastructure”** means publicly controlled infrastructure (as defined in the MPRA) may not be rated on the first 30% of market value in terms of Section 17(1)(a) of the MPRA.
- 3.1.24 **“Public Service Purposes”** in relation to the use of a property means property owned and used by an organ of state as per subsection 1(1)(a), (b), (c), (d), (e) and (f) of the Municipal Property Rates Act., but excludes property contemplated in the definition of “public service infrastructure”.
- 3.1.25 **“Rebate”**, in relation to a rate payable on a property, means a discount on the amount of the rate payable on the property.

- 3.1.26 **“Reduction”**, in relation to a rate payable on a property, means the lowering of the amount for which the property was valued and the rating of the property at that lower amount.
- 3.1.27 **“Residential”** means a property included in a valuation roll in terms of Section 48(2)(b) of the Act as residential in respect of which the primary use or permitted use is for residential purposes without derogating from Section 9 of the Act.
- 3.1.28 **“State-owned”** means property owned by the State, which are not included in the definitions of public service infrastructure or public service purposes in the Act. These properties are classified as follows –
- (a) State properties that provide local services;
  - (b) State properties that provide regional/municipal district-wide/metro-wide services; or
  - (c) State properties that provide a provincial/national service.
- 3.1.29 **“Vacant land”** means land where no immovable improvements have been erected. Vacant land can be classified as follows –
- (a) Residential vacant, means a property included in a valuation roll in terms of Section 8(2) of the Act (read with Section 8(3) as vacant.
  - (b) Business vacant means a property included in a valuation roll in terms of Section 8(2) of the Act (read with Section 8(3) as business vacant.
  - (c) Industrial vacant, means a property included in a valuation roll in terms of Section 8(2) of the Act (read with Section 8(3) as industrial vacant.
  - (d) Vacant State land means a property included in a valuation roll in terms of Section 8(2) of the Act (read with Section 8(3) as State Owned vacant.

#### **4. PRINCIPLES**

- 4.1 The following principles ensure that the municipality treats persons liable for rates equitably:
- 4.1.1 Equity: The municipality will treat ratepayers with similar properties in a like manner.
- 4.1.2 Affordability: The ability of a person to pay rates will be taken into account by the municipality. The municipality may provide relief measures through specified exemptions, reductions or rebates to the poor or indigent as defined in Council’s Indigent policy.
- 4.1.3 The Municipality may –
- (a) Levy different rate tariffs on different categories of properties;
  - (b) Exempt a specific category of property from payment of rates; and/or
  - (c) Grant a rebate on, or a reduction in, the rate payment.
- 4.1.4 Council also pledges itself to limit each maximum annual increase, as far as is practicable, to the increase stipulated by National Treasury in the appropriate annual Budget Circular except when the approved Integrated Development Plan of Council requires a greater increase or there has been a significant change in the valuation of a property.

## 5. CATEGORIES OF RATEABLE

### 5.1 Properties will be categorised as follows:

Residential	<ol style="list-style-type: none"> <li>1. Improved Residential</li> <li>2. Indigent</li> <li>3. Vacant land</li> </ol>
Industrial	<ol style="list-style-type: none"> <li>1. Industrial</li> </ol>
Business and Commercial Properties	<ol style="list-style-type: none"> <li>1. Business and Commercial</li> <li>2. Lettable Accommodation 1 – 8 Rooms</li> <li>3. Lettable Accommodation 9+ Rooms</li> <li>4. Vacant Land</li> </ol>
Agricultural	<ol style="list-style-type: none"> <li>1. Agricultural</li> </ol>
Properties owned by an Organ of State used for public service purposes	<ol style="list-style-type: none"> <li>1. State Owned</li> </ol>
Public Services Infrastructure	<ol style="list-style-type: none"> <li>1. PSI</li> </ol>
Properties owned by Public Benefit Organisations and used for specific public benefit activities	<ol style="list-style-type: none"> <li>1. Public Benefit Organisations</li> </ol>
Properties used for multiple purposes	Portions of property will be classified individually as per one of the other classifications with separate municipal valuations
Vacant Land	<ol style="list-style-type: none"> <li>1. Residential</li> <li>2. Business and Commercial</li> <li>3. Industrial</li> <li>4. Agriculture</li> <li>5. State Owned Properties</li> </ol>
Municipal Owned Properties	<ol style="list-style-type: none"> <li>1. Municipal Buildings</li> <li>2. Public Open Spaces</li> <li>3. Municipal Improved Residential</li> <li>4. Municipal Staff Housing</li> <li>5. Municipal Vacant Residential</li> <li>6. Municipal Vacant Public Open Spaces</li> <li>7. Municipal Vacant Non-Residential</li> </ol>
Places of Worship (Section 17(1)(i))	<ol style="list-style-type: none"> <li>1. Place of Worship</li> <li>2. Non-Developable</li> </ol>
Properties	<ol style="list-style-type: none"> <li>1. Acquired through Provision of Land and Assistance Act, 1993 (No. 126 of 1994); or</li> <li>2. The Restitution of Land Rights Act, 1994 No 22 of 1994), or</li> <li>3. Subject to the Communal Property Associations Act, 1996 (No. 28 of 1996).</li> </ol>
Other	<ol style="list-style-type: none"> <li>1. Any other category of property as Council may from time to time identify; or</li> </ol>

	2. As may be determined by the Minister or Council with the concurrence of the Minister of Finance by Notice in a Gazette.
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## **6. EXCLUSION OF RATEABLE PROPERTY FROM THE PAYMENT OF RATES**

6.1 The following properties will be excluded from the payment of rates –

- (a) Properties of which the Municipality itself is the owner in terms of Section 7(2)(a) of the Act.
- (b) The first 30% of the market value of public service infrastructure in terms of Section 17(1)(a) of the Act.
- (c) Rights registered against immovable property in the name of a person.
- (d) Property registered in the name of and used primarily as a place of public worship by a religious community, including the official residence registered in the name of that community, which is occupied by the office-bearer of that community who officiates at services at that place of worship in terms of Section 17(1)(i) of the Act.
- (e) Residential properties (excluding accommodation establishments and vacant land) in terms of Section 15(1) (b) of the Act will be exempted as per tariff structure.
- (f) Properties registered or recognized as private nature reserves in terms of relevant legislation, which are not developed or used for commercial, business, agricultural or residential purposes in terms of Section 17(1)(e) of the Act.

## **7. DIFFERENTIAL RATE TARRIFS**

### **7.1 General**

7.1.1 The following may be taken into consideration in determining differential rate tariffs –

- (a) The use of the property, the permitted use of the property or a combination of use and permitted use.
- (b) The nature of the property including the impact of rates on its operations e.g. agricultural properties used for farming purposes.
- (c) The promotion of social and economic development of the municipality.
- (d) Surcharges for special rating areas as defined in the Special Rating Area By-law

### **7.2 Multiple Use Properties**

7.2.1 Property tax on properties used for multiple purposes will be determined by –

- (a) Apportioning the market value of the property to the different purposes for which the property is used.
- (b) Applying the relevant rate tariff, to the corresponding market value.

### 7.3 Accommodation Establishments

- 7.3.1 It is required that all properties within the definition of accommodation 1-8 or accommodation 9+ register with the municipality in order to be categorized in terms of use, by means of a supplementary valuation as provided for in the Act.
- 7.3.2 Properties that are no longer operating as accommodation establishment must be re-categorized by means of supplementary valuation and are required to provide proof of the following –
- (a) That all signage is removed;
  - (b) That all links on accommodation websites are removed (safari now, sleeping out etc.);
  - (c) That any links or affiliation with any letting agents be removed;
  - (d) Home page website to be removed (should you wish to retain your home page domain name for email purposes, please ensure a generic page is loaded by your hosting company that does not show any accommodation);
  - (e) Any other form of marketing; and
  - (f) An inspection maybe carried out on the property by a municipal official or representative to verify details on the application.
- 7.3.3 Businesses including accommodation establishments 1-8 and accommodation establishments 9+ will be rated at business rates tariff.
- 7.3.4 Properties that are used as accommodation establishments 1-8 will be granted a 10% rebate on the business tariff.
- 7.3.5 A penalty fee will be levied, where the municipality detects/identify a property operating as an accommodation establishment, where the owners failed to register the property as an Accommodation Establishment with the municipality or in the event where owners supplied incorrect/false information.

## 8. **RELIEF MEASURES RELATED TO CATEGORIES OF OWNERS**

**NOTE: IN ADDITION TO WHAT IS SET OUT BELOW, COUNCIL MAY ANNUALLY DETERMINE A BASE VALUE WHICH WILL BE DEDUCTED FROM THE MARKET VALUE SHOWN ON THE VALUATION ROLL, IN COMPUTING THE RATE LIABILITY.**

### 8.1 Exemptions, Reductions and Rebates

- 8.1.1 When granting in terms of subsection 8.1 exemptions, rebates or reductions in respect of owners of categories of properties, a Municipality may determine such categories in accordance with Section 8(2) and when granting exemptions, rebates or reductions in respect of categories of owners of properties, such categories may include –
- (a) Indigent owners;
  - (b) Owners dependent on pensions or social grants for their livelihood;
  - (c) Owners temporarily without income;
  - (d) Owners of property situated within an area affected by –



- (i) A disaster within the meaning of the Disaster Management Act 2002; or
- (ii) Any other serious adverse social or economic conditions;

(e) Owners of residential properties.

(f) Owners of agricultural properties who are *bona fide* farmers.

8.1.2 In addition to the categories of rateable property determined in terms of Section 8(2) of the MPRA a municipality may, subject to any ratio determined in terms of Section 19, for the purposes of granting exemptions, rebates and reductions, determine such property categories based on –

(a) Properties used for public service purposes; and

(b) Properties to which the provisions of the National Heritage Resources Act, 1999 (Act 25, of 1999), apply, or an institution that has been declared to be subject to the Cultural Institutions Act, 1998 (Act 119 of 1998).

## 8.2 Criteria for Exemptions, Rebates and Reductions

8.2.1 Sufficient proof of status / income of household / affidavits for proof of reasons / identity documents must be attached to all applications;

8.2.2 Applicants must be the owner and occupy the property and not own more than one property;

8.2.3 Where the owner is for acceptable reasons due to no fault of his/her own unable to occupy the property, the spouse or minor children may satisfy the occupancy requirements;

8.2.4 The Municipal Manager or his/her nominee must approve all applications;

8.2.5 Applications must reach the Municipality before the end of May preceding the start of the new municipal financial year for which relief is sought; and

8.2.6 The Municipality retains the right to refuse exemptions, rebates or reductions if the details supplied in the application form were incomplete, incorrect or false.

## 9. **SPECIAL CASES**

### 9.1 Public Benefit Organisations

9.1.1 All properties categorised as Public Benefit Organisations will be rated at the prescribed ratio as per the Municipal Property Rates Regulations.

9.1.2 Taking into account the effects of rates on Public Benefit Organisations performing a specific public benefit activity and registered in terms of the Income Tax Act for tax reduction because of those activities, it is proposed that Public Benefit Organisations (PBOs) performing the following specified public benefits activities will be granted a rebate of 75% –

(a) Welfare and humanitarian, such as providing disaster relief.

(b) Health Care, such as the counselling, care and treatment of persons (and their dependants) afflicted with HIV and AIDS.

- 9.1.3 Applications for Public Benefit organizations must reach the municipality before end October preceding the start of the new municipal financial year in which relief is sought. A tax exemption certificate issued within the preceding 12 months of application, issued by the South African Revenue Services(SARS) as contemplated in Part 1 of the Ninth Schedule of the Income Tax Act ,1962 No 58 of 1962 must be submitted with the application .The municipal manager or his nominee must approve all applications.

9.2 Public Service Infrastructure

- 9.2.1 All public service infrastructure providing essential services to the community shall be rated at the prescribe ratio as per the Municipal Property Rates Regulations.

9.3 Agricultural Properties

- 9.3.1 Agricultural properties used primarily for agricultural activities will be categorised as Agricultural and shall be rated at a rate determined by applying the prevailing ratio as prescribed by Regulation. Agricultural properties not predominantly used for bona fide farming purposes shall be rated according to the category of the actual use thereof.
- 9.3.2 Proof of bona fide farming from SARS is required to request a change of category from other to Agricultural. Confirmation of subsistence farming is subject to in loco inspection to the property.

**10. REBATES AND GRANTS**

- 10.1 Rebates granted in terms of Section 4 of this Policy may be considered for the following categories of properties –
- (a) Market value of residential property below a determined threshold;
  - (b) Retention and restoration of conservation worthy buildings; and
  - (c) Heritage areas.
- 10.2 Over and above the determinations contemplated in Section 17(1)(h) of the Act owners of property who depend on pensions or social grants for their livelihood may qualify for a rebate as determined by Council's Indigent policy.

**11. CRITERIA FOR ANNUAL INCREASING RATE TARIFFS**

- 11.1 Annual increase of rate tariffs will be done in accordance with Section 20 of the Act and the following will be taken into account for the purpose of increasing or decreasing of rates –
- (a) Priorities of a municipality reflected in its Integrated Development Plan;
  - (b) The revenue needs of the municipality; and
  - (c) Affordability of rates to ratepayers.
- 11.2 The Municipality will consider the imposition of rates annually during the budget process.
- 11.3 All increases in property rates will be communicated to the community in terms of Section 21A of the Municipal Systems Act (Act no. 32 of 2000).

**12. REDUCTIONS IN MARKET VALUES**

12.1 A reduction in the municipal valuation as contemplated in Section 15(1)(b) of the MPRA, may be granted where the value of a property is affected by fire damage, demolition or flood.

12.2 The reduction will be granted by Council only after a valuer has carried out an inspection of the property concerned.

### **13. LIABILITY FOR RATES**

#### **13.1 Annual Payment Arrangements**

13.1.1 By prior arrangement Bitou Municipality will recover the rates levied in a single amount, which is due on or before 30 September of the year in which it is levied.

#### **13.2 Method and Time of Payment**

13.2.1 Bitou Municipality will recover the rates levied in periodic instalments of equal amounts over twelve months. The instalment is payable on or before the last working day of every month, following the month in which it has been levied. Interest will be charged at 1% above the prime interest rate for any late payments received.

#### **13.3 Recovery of Arrear Rates from Tenant, Occupiers and Agents**

13.3.1 If an amount due for rates levied in respect of a property is unpaid by the owner of the property after the date determined in terms of Section 26(2) of MPRA, the Municipality may recover the amount in whole or in part from a tenant or occupier of the property, despite any contractual obligation to the contrary on the tenant or occupier. The Municipality may recover an amount only after the Municipality has served a written notice on the tenant or occupier.

13.3.2 The amount the Municipality might recover from the tenant or occupier of the property in terms of subsection above is limited to the amount of the rent or other money due and payable but not yet paid by the tenant or occupier to the owner of the property.

13.3.3 Any amount the Municipality recovers from the tenant or occupier of the property must be set off, by the tenant or occupier, against any money owed by the tenant or occupier to the owner.

13.3.4 The Municipality may recover the amount due for rates from an agent of the owner after it has given written notice to that agent or person. The amount the Municipality may recover from the agent or other person is limited to the amount of rent received by the agent or person, less the commission due to that agent or person, subject to the Estate Agents Act, 1976 (Act No. 112 of 1976). The agent or other person must, on request by the Municipality, furnish the Municipality with a written statement specifying all payments for rent on the property and any other money received by that agent or person during a period determined by the Municipality. Section 29(2) of the MPRA

#### **13.4 Ownership**

13.4.1 Properties, which vest in the Municipality during developments, i.e. open spaces and roads, will be transferred at the cost of the developer to the Municipality. Until such time, rates levied will be for the account of the developer.

#### **13.5 Interim Valuation Debits**

- 13.5.1 In the event that a property has been transferred to a new owner and rates emanating from a supplementary valuation become due and payable, the new owner will be held responsible from the date of registration for the settlement of the interim rates account.

13.6 Developments

- 13.6.1 The developer of a property will be liable for all rates raised on the development until the individual units are transferred to the new owners including properties which must be transferred to the Municipality in terms of the land use ordinance and development agreement.

13.7 Clearance Certificate

- 13.7.1 Issuing of Clearance Certificate will be dealt with in accordance with section 118 of Municipal Systems Act.

- 13.7.2 With the sale of a property within the municipal jurisdiction the Council shall withhold rates clearance certificate until all rates, services and sundry costs attached to the property is paid and an amount equal to four months' rates and service charges will be collected in advance as part of the rates clearance process. The rates clearance remains valid for 60 days from the date of issuing.

- 13.7.3 All debt is deemed to be collectable from the seller of a property by the municipality despite a Clearance Certificate issued in terms of section 118 (1)(b).

13.8 Levying of Rates on Property in Sectional Title Schemes

- 13.8.1 A rate on property, which is subject to a sectional title scheme, will be levied on the individual sectional title units in the scheme in terms of Section 10 of the Act. However, in valuing the sectional title unit there shall be included in that value the owners proportionate share of the value of the common use areas such as gardens, roads, swimming pools, passages etc.

**14. COSTS OF EXEMPTIONS, REBATES AND REDUCTIONS**

- 14.1 During the budget process the Chief Financial Officer must inform Council of all costs associated with exemptions, rebates and reductions.

- 14.2 Provision must be made on the operating expenditure budget for:

- (a) The full potential income associated with property rates; and
- (b) The full costs associated with exemptions, rebates and reductions.

**15. LOCAL, SOCIAL AND ECONOMIC DEVELOPMENT**

- 15.1 The Municipality may grant rebates to organisations that promote local, social and economic development based on the criteria determined in its local, social and economic development policy(s). The following criteria will apply –

- (a) Job creation in the municipal area;
- (b) Social upliftment of the local community; and
- (c) Creation of infrastructure for the benefit of the community.

- 15.2 Rebates may be granted up to 100% of the rates payable and must be phased out within 3 years from the date that the rebate was granted for the first time.

**16. REGISTER OF PROPERTIES**

- 16.1 The Chief Financial Officer must cause to have drawn up and maintain a register of properties as contemplated as Section 23 of the Municipal Property Rates Act.

**17. NOTIFICATION OF RATES**

- 17.1 Council will give notice of all rates approved at least 30 days prior to the date that the rates become effective in the local media and by publishing a resolution in the provincial gazette. Accounts delivered after the 30 days' notice will be based on the new rates.
- 17.2 A notice stating the purport of the Council resolution, date on which the new rates shall become operational will be displayed by the municipality at places installed for that purpose.

**18. CORRECTION OF ERRORS AND OMISSIONS**

- 18.1 Where the property rates levied on a particular property have been incorrectly determined, because of an error or omission or false information provided by the property owner concerned or a contravention of the permitted use to which the property concerned may be put, the property rates payable shall be appropriately adjusted for the period extending from the date on which the error or omission is detected, back to the date on which property rates were first levied in terms of the current valuation roll. Interest on the unpaid portion of the adjusted property rates payable shall be levied at the applicable prime interest rate plus 1% from the date the correction was made.

**19. FREQUENCY OF VALUATIONS**

- 19.1 The Municipality shall prepare a new valuation roll every 5 years. The MEC for local government may extend the period for which the valuation roll is valid to 7 years.
- 19.2 A supplementary valuation roll shall be prepared at least once a year, in terms of subsection 78(1) of the Act, in respect of any rateable property –
- (a) Incorrectly omitted from the valuation roll;
  - (b) Included in a municipality after the last general valuation roll;
  - (c) Subdivided or consolidated after the last general valuation roll;
  - (d) Of which the market value has substantially increased or decreased after the last general valuation roll;
  - (e) Substantially incorrectly after the last general valuation roll;
  - (f) That must be revalued for any other exceptional reason;
  - (g) Of which the category has changed; or
  - (h) The value of which was incorrectly recorded in the general valuation roll as a result of a clerical or typing error.

- 19.3 An interim valuation request fee in respect of interim valuations submitted outside the prescribed objection period(s) will be payable and proof of payment must accompany the said interim form.

## **20. REVIEW OF THE POLICY**

- 20.1 This Property Rates Policy is the sole Policy governing property rates in the Municipality. The Municipal Council must approve any reviews to this Policy.
- 20.2 The Mayor must submit any proposed changes to this Policy to the Council as part of the annual review of policies submitted with the budget documentation.
- 20.3 Whenever the Minister of Finance or the National Treasury or the Auditor-General requires changes to the Policy by means of legislation or requests, it should be reviewed promptly in accordance with such requirements, giving full details of the reasons for the revision.

8 March 2023

# Liquidity, Funding and Reserves Policy



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## 1. INTRODUCTION AND OBJECTIVE

- 1.1. The Council sets as objective a long-term financially sustainable municipality with acceptable levels of service delivery to the community.
- 1.2. This policy aims to set standards and guidelines towards ensuring financial viability over both the short- and long term and includes liquidity funding as well as reserves requirements.
- 1.3. The documented Liquidity, Funds and Reserves Policy, sets out the framework for the prudent use of Liquidity, Funds and Reserves available to the municipality.
- 1.4. This policy is implemented to provide guidance on the appropriation of capital funding resources on a sustainable basis in the longer term.
- 1.5. With reference to the applicable legislation as referred to below. Legislation exists and prescribes the framework of Funds and Reserves Policy and these factors will all be addressed in this Policy.
- 1.6. Although legislation provides guidance as to the broader framework to ensure financial management of resources to ensure the Council meets all of its obligations timeously, it is not prescriptive with regards to quantifying not only the prudent level of Liquidity, Funds and Reserves but more so the optimal level hereof.
- 1.7. Therefore, in the Policy, cognizance has been taken of the legislative guidelines whilst more prescriptive guidelines are set for the optimal management and monitoring of resources to the Municipality's avail based on sound financial practices.

## 2. SECTION A: LIQUIDITY POLICY

## **2.1. INTRODUCTION**

2.1.1. The documented Liquidity Policy sets out the minimum risk management measures that Bitou Municipality has to implement and adhere to in order to ensure that its current and future liquidity position is managed in a prudent manner.

2.1.2. Liquidity is the amount of cash and / or “near cash” (which refers to assets or security that can easily and quickly be converted to cash), available to be utilized to meet obligations and / or pay commitments. The marketability or ability to buy or sell an asset without incurring unacceptable large losses thus determines the liquidity of an asset or defines it as near cash.

2.1.3. This Policy is implemented to provide guidance on the minimum liquidity level that Bitou Municipality have to maintain in order to comply with required legislative and / or National Treasury directives and within the overall financial management objectives as approved/reviewed by the Council from time to time.

## **2.2. BACKGROUND AND APPROACH**

2.2.1. Various policies and procedures exist that direct the way in which the business of Bitou Municipality is or should be conducted in a prudent manner. Generally, these policies and procedures flow from the prescription made in Legislation i.e. the Municipal Finance Management Act (“MFMA”) and/or directives issued by a national department such as National Treasury.

2.2.2. Guidelines provided by National Treasury indicate that an acceptable level of cash resources needs to be available for working capital requirements (see below).

2.2.3. It is for this reason that the need to have an official Liquidity Policy was identified.

## **2.3. LEGISLATIVE REQUIREMENTS**

2.3.1. The MFMA circular 71 stipulates the following two prescribed ratios to manage liquidity:

### **2.3.1.1. Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants) is calculated as:**

2.3.1.1.1. 
$$\frac{((\text{Cash and Cash Equivalents} - \text{Unspent Conditional Grants} - \text{Overdraft}) + \text{Short Term Investment})}{\text{Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, Provision for Bad Debts, Impairment and Loss on Disposal of Assets)}}$$

2.3.1.1.2. Criteria: 1 – 3 times

### **2.3.1.2. Current Ratio Current Assets / Current Liabilities**

2.3.1.2.1. Criteria: 1.5 - 2:1

2.3.2. The above guidelines are noted but the proposed policy is more conservative to ensure that the municipality secures its strong financial position thereby providing comfort to investors.

## **2.4. POLICY**

2.4.1. This policy provides guidance on the determination of the minimum liquidity requirement and the calculation of the liquidity available of Bitou Municipality from time to time (see Appendix 1).

2.4.2. Notwithstanding the requirements as reflected in this policy, Bitou Municipality should ensure that its Current Assets (excluding debtors older than 90 days) cover all of its Current Liabilities at least two times.

2.4.3. The policy encapsulates certain key aspects and considerations which have been outlined below:

## **KEY COMPONENTS OF MINIMUM LIQUIDITY REQUIRED:**

2.4.3.1.1. The following constitutes the key elements to take into consideration when determining the liquidity requirement of Bitou Municipality:

2.4.3.1.2. To comply with statutory requirements, it is proposed that the following funds, reserves and provisions be fully covered by unencumbered cash and investments:

2.4.3.1.2.1. All earmarked or conditional grant transfers from spheres of Government or from Public Contributions made to Bitou Municipality that have not yet been utilized,

2.4.3.1.2.2. All commitments resulting from the legally entrenched rights and benefits employees have, with specific reference to the Council's short term commitment to staff retirement benefits and medical fund claims payable,

2.4.3.1.2.3. All funds not yet been utilized in relation to agency services provided on behalf of Provincial or National Government should also be treated as earmarked funds,

2.4.3.1.2.4. All reserves stated by Bitou Municipality on its Statement of Financial Position that have been established for the purposes of making provisions for a defined purpose.

2.4.3.1.3. Cognisance also needs to be taken of the external loan commitments and the servicing of capital and interest on these loans. Therefore provision should be made that Bitou Municipality can meet its external loan/financial commitments together with the normal operational expenditure, as well as its liabilities to staff.

2.4.3.1.4. All investments ceded as security against long term loans need to be excluded from total cash and investment balances for calculation of the minimum liquidity level required.

2.4.3.1.5. All unspent long-term loans need to be excluded from total cash and investment balances for calculation of the minimum liquidity level required.

2.4.3.1.6. Capital redemption on external loans

2.4.3.1.7. In addition, a level of cash available for normal operational expenditure needs to be held in cash to ensure that, notwithstanding fluctuations in

the monthly income levels, Bitou Municipality will be in a position to meet its financial requirements. In this respect, the average monthly operational expenditure needs to be used as a guide of the minimum buffer required. One month's operational expenditure excluding debt impairments, depreciation and other non-cash expenses should be available for liquidity cover.

2.4.3.1.8. Commitments resulting from contracts concluded as part of the capital expenditure program.

2.4.3.1.9. The "golden rule" should be to ensure that Bitou Local Municipality will have adequate liquid assets (those that can be made into cash within 24 hours, weekly or monthly as the requirement might be) to meet its short-term financial commitments.

#### **2.4.3.2. CALCULATION OF AVAILABLE LIQUIDITY**

2.4.3.2.1. The amount of liquidity available should be determined from time-to-time. The following, should be regarded as cash and or near cash in calculating the available liquidity:

2.4.3.2.1.1. All cash held in a bank / call accounts or invested with a money market fund,

2.4.3.2.1.2. 95% of the value of all Negotiable Certificate of Deposits or other tradable instruments issued by a bank that are not already ceded,

2.4.3.2.1.3. 90% of the market value of all listed bonds on the Johannesburg Stock Exchange in which Bitou Municipality is allowed to invest in,

2.4.3.2.1.4. Consumer debtors aged current to 60 days,

2.4.3.2.1.5. Amount of unspent conditional grants and public contributions excluded from own funds held in bank accounts,

2.4.3.2.1.6. Funds provided to Council for expenditure on activities executed on behalf of other spheres of Government (Provincial and / or National) as part of an agency function, excluded from own funds held in bank accounts,

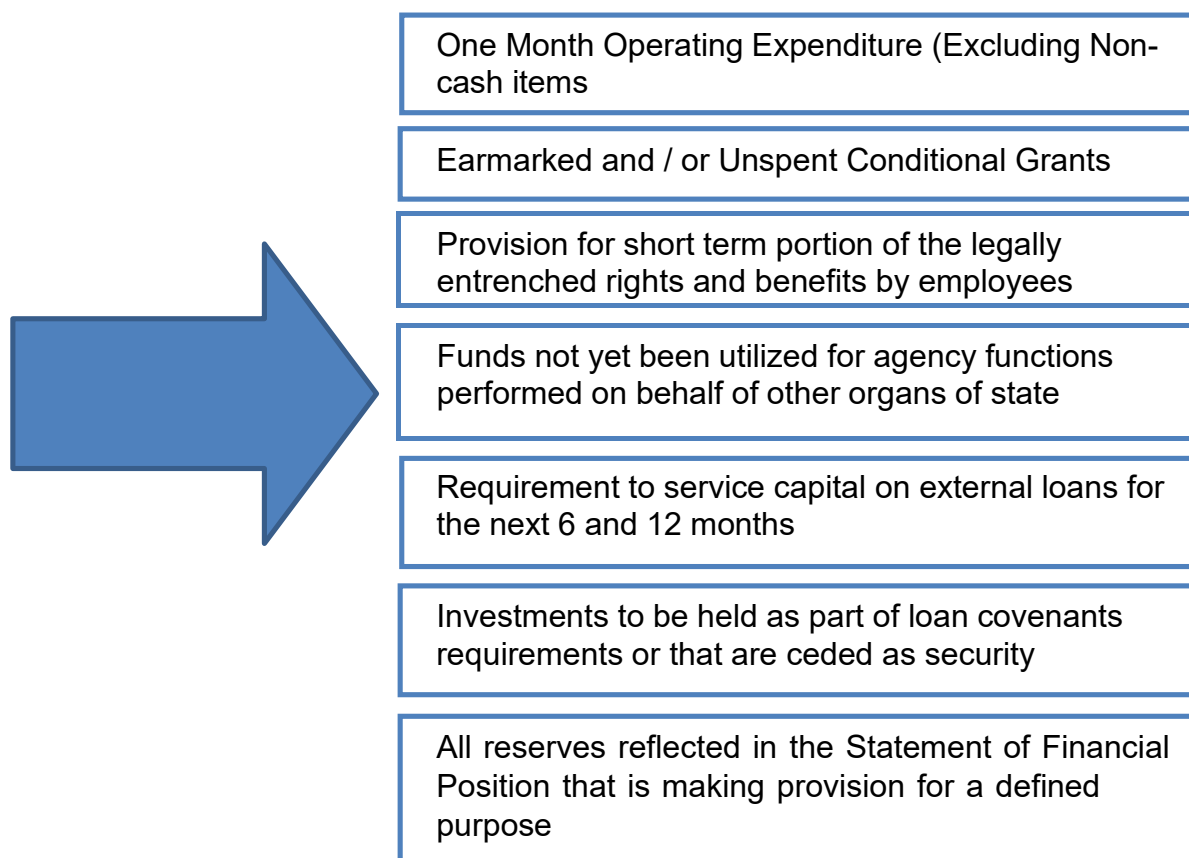
2.4.3.2.1.7. Funds ring-fenced for cash backed reserves that are

excluded from own funds held in bank accounts,

2.4.3.2.1.8. Cash amounts that need to be held by Council resulting from loan covenants' that are part of the conditions of loans extended, but not ceded outright to lenders,

2.4.3.2.1.9. The undrawn portion of unconditional bank overdraft facility or liquidity facility available to Bitou Municipality.

**2.4.3.3.** The aforementioned in paragraphs 2.4.3.1. and 2.4.3.2. can schematically be reflected as follows:



#### **2.4.3.4. IMPLEMENTATION AND MONITORING OF COMPLIANCE WITH LIQUIDITY POLICY:**

2.4.3.4.1. Once the policy is approved, the CFO is to be tasked to ensure that the required cash has to be maintained to continue meeting the requirements as set out in this policy.

2.4.3.4.2. Firstly, the minimum required liquidity level should be calculated based on audited annual financial statements. This level of liquidity required needs to be specifically budgeted for and on a quarterly basis be reported to the Finance Committee and / or other Committees as might be stipulated by Council as well as to Council.

2.4.3.4.3. Notwithstanding National Treasury's three months operational expenditure guideline and the one-month operational expenditure buffer

proposed as a minimum by the liquidity policy, it is recommended that Council set a target of one month's operational expenditure liquidity buffer to be achieved at the end of the transitional period.

2.4.3.4.4. The cash provisions made to repay external loan commitments, if specifically earmarked, should also be added to this minimum working capital liquidity, to prevent fluctuations in the working capital reserve that could put the minimum level of liquidity levels under pressure.



## 3. SECTION B: FUNDING POLICY

### 3.1. LEGISLATIVE REQUIREMENTS

3.1.1. The Local Government Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009 stipulates:

8. *(1) Each municipality must have a funding and reserves policy, which must set out the assumptions and methodology for estimating –*

- (a) projected billings, collections and all direct revenues,*
- (b) the provision for revenue that will not be collected,*
- (c) the funds the municipality can expect to receive from investments,*
- (d) the dividends the municipality can expect to receive from municipal entities,*
- (e) the proceeds the municipality can expect to receive from transfer or disposal of assets,*
- (f) the municipality's borrowing requirements,*
- (g) the funds to be set aside in reserves.*

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

- *Cash backed accumulated funds from previous years' surpluses not committed for other purposes:*

**3.1.2.1.** Transfers from the accumulated surplus to fund operating expenditure will only be allowed for specific once-off projects with no recurring operating expenditure resulting thereof.

- *Borrowed funds, but only for capital projects:*

**3.1.2.2.** Actual capital expenditure may only be incurred on a capital project if the funding for the project has been appropriated in the Capital Budget

but has also been secured from the financial source that is not committed for another purpose.

- *Realistically anticipated revenues to be collected:*

**3.1.2.3.** Realistic anticipated revenue projections must take into account-  
p r o j e c t e d revenue for the current year based on actual collection  
levels in previous financial years.

3.1.3. In terms of Section 19 of the Municipal Finance Management Act (Act No 56  
of 2003), (MFMA):

- *A municipality may spend on a capital project only if -*
  - *the sources of funding have been considered, are available  
and have not been committed for other purposes.*

**3.1.3.1.** 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.

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

## **3.2. STANDARD OF CARE**

3.2.1. 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.

## **3.3. STATEMENT OF INTENT**

3.3.1. 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.

### **3.4. CASH MANAGEMENT**

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

### **3.5. DEBT MANAGEMENT**

3.5.1. Debt must be managed in terms of the municipality's Borrowing Policy, together with any requirements in this policy.

### **3.6. FUNDING THE OPERATING BUDGET**

#### **3.6.1. INTRODUCTION**

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

**3.6.1.2.** The municipality, however, recognises the plight of the poor, and in line with national and provincial objectives, the municipality commits itself to subsidised services to the poor. This will necessitate cross subsidisation in tariffs to be calculated in the budget process.

#### **3.6.2. GENERAL PRINCIPLE WHEN COMPILING THE OPERATING BUDGET**

**3.6.1.3.** The following specific principles apply when compiling the budget:

3.6.1.3.1. 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,

- 3.6.1.3.2. Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information,
- 3.6.1.3.3. Tariff adjustments must be fair, taking into consideration general inflation indicators as well as the geographic region's ability to pay,
- 3.6.1.3.4. 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.
- 3.6.1.3.5. For the purpose of the Cash flow budget any National or Provincial grants that have been re-appropriated for rollover purposes must be excluded from the calculation, as it must be included in changes in Cash and Cash Equivalents and Payables.
- 3.6.1.3.6. 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.
- 3.6.1.3.7. Revenue from public contributions, donations or any other grants may only be included in the Budget if there is acceptable documentation that guarantees the funds and if the transfers are unconditional of nature.
- 3.6.1.3.8. Projected revenue from services charges must be reflected as net (all billing less revenue foregone, which is free basic services, discounts and rebates).
- 3.6.1.3.9. Projected revenue from property rates must include all rates to be levied, but rebates and discounts must be budgeted for as either

revenue foregone or a grant, as per directive in MFMA Budget Circular 51, depending on the conditions of the exemption, rebate or reduction.

- 3.6.1.3.10. For the purpose of the Cash flow Budget, all rebates and discounts must be deducted from the projected revenue.
- 3.6.1.3.11. Provision for revenue that will not be collected is made against the expenditure item provision for debt impairment and based on actual collection levels for the previous financial year and the reasonably projected annual non-payment rate.
- 3.6.1.3.12. Interest received from actual Long-term and or Short-term Investments are based on the amount reasonably expected to be earned on cash amounts available during the year according to the expected interest rate trends. The actual amount allocated for interest on investments is to be contributed to the Capital Replacement Reserve.
- 3.6.1.3.13. 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.
- 3.6.1.3.14. A detailed salary budget is compiled on an annual basis. All funded positions are budgeted for in total as well as new and/or funded vacant positions. As a guiding principle, the salary budget should not constitute more than 35% of annual Operating Expenditure.
- 3.6.1.3.15. 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 5% of the prior year balance of the long-term benefits, 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”.

3.6.1.3.16. Depreciation must be fully budgeted for in the operating budget.

3.6.1.3.17. In order to ensure a sufficient accumulation of cash for the replacement of Property, Plant and Equipment and Intangible Assets, the amount of depreciation on assets funded from own sources, excluding assets funded from grants, public contributions and external loans must be reflected as a surplus on the cash flow budget.

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

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

3.6.1.3.20. The Municipality should have the following provisions:

3.6.1.3.20.1. Bonus Provision

3.6.1.3.20.1.1. Liabilities for annual bonus are recognised as they accrue to employees. An annual provision is made from the operating budget to the bonus provision. This provision must be 100% backed by cash.

3.6.1.3.20.2. Performance Bonus Provision

3.6.1.3.20.2.1. Liabilities for Performance bonus are recognised

as they accrue to Directors. An annual provision is made from the operating budget to the Performance bonus provision. This provision must be 100% backed by cash.

3.6.1.3.20.3. Leave Provision

3.6.1.3.20.3.1. Liabilities for annual leave are recognised as they accrue to employees. An annual provision is made from the operating budget to the leave provision. Because not all leave balances are to be redeemed for cash at once, only 75% of the leave provision is to be cash backed.

3.6.1.3.20.4. Landfill Rehabilitation Provision

3.6.1.3.20.4.1. The landfill site rehabilitation provision is created for the current operational site at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the landfill site. This provision must be cash backed to ensure availability of cash for rehabilitation on closure. This provision must be 100% backed by cash.

3.6.1.3.20.5. Long Services Awards

3.6.1.3.20.5.1. Municipal employees are awarded leave days according to years in service at year-end. Because not all long service leave balances are redeemed for cash at once, only 75% of the long service leave provision must be cash backed.

3.6.1.3.20.6. Post-Employment Medical Care Benefits

3.6.1.3.20.6.1. The Municipality provides post-retirement medical care benefits by subsidizing the medical aid contributions to

retired employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over a period of employment. This provision must be 80% cash backed to ensure the availability of cash for the payment of medical aid payments.

**3.6.1.3.20.7. Other Provisions as may be indicated on the Annual Financial Statements**

3.6.1.3.20.7.1. Any other Provision as may be indicated on the Annual Financial Statements in terms of GRAP should be provided for. Any provision in this category must be 100% cash backed to ensure the availability of cash for the payment of the liabilities.

3.6.1.3.21. The annual cash flow requirement for the repayment of borrowings must fully be taken into consideration with the setting of tariffs.

3.6.1.3.22. Sufficient provision must be made for the maintenance of existing infrastructure based on affordable levels. The maintenance budgets are normally lower than the recommended levels. As a guiding principle, repair and maintenance should constitute between 5% and 8% of total operating expenditure and should annually be increased incrementally until the required targets are achieved.

3.6.1.3.23. Individual expenditure line items are to be revised each year when compiling the budget to ensure proper control over expenditure.



## **3.7. FUNDING THE CAPITAL BUDGET**

### **3.7.1. INTRODUCTION**

**3.7.1.1.** 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.

**3.7.1.2.** The capital budget provides funding for the municipality's capital programme based on the needs and objectives as identified by the community through the Integrated Development Plan and provides for the eradication of infrastructural backlogs, renewal and upgrading of existing infrastructure, new developments and enlargement of bulk infrastructure.

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

### **3.7.2. FUNDING SOURCES FOR CAPITAL EXPENDITURE**

**3.7.2.1.** The capital budget can be funded by way of own contributions, grants, public contributions as well as external loans. The capital budget is also limited by the availability and access to these sources of funding.

#### **3.7.2.2. *Own Contributions***

**3.7.2.2.1.** The capital budget financed from own contributions must primarily be funded from the Capital Replacement Reserve.

**3.7.2.2.2.** 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.

#### **3.7.2.3. *Grants (Including Public Contributions)***

3.7.2.3.1. 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 an unreasonable burden on the residents for future maintenance costs, which may be higher than their ability to pay.

3.7.2.3.2. 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.

3.7.2.3.3. 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.

3.7.2.3.4. Only Government Gazetted allocations or transfers as reflected in the Division of Revenue Act or allocations as per Provincial Gazettes may be used to fund projects. The conditions of the specific grant must be taken into consideration when allocated to a specific project.

3.7.2.3.5. In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual budget if the municipality has received the funding already.

#### **3.7.2.4. External Loans**

3.7.2.4.1. The municipality may only raise loans in accordance with its Borrowing Policy.

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

3.7.2.4.3. 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.

3.7.2.4.4. All capital projects influence future operating budgets therefore the following additional cost factors should be considered before approval:

3.7.2.4.4.1. Personnel cost to staff new facilities once operational,

3.7.2.4.4.2. Contracted services, that is, security, cleaning etc.,

3.7.2.4.4.3. General expenditure such as services cost, stationery, telephones, material etc.,

3.7.2.4.4.4. Other capital requirements to the operate facility such as vehicles, plant and equipment, furniture and office equipment etc.,

3.7.2.4.4.5. Costs to maintain the assets,

3.7.2.4.4.6. Interest and redemption in the case of borrowings,

3.7.2.4.4.7. Depreciation charges,

3.7.2.4.4.8. The projected cost covering all financial years until the project is operational; and

3.7.2.4.4.9. The future operational costs and revenue on the project, including municipal tax and tariff implications.

## **3.8. FUNDING COMPLIANCE MEASUREMENT**

### **3.8.1. INTRODUCTION**

3.8.1.1. 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 determined either by the Council or by 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.

### **3.8.2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

**3.8.2.1.** A positive Cash and Cash Equivalents position throughout the year is crucial. In addition, the forecasted cash position at year-end must at least be the amount as calculated in the Reconciliation of Cash Requirements as determined by the Liquidity Policy and attached to this policy as Appendix "A".

### **3.8.3. CASH PLUS INVESTMENTS LESS APPLICATION OF FUNDS**

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

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

### **3.8.4. MONTHLY AVERAGE PAYMENT COVERED BY CASH AND CASH EQUIVALENTS ("CASH COVERAGE")**

**3.8.4.1.** This indicator shows the level of risk should the municipality experience financial stress.

### **3.8.5. PROPERTY RATES/SERVICE CHARGE REVENUE PERCENTAGE INCREASE LESS EXPECTED INFLATION TARGET**

**3.8.5.1.** The intention of this indicator is to ensure that tariff increases are in line with expected economic targets, but also to ensure that revenue increases for the expected growth in the geographic area is realistically

calculated.

**3.8.5.2.** The formula to be used is as follows:

	DESCRIPTION	PROPE RTY RATES	SERVI CE CHARG	TO TA L
A	Revenue of budget	R XX	R XX	R
B	Less: Revenue of	R XX	R XX	R
<b>C</b>	<b>=Revenue increase/decrease</b>	<b>R XX</b>	<b>R XX</b>	<b>R XX</b>
D	%	C/B %	C/B %	C/B
E	Less: Upper limit of expected Inflation target	%	%	%
<b>F</b>	<b>=Growth in excess of</b>	<b>%</b>	<b>%</b>	<b>%</b>
G	Less: Expected	%	%	%
<b>H</b>	<b>=Increase attributed to tariff Increase above</b>	<b>%</b>	<b>%</b>	<b>%</b>

**3.8.5.3.** In the event that the percentage in (h) above is greater than zero, a proper motivation must accompany the budget at submission, or the budget must be revised.

### **3.8.6. CASH COLLECTION % RATE**

**3.8.6.1.** The object of the indicator is to establish whether the projected cash to be collected is realistic and complies with section 18 of the MFMA.

**3.8.6.2.** The collection rate for calculating the provision for impairment of receivables must be based on past and present experience. Past experience refers to the collection rates of the prior years and present experience refers to the collection rate of the current financial year as from 1 July.

**3.8.6.3.** It is not advisable to project a collection rate higher than the rate currently being obtained, even if the municipality recently approved a

debt collection policy or implemented additional debt collection measures. Any improvement in collection rates during the budget year may be appropriated in an Adjustment Budget.

**3.8.7. PROVISION FOR DEBT IMPAIRMENT EXPENSE AS A PERCENTAGE OF BILLABLE REVENUE**

**3.8.7.1.** This indicator provides information whether the contribution to the provision for impairment of receivables is adequate. In theory it should be equal to the difference between 100% and the cash collection rate, but other factors such as past performance might have an influence on it. Any difference, however, must be motivated in the budget report.

**3.8.8. CAPITAL PAYMENTS AS A PERCENTAGE OF CAPITAL EXPENDITURE**

**3.8.8.1.** This indicator provides information as to the timing for payments on capital projects and utilising allowed payment terms.

**3.8.9. BORROWING AS A PERCENTAGE OF CAPITAL EXPENDITURE (EXCLUDING GRANTS AND CONTRIBUTIONS)**

**3.8.9.1.** This indicator provides information as to compliance with the MFMA in determining borrowing needs. The Accounting Officer must ensure compliance with the Municipality's Borrowing Policy.

**3.8.10. GRANTS REVENUE AS A PERCENTAGE OF GRANTS AVAILABLE**

**3.8.10.1.** The percentage should never be less than 100% and the recognition of expected unspent grants at the current year-end as revenue in the next financial year must be substantiated in a report.

### **3.8.11. CONSUMER DEBTORS CHANGE (CURRENT AND NON - CURRENT)**

**3.8.11.1.** The object of the indicator is to determine whether budgeted reductions in outstanding debtors are realistic.

**3.8.11.2.** An unacceptable high increase in either current– or non– current debtors' balances should be investigated and acted upon.

### **3.8.12. REPAIRS AND MAINTENANCE EXPENDITURE LEVEL**

**3.8.12.1.** It is of utmost importance that the municipality's Property Plant and Equipment be maintained properly, in order to ensure sustainable service delivery. The budget should allocate sufficient resources to maintain assets and care should be exercised not to allow a declining maintenance program in order to fund other less important expenditure requirements.

**3.8.12.2.** Similarly, if the maintenance requirements become excessive, it could indicate that a capital renewal strategy should be implemented or reviewed.

**3.8.12.3.** As a general benchmark the maintenance budget should be between 4% and 8% of the asset values.

### **3.8.13. ASSET RENEWAL/REHABILITATION EXPENDITURE LEVEL**

**3.8.13.1.** This indicator supports further the indicator for repairs and maintenance.

**3.8.13.2.** The Accounting Officer must, as part of the capital budget, indicate whether each project is a new asset or a replacement/renewal asset in order to determine whether the renewal program is sufficient or needs revision.

### **3.8.14. FINANCIAL PERFORMANCE BUDGET**

**3.8.14.1.** Although it is not a legal requirement that the financial performance budget should balance, it only makes management sense that it should balance.



**3.8.14.2.** A number of line-items influence the net result of the financial performance budget. It includes capital grant revenue, depreciation charges including those where assets were funded from grants and public contributions, unamortised discounts and gains/losses on the disposal of Property Plant and Equipment. These items need to be taken into consideration in order to establish if the operating budget is realistic and credible.

### **3.8.15. FINANCIAL POSITION BUDGET**

**3.8.15.1.** This indicator provides an overall view of the projected financial position over the periods of the Medium- Term Expenditure framework, including movements in inventory and payables.

### **3.8.16. CASH FLOW BUDGET**

**3.8.16.1.** A positive cash flow is a good indicator of a balanced budget, as well as the ability of the municipality to meet its future commitments.

**3.8.16.2.** The cash flow budget, however, does not include those items such as contributions to the provisions described elsewhere in this policy, the effect of depreciation charges etc., and care must be taken not to let a projected positive cash inflow lead to additional expenditure requests, without taking the requirements of those items into consideration.

## 4. SECTION C: RESERVES POLICY

### 4.1. INTRODUCTION

- 4.1.1. Fund accounting historically formed a huge part of municipal finance in the IMFO standards.
- 4.1.2. Since the municipality changed to General Recognised Accounting Practices (GRAP) fund accounting is no more allowed.
- 4.1.3. The municipality, however, 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.
- 4.1.4. This policy aims to provide for such measure of protection by creating certain reserves.

### 4.2. LEGAL REQUIREMENTS

- 4.2.1. There are no specific legal requirements for the creation of reserves, except for the Housing Development Fund. The GRAP Standards itself also do not provide for reserves.
- 4.2.2. 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.

## **4.3. TYPES OF RESERVES**

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

### **4.3.2. CASH FUNDED RESERVES**

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

#### **4.3.2.1.1. Capital Replacement Reserve (CRR)**

4.3.2.1.1.1. The CRR is to be utilised for future capital expenditure from own funds and may not be used for maintenance– or other operating expenditure.

4.3.2.1.1.2. The CRR must be cash–backed and the Accounting Officer is hereby delegated to determine the contribution to the CRR during the compilation of the annual financial statements.

4.3.2.1.1.3. The municipality endeavours to effectively utilise and maintain the Capital Replacement Reserve for the funding of capital replacement and renewal for future financial years. This reserve needs to be cash backed. This will provide the municipality with a more balanced capital funding approach in the longer term thereby reducing the risk of reaching its maximum gearing ability or depleting its free cash.

4.3.2.1.1.4. This Reserve can be generated as follows from the Operating Budget, the following methodology needs to be read in conjunction with the Liquidity Policy:

4.3.2.1.1.4.1. Cash generated from Operating Activities:

4.3.2.1.1.4.1.1. The municipality has maintained a marginal

ability to generate surplus operational cash flow which it has used to fund most of its capital spending in the past,

4.3.2.1.1.4.1.2. Depreciation is a method to generate future cash.

Therefore it is prudent to annually measure the cash coverage for depreciation charges to ensure it is fully funded from cash through tariff setting. Cash generated from depreciation is to be transferred to the Capital Replacement Reserve,

4.3.2.1.1.4.1.3. As at year end it is to be determined whether the municipality meets its Minimum Liquidity Criteria as stipulated in the Liquidity Policy, excess cash in addition to this prescribed level is to be calculated and appropriated to the Capital Replacement Reserve and no more than 50% of the balance of the Capital Replacement Reserve as at year end should be allocated to the following year's capital budget unless sufficient recommendations are made to Council to substantiate such a decision.

4.3.2.1.1.4.2. Interest received on the investment made for the Capital Replacement Reserve

#### 4.3.2.1.2. **Employee benefits reserve**

4.3.2.1.2.1. The aim of the reserve is to ensure sufficient cash resources are available for the future payment of employee benefits.

4.3.2.1.2.2. The contributions to the reserve must be made in accordance with the directives set in this Funding Policy.

#### 4.3.2.1.3. **Non-current provisions reserve**

4.3.2.1.3.1. The aim of this reserve is to ensure sufficient cash

resources are available for the future payment of non – current provisions.

4.3.2.1.3.2. The contributions to the reserve must be made in accordance with the directives set in this Funding Policy.

4.3.2.1.4. **Valuation reserve**

4.3.2.1.4.1. The aim of this reserve is to ensure sufficient cash resources are available to undertake a General Valuation as per the Municipal Property Rates Act.

4.3.2.1.4.2. The contribution to this reserve should be approximately 25% of the anticipated cost of the General Valuation and the Accounting Officer is hereby delegated to determine this amount annually during the compilation of the annual financial statements.

4.3.2.1.5. **Other statutory reserves**

4.3.2.1.5.1. It may be necessary to create reserves prescribed by law, such as the Housing Development Fund. The Accounting Officer must create such reserves according to the directives in the relevant laws.

**4.3.2.2. NON – CASH FUNDED RESERVES**

**4.3.2.2.1.** It might be necessary to create non – cash funded reserves for a variety of reasons, including GRAP requirements. The Accounting Officer must create any reserves prescribed by the accounting standards, such as the Revaluation Reserve, if required.

**4.3.2.2.2.** The Accounting Officer is hereby delegated and may also in the discretion of the Accounting Officer, create reserves for future depreciation offsetting, in the absence of a standard similar to IAS 20.

## **4.4. ACCOUNTING FOR RESERVES**

### **4.4.1. REVALUATION RESERVE**

**4.4.1.1.** The accounting for the Revaluation Reserve must be done in

accordance with the requirements of GRAP 17.

#### **4.4.2. OTHER RESERVES**

**4.4.2.1.** The accounting for all other reserves must be processed through the Statement of Financial Performance. The required transfer to or from the reserves must be processed in the Statement of Net Assets to or from the accumulated surplus.

**4.4.2.2.** It is a condition of GRAP and this policy that no transactions may be directly appropriated against these reserves.

### **5. SECTION D: REVIEW OF THE POLICY**

**5.1.** This Liquidity, Funding, and Reserves Policy is the only policy of the municipality and replaces any past policies in this regard. Any revision of the policy must be approved by the Municipal Council.

**5.2.** Whenever the Minister of Finance or the National Treasury or the Auditor – General requests changes to the policy by way of legislation, changes to GRAP or otherwise, it must be reviewed and submitted for consideration by the Council on an annual basis. Such submission must be accompanied with a full description of the reasons for the change to the policy.

#### **5.3. CORPORATE GOVERNANCE (OVERSIGHT)**

**5.3.1.** Compliance with the various stipulations as documented in this Liquidity, Funding and Reserves Policy need to be monitored by the Chief Financial Officer and reported on to the Municipal Manager on a monthly basis and to the Finance/Audit Committee on a quarterly basis.

**5.3.2.** Where compliance has been breached the Chief Financial Officer must present an action plan to correct the non-compliance. The Finance Committee must monitor the successful implementation of the corrective action plans and report progress to Council.

#### **5.4. TRANSITIONAL ARRANGEMENT**

**5.4.1.** Upon adoption of this policy by the Council, the Municipal Manager in

conjunction with the Chief Financial Officer must determine the current performance levels of the municipality against this Policy and present a plan of action towards achieving and maintaining the stipulation as set out in this policy thereby utilising a more blended funding mix for capital infrastructure investment.

**5.4.2.** The Council must approve an appropriate timeframe within which the municipality must achieve the approved stipulations as set out in this Policy. The period between the date of the policy adoption by Council and the target date for compliance shall be known as the Transitional Period.

**5.4.3.** The Finance Committee must report progress during the approved Transitional Period to the Council.

## **5.5. POLICY MANAGEMENT**

**5.5.1.** The Liquidity, Funding and Reserves Policy forms part of the municipality overall financial objectives and therefore forms part of approved Budget Policies. The policy must be reviewed at least annually during the budget revision and presented to Council for approval. The Policy is effective from the date it is approved by Council.

## APPENDIX A: Liquidity Requirement as per Liquidity Policy

Financial Year End:

### *Liquidity Requirement Calculation [as stipulated in Paragraph 2.4.3.1.]*

All earmarked and/or conditional grants received but not yet utilised	
Value of legally entrenched short term rights and benefits of employees related to Medical benefits & Funds held for agency services not yet performed	
Funds held for unspent long-term loans	
Reserve funds reflected in Statement of Financial Position that are assumed to be held in cash	
Capital redemption and interest payments on external loans not reflected as part of normal operational expenditure	
1 month's operational expenditure excluding non-cash items	
Commitments resulting from contracts concluded as part of Capex Programme, not reflected in operational	

### **TOTAL LIQUIDITY REQUIREMENT**

### *Actual available liquidity held [reference paragraph 2.4.3.2.]*

Bank Balance at e.g.:	
- ABSA, FNB, Standard Bank, Nedbank, Investec, Money	
<b>Bank balance sub total</b>	
95% of all other term investments with Banks	
90% of Market value of all Bonds on the JSE that are held	
Consumer debtors (current – 60 days)	
Other reserves held in cash not reflected in bank balances mentioned above for e.g.:	
- Unspent conditional grants	
- Payments received for agency functions not yet performed	
- The cash value of reserves held	
- Cash deposits held as part of loan covenants or ceded	
- Undrawn bank overdraft facility or committed liquidity lines available or unspent loans	

### **TOTAL LIQUIDITY AVAILABLE**

### **LIQUIDITY SURPLUS (SHORT FALL)**

### **SURPLUS TO BE APPROPRIATED TO CAPITAL REPLACEMENT RESERVE**

### **Liquidity ratio: Current Assets/Current Liabilities**



8 March 2023

## INVESTMENT AND CASH MANAGEMENT POLICY



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## DEFINITION OF KEY WORDS

In this policy the following words shall have the meanings assigned as follows: -

**“Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003),

**“Accounting Officer”** refers to the Municipal Manager of the municipality,

**“Chief Financial Officer”** refers to the Head of the Finance Department,

**“Councillor”** refers to a member of the municipal council,

**“Current assets”** refers to Debtors, Cash, Stock, and the short-term portion of long-term debtors,

**“Current liabilities”** refers to Creditors, Bank overdrafts and the short-term portion of long-term liabilities,

**“Investments”** refers to funds not immediately required for the defraying of expenses and invested at approved financial institutions,

**“Investment Register”** refers to an electronic spreadsheet which contains details of all municipal investments,

**“Investment Regulations”** refers to the regulations as prescribed under the MFMA (Act No. 56 Of 2003) through Government Gazette No. 27431 dated 1 April 2005,

**“Liquidity”** refers to a financial ability of the municipality or any other company to service its debts when falling due,

**“MFMA”** refers to the Municipal Finance Management Act, (Act 56 of 2003),

**“Minister”** refers to a Cabinet member responsible for a particular national government department,

**“Negotiable certificate”** refers to a loan certificate, tradable on the capital market,

**“Net current assets”** refers to the difference between current assets and current liabilities,

**“Optimal Yield”** refers to maximum interest earned on investment,

**“Policy”** refers to the Cash Management and Investment Policy of the Bitou Municipality,

**“Public funds”** all monies received by the municipality to perform the functions allocated to them,

**“Short-term portion of long-term debtors”** refers to the capital repayment of long-term debtors due and in arrears in the current financial year,

**“Short-term portion of long-term liabilities”** refers to the capital repayment of long-term loans due in the current financial year,

## **1. LEGAL COMPLIANCE**

- 1.1. In terms of Section 13 (2) of the Municipal Finance Management Act (Act no. 56 of 2003), municipalities are required to establish an appropriate and effective **Cash Management and Investment Policy**, in accordance with any framework that may be prescribed by the Minister acting with the concurrence of the Cabinet member responsible for local government and consistent with the Municipal Cash Management and Investment Regulations.
- 1.2. The cash collection process as determined by Chapter 9 of the Local Government: Municipal Systems Act (Act 32 of 2000)
- 1.3. National Treasury, through Government Gazette No: 27431, published Municipal Investment Regulations (R 308), which municipalities are required to apply as guidelines when preparing a Cash Management and Investment Policy with effect from 1 April 2005.

## **2. SCOPE OF THE POLICY**

- 2.1. This policy applies to the Bitou Municipality and any municipal entity established, in terms of the Act.

## **3. OBJECTIVES OF THE POLICY**

- 3.1. The objectives of the Cash Management and Investment Policy of the Bitou Municipality are as follows: -
  - 3.1.1. Ensuring that cash resources are managed efficiently and effectively,
  - 3.1.2. Ensuring that investments are placed with reputable institutions, for the purpose of safety of capital investment, and diversification of the Investment Portfolio,
  - 3.1.3. Ensuring that adequate liquidity is maintained at all times, for management of cash-flows,
  - 3.1.4. Ensuring that the municipality receives optimal yield/interest on its investments with financial institutions, at minimal risk,
  - 3.1.5. Striving for reasonable growth on capital investments in addition to interest earned on investments,
  - 3.1.6. Ensuring that monies due to Council are collected and banked appropriately as soon as they are received, and
  - 3.1.7. Ensuring that payments to creditors are made by the due dates.

## 4. EFFECTIVE CASH MANAGEMENT

4.1. All efforts must be made to ensure that: -

- **Collection of Cash / Revenue,**
- **Payment of Creditors,**
- **Management of Proper Cash Flows,**
- **Administration of Banking Accounts, and**
- **Petty Cash Procedures** are properly maintained to ensure that excess cash is invested.

### 4.2. Collection of Cash/Revenue

4.2.1. The cash collection process as determined by Chapter 9 of the Local Government: Municipal Systems Act (Act 32 of 2000) and the Customer Care should at all times be adhered to. All cash due to Council shall be collected immediately when it becomes due. The municipality shall bank and deposit all monies on receipt.

#### 4.2.2. Debtors:

- 4.2.2.1. The Municipal council must set a target for debt collection based on the performance of the Municipal Manager during the last financial year.
- 4.2.2.2. The target must be expressed as a percentage of potential income and/or the turnover rate of debtors.
- 4.2.2.3. All monies due to the municipality must be correctly reflected in the debtors system.
- 4.2.2.4. All funds due the Municipality must be collected timeously and banked on a daily basis.
- 4.2.2.5. Extensions for payment of rates and services charges must only be granted in terms of the municipality's credit control and debt collection by-law and in exceptional circumstances.
- 4.2.2.6. Money collected by an agency on behalf of the municipality shall be paid over to the municipality and deposited into the bank account in a manner prescribed by the Municipal Manager (Daily deposit are preferable).

#### 4.2.3. Cash:

##### 4.2.3.1. *Money received over the counter*

- 4.2.3.1.1. Every amount of payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by the issue of numbered official receipt (computer-generated or handwritten in official pre-printed receipt book).

##### 4.2.3.2. *Cancellation of receipts*

- 4.2.3.2.1. Every cancelled original handwritten receipt shall be re-attached, in the correct place, in the receipt book.

- 4.2.3.2.2. In the case of computer-generated receipts, the original receipt to be cancelled, must be attached to the daily cash-up sheet and filed for record purposes.

#### **4.2.4. Management of Cash:**

- 4.2.4.1. The cash holding of the municipality must be kept at a minimum level required to finance the day to day operations of the municipality.
- 4.2.4.2. Daily, weekly, monthly and annual cash flow forecast must be maintained.
- 4.2.4.3. The maximum cash in all current bank accounts combined, must be kept below 5% of the annual Operational and Capital Expenditure budgets as approved by council.

#### **4.3. Payment of Creditors**

- 4.3.1. The payment cycle of all trade creditors must be strictly maintained as required by the Creditors, Councillors and Personnel Payment Policy, or as per payment terms stipulated on individual contracts. If there are incentives (e.g. trade discount) favourable to Council when payments are made before due dates, such incentives, where appropriate, must be applied.
- 4.3.2. Urgent payments to creditors outside standard process 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.
- 4.3.3. The municipality shall avoid the pre-payment of goods and services, unless when required by the contractual arrangements with the supplier.
- 4.3.4. The municipality shall accept settlement discounts to effect early payment release only when payment(s) are included in the monthly cash-flow estimates.
- 4.3.5. Creditors with arrear debtor's accounts with Bitou Municipality, shall only receive payments after adherence to council's credit control and debt collection policy.

#### **4.4. Management of Cash-flow**

- 4.4.1. The Chief Financial Officer will maintain a cash-flow system and ensure that funds not immediately required are invested daily.
- 4.4.2. All Executive Directors and Office Managers, shall in this regard, furnish the Chief Financial Officer with their respective cash-flow needs of all payments in excess of **R100 000**, clearly indicating possible future dates of payments, as well as any possible inflow of cash from other sources of finance arranged by Directorates themselves.

#### **4.5. Administration of Banking Accounts**

- 4.5.1. The opening / closing of municipal bank accounts, deposits / withdrawals into or from the municipal bank accounts, appointment of signatories, and signing of other payment documents, are the responsibilities of the

Accounting Officer but may be delegated in writing to the Chief Financial Officer.

#### **4.5.2. Bank overdraft:**

- 4.5.2.1. A bank overdraft may only be obtained in anticipation of a positive income stream or to finance capital projects in anticipation of an approved capital grant or long-term loan.
- 4.5.2.2. The bank overdraft must be repaid by the end of the financial year.
- 4.5.2.3. The council can only approve a bank overdraft on the submission of a cash flow statement indicating the anticipated income stream or a certificate stating the approval of the grant or long-term loan.

#### **4.5.3. Short-term portion of long-term debtors:**

- 4.5.3.1. Debtors outstanding relating to long-term debtors must be treated as any other outstanding account for rates and services charges.

#### **4.5.4. Provisions:**

- 4.5.4.1. Provisions for known short-term liabilities must be made for each order issued.
- 4.5.4.2. Sufficient cash must be available when payments are due.

#### **4.5.5. Short-term portion of long-term liabilities:**

- 4.5.5.1. Loan instalments due in the current financial year must be provided for in the financial statements.
- 4.5.5.2. Sufficient cash must be available when payments are due.

#### **4.6. Petty Cash Procedures**

All petty cash procedures relating to viz:- (i) Petty Cash Limits, (ii) Balancing / Reconciliation of petty cash register, (iii) Petty Cash Requisitions and Authorisations, (iv) Supporting Documents, etc. is governed by the Council's Petty cash policy.

### **5. CASH-FLOW ESTIMATES**

- 5.1. Before money can be invested, the Chief Financial Officer or his/her delegate must determine whether there shall be surplus funds available for the term of the investment.
- 5.2. In order to be able to make investments for a fixed term, it is essential that cash flow estimates be drawn up.
- 5.3. Provisions must be made in the cash flow estimates for operating and capital requirements of the municipality:
  - 5.3.1. The operating requirements must include provisions for: -
    - 5.3.1.1. Payment of monthly salaries,
    - 5.3.1.2. Payment of bulk purchases of electricity and water,

- 5.3.1.3. Repayment of long-term loans,
- 5.3.1.4. Maintenance of assets,
- 5.3.1.5. General expenditure,
- 5.3.1.6. Expected daily and monthly income.

5.3.2. Capital requirement must provide for: -

- 5.3.2.1. The anticipated cash flow requirements for each capital project.

## **6. INVESTMENT ETHICS, PRINCIPLES AND PROCEDURES**

6.1. The following ethics, principles and procedures shall apply:-

- 6.1.1. The Municipal Manager or his/her delegate must ensure that the financial institution where the investment is to be made is creditworthy and the performance of the institution is to his/her satisfaction, before investing money in the institution.
- 6.1.2. The Municipal Manager or his/her delegate must obtain information from which the creditworthiness of financial institutions can be determined. This must be obtained and analysed annually.
- 6.1.3. The Chief Financial Officer will be responsible for the management and approval of municipal investments,
- 6.1.4. The Chief Financial Officer is permitted to utilize senior finance officials to assist in the execution of the investment responsibilities,
- 6.1.5. Where money is kept in current accounts, the municipality must bargain for more beneficial rates with regard to deposits.
- 6.1.6. No improper outside influence or internal interference shall be permitted at any time in regard to management of cash and placing of investments,
- 6.1.7. Quotations for call and/or fixed deposits from the approved financial institutions (a minimum of three) shall be obtained at the time of contemplating an investment,
- 6.1.8. Quotations should be obtained in writing, as rates generally change on a regular basis and time is a determining factor when investments are made.
  - 6.1.8.1. Should one of the institutions offer a better rate for a term, other than what the municipality had in mind, the other institutions which were approached should also be asked to quote a rate for the other term.
  - 6.1.8.2. The person responsible for requesting quotations from financial institutions must record the following particulars:-
    - 6.1.8.2.1. Name of the institution,
    - 6.1.8.2.2. Name of person quoting rates,
    - 6.1.8.2.3. Period of the investment,
    - 6.1.8.2.4. Relevant conditions, and
    - 6.1.8.2.5. Other facts, such as interest payable monthly or on maturation.
  - 6.1.8.3. Once the required number of quotes have been obtained, a thorough consideration of investment principles must be applied before a decision is taken regarding the best term offered and the institution with which funds are going to be invested.



- 6.1.9. If the Municipal Manager or his/her delegate invests with financial institutions, he/she must ensure that such institutions are registered in terms of the Banks Act, (Act 94 of 1990) and that they are approved financial institutions, as approved by the Reserve Bank from time to time.
- 6.1.10. When the Municipal Manager or his/her delegate makes an investment it must be guaranteed that at least the capital amount invested is safe, and due diligence must be exercised in this regard.
- 6.1.11. No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
- 6.1.12. The investment capital must only be paid over to the institution with which it is to be invested and not to an agent or third party.
- 6.1.13. Financial institutions shall be required to submit confirmation certificates, stating the details of the investments, upon the placement of investments, which shall include a declaration that no commission shall be paid relating to the investment,
- 6.1.14. The Municipal Manager or his/her delegate must make sure that the investment document received is a genuine document and issued by the approved institution.
- 6.1.15. The Chief Financial Officer will maintain a detailed investment register,
- 6.1.16. The Chief Financial Officer will hold in safe custody all investment related documents, for audit purposes and proper record keeping,
- 6.1.17. The Chief Financial Officer will ensure that interest and capital is received and receipted when due,
- 6.1.18. Investments made must be in the name of the Bitou Municipality (S12 (2) of the Municipal Regulations),
- 6.1.19. No funds may be borrowed for the purpose of investments (S12 (3) of the Municipal Investment Regulations),
- 6.1.20. Any risk arising from any investment transaction rest with the municipality (S12 (1) of the Municipal Investment Regulations).
- 6.1.21. Under no circumstances may delegated official(s) be forced or bribed into making an investment.
- 6.1.22. No member of staff may accept any gift unless that gift can be deemed so small that it would not have an influence on his/her work or was not intended to so, and can merely be seen as goodwill.
- 6.1.23. Short-term Investments: -
  - 6.1.23.1. Short-term investments should be made with financial institutions with at least a minimum B rating (where B refers to higher risk institutions).
- 6.1.24. Long-term Investment: -
  - 6.1.24.1. The municipal council must approve all investments made for periods longer than twelve months after considering the cash management requirements for the next three years.
  - 6.1.24.2. Long-term investments should be made with financial institutions with at least a minimum BBB rating (where BBB refers to lower risk institutions).

## **7. CONTROL OVER INVESTMENTS**

7.1. An investment register should be kept and reconciled monthly. The following information must be recorded in the register:

- 7.1.1. Name of the institution,
- 7.1.2. Capital invested,
- 7.1.3. Date invested,
- 7.1.4. Interest rate,
- 7.1.5. Maturation date,
- 7.1.6. Interest received,
- 7.1.7. Capital repaid, and
- 7.1.8. Balance invested.

7.2. The investment register must be examined on a fortnightly basis to identify investments falling due within the next two weeks. It must then be established what to do with the funds, bearing in mind the cash-flow requirements.

7.3. Interest must be received timeously, together with any distributable capital.

7.4. At the maturity date of the investment, the financial institution must transfer the capital plus interest received to the Municipality's primary bank account.

7.5. The Chief Financial Officer must check that the interest is calculated correctly.

7.6. The investment documentation must be properly filed and safeguarded. The following documents must be safeguarded: -

- 7.6.1. Call / Fixed deposit confirmation letter,
- 7.6.2. Copy of electronic transfer requisition or proof of payment,
- 7.6.3. Schedule of comparative investment figures,
- 7.6.4. Interest rate quoted.

## **8. STANDARD OF CARE**

8.1. Section 5 of the Municipal Investment Regulations emphasises that investments made by a municipality, through municipal officials must be made with such judgement and care, under the prevailing circumstances, as a person of prudence, discretion, and intelligence, who is entrusted with management of public funds, would exercise.

8.2. Investments made by the municipality may not be made for speculation. A high standard of care which includes (i) Preservation and Safety of Capital Invested, (ii) Liquidity, and (iii) Yield, must always be maintained when making investments.

## **9. PERMITTED INVESTMENTS**

9.1. In terms of Section 6 of the Municipal Investment Regulations, municipalities are permitted to invest in the following instruments and investments:-

- 9.1.1. Securities issued by the National Government,
- 9.1.2. Deposits with Banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- 9.1.3. Listed corporate bonds with an investment grade rating from an internationally recognized credit rating agency,
- 9.1.4. Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioner's Act, 1984 (Act 46 of 1984),
- 9.1.5. Deposits with the Corporations for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984),
- 9.1.6. Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- 9.1.7. Guaranteed endowment policies with the intention of establishing a sinking fund,
- 9.1.8. Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- 9.1.9. Municipal bonds issued by a municipality, and
- 9.1.10. Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

## **10. PROHIBITION OF INVESTMENTS DENOMINATED IN FOREIGN CURRENCY**

- 10.1. In terms of Section 7 of the Municipal Investment Regulations, municipalities are not permitted to place investments denominated in foreign currencies.

## **11. PAYMENT OF COMMISSION**

- 11.1. Section 8 of the Municipal Investment Regulations, states that:-
  - 11.1.1. No fee, commission or other reward may be paid to a councillor or official of a municipality or to a spouse or close family member of such councillor, or official in respect of any investment made or referred by a municipality.
  - 11.1.2. If an investee pays any fee, commission or other reward to an investment manager in respect of any investment made by a municipality or municipal entity, both the investee and the investment manager must declare such payment to the council of the municipality or the board of directors of the municipal entity by way of a certificate disclosing full details of the payment.

## **12. REPORTING REQUIREMENTS**

- 12.1. In compliance with Section 9 of the Municipal Investment Regulations the Accounting Officer will report within 10 working days of the end of each

month, to the Executive Mayor, the investment position / portfolio of the municipality as at the end of the previous month. A similar report shall also be submitted to the Budget and Treasury Committee.

12.2. Such report must at a minimum provide: -

- 12.2.1. The market value of each investment as at the beginning of the reporting period,
- 12.2.2. Any changes to the investment portfolio during the reporting period,
- 12.2.3. The market value of each investment as at the end of the reporting period, and
- 12.2.4. Fully accrued interest and yield for the reporting period.

12.3. In complying with Section 70(2) of the MFMA, the Chief Financial Officer must report to the National Treasury/Provincial Treasury and Council whenever the consolidated bank balances show a net overdrawn balance for a period exceeding 14 days (two weeks).

12.4. Such report must at a minimum provide: -

- 12.4.1. The amount by which the accounts are overdrawn,
- 12.4.2. Reasons for the overdrawn accounts, and
- 12.4.3. Steps taken or to be taken to correct the matter.

### **13. CREDIT REQUIREMENTS**

13.1. In terms of Section 10 of the Municipal Investment Regulations reasonable and prudent steps shall be taken by the Chief Financial Officer, to ensure that investments are placed with creditworthy institutions. The investment policy of a municipality must determine acceptable investment ratings of financial institutions, and must liquidate any investment that no longer has a minimum acceptable rating.

13.2. The following shall determine the suitability of a financial institution and shall set investment limits within which municipal investments can be placed: -

- 13.2.1. Must be an approved instrument in terms of section 9 (Permitted Investments) of this policy,
- 13.2.2. The institution must be highly rated by credible Rating Agencies,
- 13.2.3. The shareholder equity of the institution must be in excess of at least R10bn,
- 13.2.4. The investment limit per approved financial institution must be limited at 10% of the bank's distributable reserves, as per their latest financial statements.
- 13.2.5. The credit rating of deposit taking institutions must be confirmed in writing at least on an annual basis to ensure a suitable credit rating and limit the risk to, and exposure of the municipality.

## **14. INVESTMENT DIVERSIFICATION**

- 14.1. In terms of Section 11 of the Municipal Investment Regulations requires municipalities to take all reasonable and prudent steps, consistent with its investment policy and standard of care, to diversify its investment portfolio across institutions, types of investments and investment maturities.
- 14.2. The Chief Financial Officer must ensure that municipal investments are placed equitable amongst the approved financial institutions. Investment limits must be determined as stipulated in section 13 of this policy, and no more than 50% of municipal investments can be placed with one institution. The Chief Financial Officer must review the investment limits with approved financial institutions at least once a year, or whenever the need exist for a review.

## **15. ACCOUNTING FOR TRUST FUNDS**

- 15.1. Unless required otherwise by trust deeds, trust funds shall be invested within the terms of this policy but be recorded separately in the municipal accounting system. If pooled with Municipality investments, trust funds shall earn the average interest rate applicable to the municipality. The requirements as stipulated by Trust Deed shall take priority.

## **16. RAISING OF DEBT**

- 16.1. Municipal debt (short or long term) shall be raised in strict compliance with the requirements of Chapter 6 of the Municipal Finance Management Act (Act 56 of 2003).

## **17. ACCOUNTING TREATMENT OF INTEREST EARNED ON INVESTMENTS**

- 17.1. The interest accrued on all municipal investments shall be recorded, in compliance with the requirements of Generally Recognized Accounting Practice.

## **18. REVIEW OF THE POLICY**

- 18.1. This Cash Management and Investment Policy is the sole policy governing cash management and investments in the Bitou Municipality and this policy shall be reviewed annually by Bitou Municipality's Council.

## **19. REFERENCES**

- 19.1. Local Government: Municipal Finance Management Act, (Act 56 of 2003),

- 19.2. Local Government: Municipal Systems Act, (Act 32 of 2000),
- 19.3. Municipal Investment Regulations (Government Gazette no: 27431 dated 1 April 2005),
- 19.4. Municipal Supply Chain Management Policy,
- 19.5. Credit Control and Debt Collection Policy,
- 19.6. GRAP



# **Customer Care, Credit Control, Debt Collection, Indigent and Tampering Policy**

**Reviewed  
2023/2024**



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## 1. INTRODUCTION

- 1.1 This policy is established in terms of Chapter 9 of the Municipal Systems Act (Act no.32 of 2000) and Section 62(f) (iii) of the Municipal Finance Management Act (Act no. 56 of 2003) which requires that a Municipality establish and maintain a credit control and debt collection policy.

## 2. SCOPE OF THE POLICY

- 2.1 This Policy applies to the Bitou Municipality and all persons of this administration.
- 2.2 This Policy as approved by Council, has been passed to give effect to the Municipal By-law in terms of the Local Government: Municipal Systems Act (Act no. 32 of 2000) and such Policy will be binding on the public, officials and Councillors of the Municipality of Bitou and no interference in the process will be permitted.
- 2.3 The Policy is applicable until such time as it is reviewed and Council approves the revisions. All acts performed in terms of the above approved Policy, and the existing Municipal By-law, will not be invalidated due to the timing differences between approval and promulgation.
- 2.4 All acts performed as mentioned in the previous paragraph will be ratified with the promulgation of the related Municipal By-law.

## 3. OBJECTIVES OF THE POLICY

- 3.1 The objectives of this Policy are to –
- (a) Define a framework within which the Municipality can exercise its executive and legislative authority with regard to credit control and debt collection and to develop an effective procedure to bill and collect its revenues;
  - (b) Ensure that all monies due and payable to the Municipality are collected in full and used to deliver municipal services in the best interest of the community, residents and ratepayers and in a financially sustainable manner as prescribed by the Municipal Systems Act, 2000 (Act No, 32 of 2000), and other applicable legislation;
  - (c) Ensure that the principles applied, as a result of this Policy, will enhance and support a healthy working capital position for the Bitou Local Municipality;

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- (d) Provide a framework for consumer care and indigent support;
- (e) Set realistic targets for credit control and debt collection;
- (f) Enable the implementation of this Policy throughout the Bitou Municipality;
- (g) Effectively and efficiently deal with defaulters in accordance with the terms and conditions of this Policy; and
- (h) Promote a culture of payment and instil a sense of responsibility towards the payment of Municipal accounts and reduction of Municipal debt.

#### 4. PRINCIPLES

- 4.1 The administrative integrity of the Municipality must be maintained at all times. The democratically elected Councillors are responsible for policy-making, while it is the responsibility of the Accounting Officer to ensure the execution of these policies.
- 4.2 All customers must complete an official application form, formally requesting municipal services. Existing customers may be required to complete new application forms from time to time, as determined by the Accounting Officer. The most important rights and obligations of the consumer and the Municipality must be included in the service application form.
- 4.3 A copy of the application form including conditions of services must be handed to every new customer on date of application for services. All customers must be informed of the contents of the Council's Customer Care, Credit Control, Debt Collection, Indigent and Tampering Policy and a copy made available to any customer on request.
- 4.4 Billing is to be accurate, timeous and understandable.
- 4.5 The customer is entitled to reasonable access to pay points and to a variety of reliable payment methods.
- 4.6 The customer is entitled to an efficient, effective and reasonable response to appeals, and should suffer no disadvantage during the processing of a reasonable appeal.
- 4.7 Enforcement of payment must be prompt, consistent and effective.
- 4.8 Unauthorised consumption, connection and reconnection, the tampering with or theft of meters, service supply equipment and the reticulation network and any fraudulent activity in connection with the provision of Municipal services will lead to disconnections, penalties,

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loss of rights and criminal prosecutions.

- 4.9 Incentives and disincentives may be used in collection procedures.
- 4.10 The collection process must be cost effective.
- 4.11 Results will be regularly and efficiently reported and monitored.
- 4.12 There must be legal cause between the Municipality and its customer, and customer debt must arise out of a legal framework and must be legally collectable.
- 4.13 Debtors may be referred to third party debt collection agencies and may be placed on the National Credit Bureau.
- 4.14 Targets for performance in both customer service and debt collection will be set and pursued and remedies implemented for non-performance.
- 4.15 Consumers that meet Council's indigent criteria must be identified and supported.
- 4.16 The Municipality shall not conduct any business activity with or provide any services to any persons with arrear municipal accounts except as provided for in this Policy and as determined by the Municipality from time to time, nor will any refunds of credits be made to any debtor who is in arrears with their Municipal account.

## 5. DEFINITIONS

- 5.1 In this Policy any word or expression to which a meaning has been assigned in the Local Government: Municipal Systems Act, has that meaning, unless the context, indicates otherwise –
  - 5.1.1 **“Account”** means a notification by means of a statement of account to a ratepayer or customer who is liable for payment of any amount to the Municipality and any authorised service provider in respect of the following –
    - (a) Electricity that is consumed by a consumer based on a meter reading or an estimated consumption and any service fee;
    - (b) Water that is consumed by a consumer based on a meter reading or an estimated consumption or water availability fees;
    - (c) Refuse removal and disposal;

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(d) Sanitation services and sanitation availability fees;

(e) Property rates;

(f) Interest;

(g) Connection fees;

(h) Collection charges, miscellaneous;

(i) Sundry fees;

(j) Default administration charges; and

(k) Housing, rentals and instalments.

5.1.2 **“Accounting Officer”** means the person appointed by the Council as the Accounting Officer of the Municipality in terms of Section 82 of the Local Government: Municipal Structures Act (Act No. 117 of 1998) and being the head of the administration and Accounting Officer in terms of Section 60 of the Local Government: Municipal Systems Act 200 (Act No 32 of 2000). It will also include any person to whom the Accounting Officer has delegated a power, function or duty but only in respect of that delegated power, function or duty.

5.1.3 **“Act”** means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) as amended from time to time.

5.1.4 **“Actual consumption”** means the measured consumption by a customer of a municipal service.

5.1.5 **“Agreement”** means a contractual relationship between the Municipality and a customer that arises, either as a result of the Municipality's approval of a written application for municipal services, including any subsequent variation that may be made to that agreement in conformity with this Policy, or that is deemed to be an agreement.

5.1.6 **“Agricultural Property”** means a property that is used primarily for agricultural purposes but, without derogating from Section 9, of the Municipal Property Rates Act (Act 6 of 2004) excludes any portion thereof that is used commercially for the hospitality of guests, and excludes the use of the property for the purpose of eco-tourism or for the trading in or hunting of game.

5.1.7 **“Applicable charges”** means the rate (including assessment rates), charges, tariffs or subsidies determined by the Council.

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- 5.1.8 **"Area of supply"** means any area within or partly within the area of jurisdiction of the Municipality to which a service is provided.
- 5.1.9 **"Arrears"** means any amount that is due, owing and payable by a customer in respect of a municipal service provided to such customer that has not been paid on or before the due date reflected on an account rendered in respect thereof.
- 5.1.10 **"Arrangements"** means a written agreement or an acknowledgement of debt in terms of which a Municipality agrees to the payment over a period of time of a debt that is outstanding;
- 5.1.11 **"Authorised agent"** means –
- (a) Any person authorized by the Council to perform any act, function or duty in terms of or to exercise any power under this Policy;
  - (b) Any person to whom the Council has delegated responsibilities, duties or obligations in respect of the provision of revenue collection services; or
  - (c) Any person appointed by the Council, in a written contract, as a service provider for the provision of revenue collection services or a municipal service to customers on its behalf, to the extent authorized by that contract.
- 5.1.12 **"Average consumption"** means the average consumption by a customer of a municipal service during a specific period, which consumption is calculated by dividing the total measured consumption of that service over that period, by the number of periods.
- 5.1.13 **"Back yard dwellers"** the portion of a building site behind a house, structure, where somebody lives or stay as a permanent resident.
- 5.1.14 **"Billing"** refers to the process of charging for services provided by issuing accounts.
- 5.1.15 **"By-law"** means a legislation that is made by a decision taken by the Council of the Municipality binding in the Municipality on the persons to whom it applies and is published in terms of the Municipal Systems Act.
- 5.1.16 **"Child headed household"** means a household where both parents are deceased and where all occupants of property are children of the deceased and are all under the legal age to contract of service and are considered as minors in law by the state;
- 5.1.17 **"Chief Financial Officer (CFO)"** means the official of the Municipality appointed by Council to administer its finances regardless of the designation or title attached to the post. He/she

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is responsible for the collection of moneys owed to the Municipality and/or any other staff member to whom he/she has delegated specific duties and responsibilities in terms of this Policy.

5.1.18 **“Collection costs”** means an amount that the Municipality can charge with regard to the enforcement of a consumer’s monetary obligations.

5.1.19 **“Commercial customer”** means a customer other than a domestic customer and an indigent customer, including, but not limited to, a business or an industrial, governmental or an institutional customer.

5.1.20 **“Connection”** means the point at which a customer gains access to municipal services.

5.1.21 **“Consolidated”** refers to the combining of all debt in order to establish the total obligation the debtor has to the Municipality.

5.1.22 **“Consumer”** means any occupier of a property to which the Municipality has agreed to supply services or already supplies services to, or when the occupier is not the responsible person, then the owner of the property.

5.1.23 **“Continuous service”** means the supply for consideration of a municipal service with the intent that so long as the agreement to supply the service remains, the Municipality will make the service continuously available to be used by the consumer.

5.1.24 **“Council”** means the Council of the Local Municipality of Bitou. A structure or person exercising delegated authority and power or carrying out an instruction in terms of these by-laws or a service provider fulfilling the responsibility under these by-laws.

5.1.25 **“Credit control and debt collection”** refers to the action/s required to safeguard revenue including disconnections, reconnections, normalizing installations and follow-up procedures and data integrity.

5.1.26 **“Customer”** means a person with whom the Municipality has concluded or is deemed to have concluded an agreement for the provision of a municipal service.

5.1.27 **“Default administration charges”** means a charge that may be imposed by the Municipality to recover administration costs incurred as a result of a consumer’s default.

5.1.28 **“Defaulter”** means a customer who owes money to the Municipality after the due date for payment has expired.

5.1.29 **“Debt collection”** refers to the debt recovery process and includes sanctions (warning,

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disconnection, adverse credit rating, legal process and/or eviction, etc.) to be applied in the event of non-payment of accounts.

5.1.30 **“Disconnection”** means interrupting the supply of water or electricity to a debtor as a consequence of ignoring a notice for payment.

5.1.31 **“Domestic customer”** means a customer who, primarily for residential purposes, occupies a dwelling, structure or premises.

5.1.32 **“Due date”** means the date on which an amount payable in respect of an account becomes due, owing and payable by a customer, which date shall be the last day of the month following the monthly debit raising.

5.1.33 **“Effective disconnection”** includes, inter alia, the physical removal of connections and/or equipment as a consequence of unauthorised reconnection (tampering and/or by-passing) of the disconnected service.

5.1.34 **“Emergency situation”** means a situation that would, if allowed to continue, pose a substantial risk, threat, impediment or danger to the present or future financial viability or sustainability of the Municipality or to a specific municipal service.

5.1.35 **“Estimated consumption”** means the consumption that a customer, whose consumption is not measured during a specific period, is deemed to have consumed and that is estimated by taking into account factors that are considered relevant by the Municipality and which may include the consumption of municipal services by the totality of the users of a service within the area where the service is rendered by the Municipality, at the appropriate level of service, for a specific time.

5.1.36 **“Equipment”** means a building or other structure, pipe, pump, wire, cable, meter, engine or any accessories.

5.1.37 **“Financial year”** means the period starting from 1 July of one year and ending 30 June of the next year.

5.1.38 **“Household”** means all occupants within the jurisdiction of the Council regardless whether the person rents or owns the property. The family unit is determined by the Municipality to be traditional by taking into account the number of persons in the unit, the relationship between the members of a household, their ages and any other factor that the Municipality considers to be relevant.

5.1.39 **“Illegal connection”** means a connection to any system through which a municipal service is provided and that is not authorized or approved by the Municipality.

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- 5.1.40 **"Indigent amount"** refers to the applicable value of the indigent subsidy as determine by the Council of the Municipality from time to time.
- 5.1.41 **"Indigent household"** means a household with a total monthly income of not more than R 5 200.00 i.e. (two (2) times the monthly Government old age pension plus 30% rounded off to the next R 100.) excluding social grants
- 5.1.42 **"Infrastructure"** means the facilities, installations or devices required for the rendering of a municipal service or for the functioning of a community including but not limited to facilities, installation or devices relating to water, power, electricity, transport, sanitation, gas and waste disposal.
- 5.1.43 **"Interest"** means a charge levied on all arrear accounts calculated at a rate of 1% higher than the prime interest rate and will be based on a full month where a part of a month shall also be deemed to be a full month.
- 5.1.44 **"Multiple purposes"** in relation to a property, means the use of a property for more than one purpose, subject to Section 9 of the Municipal Property Rates Act (Act 6 of 2004).
- 5.1.45 **"Municipal consumer debt"** refers to the non-payment or late payment by consumers of property rates and municipal services (water, electricity, sanitation, refuse removal) traffic fines and rental housing payments and includes any amounts considered as irrecoverable.
- 5.1.46 **"Municipal Property Rates Act"** means the Local Government: Municipal Property Rates Act, (Act No 6 of 2004).
- 5.1.47 **"Municipality"** means –
- (a) The Municipality of Bitou, a local Municipality established in terms of paragraph 12 of the Local Government: Municipal Structures Act, (Act No. 117 of 1998) and its successors-in-title; or
  - (b) Subject to the provisions of any other law and only if expressly or impliedly required or permitted by this Policy, the Accounting Officer or his/her delegated, in respect of the performance of any function, or the exercise of any duty, obligation, or right in terms thereof or any other law; or
  - (c) An authorized agent of the Municipality.
- 5.1.48 **"Municipal services"** for purposes of this Policy, means services provided by the Municipality, including refuse removal, water supply, sanitation, electricity services and

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rates either collectively or singularly.

5.1.49 **"Occupier"** means any person who resides on and/or occupies any premises to which municipal services are supplied.

5.1.50 **"Office bearer"** in relation to places of worship, means the primary person who officiates at services at that place of worship.

5.1.51 **"Official residence"** in relation to places of public worship means –

- (a) A portion of the property used for residential purposes; or
- (b) One residential property, if the residential property is not located on the same property as the place of public worship, registered in the name of a religious community or registered in the name of a trust established for the sole benefit of a religious community and used as a place of residence for the office bearer.

5.1.52 **"Owner"** refers to the definition as defined in the Property Rates Act.

5.1.53 **"Payment"** refers to any form of settlement acceptable to the Council of Bitou from time to time towards the balance on an account.

5.1.54 **"Person"** means –

- (a) Any natural person; or
- (b) Any legal entity or institution considered by law to have contractual capacity in its name and capacity to sue or be sued in a court of law, and includes but is not limited to –
  - (i) A private or public company established in terms of the Companies Act, 1973 (Act 61 of 1973), as amended from time to time;
  - (ii) A trust in terms of the Trust Property Control Act, 1988 (Act 57 of 1988);
  - (iii) The state or any of its organs as defined in Section 239 of the Constitution of the Republic of South Africa, 1996;
  - (iv) A Co-operative registered in terms of the Co-operatives Act, 2005 (Act 14 of 2005);

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- (v) A community-based organisation or voluntary association or any other non-governmental organisation or voluntary association with legal competence;
- (vi) Governments of foreign countries and includes their Embassies occupying property within the Municipality's jurisdictional area;
- (vii) A curator of an insolvent estate appointed in terms of the laws of South Africa;
- (viii) An administrator of a deceased estate appointed in terms of the laws of South Africa; or
- (ix) Such other person or legal entity, as the case may be, recognised by law;

5.1.55 **"Place of public worship"** means property used primarily for the purposes of congregation, excluding a structure that is primarily used for educational instruction in which secular or religious education is the primary instructive medium; provided that the property is –

- (a) Registered in the name of the religious community;
- (b) Registered in the name of a trust established for the sole benefit of a religious community; or
- (c) Subject to a land tenure right.

5.1.56 **"Poor households"** means a household (including pensioners) which qualifies for financial assistance as determined by Council in this Policy.

5.1.57 **"Premises"** means any piece of land, the external surface boundaries of which are delineated on –

- (a) A general plan or diagram registered in terms of the Land Survey Act (Act No 9 of 1927) or in terms of the Deeds Registries Act, (Act No 47 of 1937);
- (b) A sectional plan registered in terms of the Sectional Titles Act, (Act No 95 of 1986); or
- (c) A register held by a tribal authority or in accordance with a sworn affidavit made by a tribal authority; and, where the text so requires, includes any building, structure or the like erected on such land.

5.1.58 **"Prescribed tariff or charge"** means a charge prescribed by the Municipality.

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5.1.59 **"Principle debt"** means a debt that is owed to the Municipality in respect of property rates and services. It may include interest, collection charges, default administration charges, connection charges and any other charges.

5.1.60 **"Private Towns, Developments and/or complexes"** means properties where services such as water, electricity or sewerage networks and/or streets and open spaces has not been taken over by the municipality and a body corporate has been appointed by the individual owners to ensure sufficient levies are raised on the individual owners to cover these expenses.

5.1.61 **"Public Service Infrastructure Property"** refers to an organ of state that owns or controls that public service infrastructure as contemplated in the definition of "publicly controlled", provided that a person will, for the purposes of the By-law, be regarded by the Municipality as the owner of a property in the following cases –

- (a) A trustee in the case of a property in a trust, excluding state trust land;
- (b) An executor or administrator in the case of a property in a deceased estate;
- (c) A trustee or liquidator in the case of a property in an insolvent estate or a property in liquidation;
- (d) A judicial manager in the case of a property in the estate of a person under judicial management;
- (e) A curator in the case of a property in the estate of a person under curatorship;
- (f) A person in whose name a usufruct or other personal servitude is registered where the property is subject to a usufruct or other personal servitude;
- (g) A lessee in the case of a property that is registered in the name of the Municipality and is leased by it;
- (h) A buyer in the case of a property that was sold by the Municipality and of which possession was given to the buyer pending registration of ownership in the name of the buyer;
- (i) In the case of property occupied by provincial or national government the relevant department of such government; or
- (j) In the case of property occupied by an embassy of a foreign country, then such embassy; or in the case of the Municipality being unable to establish the identity of

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such person, the person who is entitled to derive benefit from the property or any buildings thereon or his or her legally appointed representative.

5.1.62 **"Public notice"** means publication in the media including one or more of the following –

- (a) Publication of a notice, in at least two of the official languages in general use within the Province or area in question and, where possible, the notice shall be published in a newspaper appearing predominantly in the language utilised in the publication of the notice –
  - (i) In any local newspaper or newspapers circulating in the area of supply of the Municipality;
  - (ii) In the newspaper or newspapers circulating in the area of supply of the Municipality determined by the Council as a newspaper of record;
  - (iii) On the official website of the Municipality; or
  - (iv) By means of radio broadcasts covering the area of supply of the Municipality;
- (a) Displaying a notice in or at any premises, office, library or pay-point of either the Municipality or of its authorized agent and to which the public has reasonable access; and
- (c) Communication with customers through public meetings and ward committee meetings.

5.1.63 **"Public service purposes"** in relation to the use of a property means property owned and used by an organ of state as –

- (a) Hospitals or clinics;
- (b) Schools, pre-schools, early childhood development centres or further education and training colleges;
- (c) National and provincial libraries and archives;
- (d) Police stations;
- (e) Correctional facilities; or
- (f) Courts of law;

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but excludes property contemplated in the definition of "*public service infrastructure*".

5.1.64 "**Residential Property**" means a property included in a valuation roll in terms of Section 48(2)(b) of the Local Government Municipal Property Rates Amendment Act 2014 as residential in respect of which the primary use or permitted use is for residential purposes without derogating from Section 9 of the Municipal Property Rates Act (Act 6 of 2004); and which includes the following –

- (a) Used predominantly (60% or more) for residential purposes;
- (b) A unit registered in terms of the Sectional Titles Act, 95 of 1986, used predominantly (60% or more) for residential purposes, and includes any unit in the same Sectional Title Scheme registered in the name of the same owner which is used together with the residential unit as if it were one property, for example a garage or domestic worker's quarters. (Any such grouping shall be regarded as one residential property for rate rebate or valuation reduction purposes and for clearance application purposes); or
- (c) Owned by a share block company and used predominantly (60% or more) for residential purposes but will be considered as one Residential property as set out in Paragraph 5.1 of the Property Rates Policy;

5.1.65 "**Service**" means a municipal service rendered by the Municipality and includes the supply of electricity, water, sanitation and refuse removal.

5.1.66 "**Subsidised service**" means –

- (a) A municipal service which is provided to a customer at an applicable rate which is less than the cost of actually providing the service and includes services provided to customers at no cost;

5.1.67 "**Sundry debt**" refers to any debt other than for rates, housing, metered services, sanitation and refuse removal;

5.1.68 "**Supply**" means any metered supply of water or electricity;

5.1.69 "**Tariff**" means the levying of fees, rates or taxes for municipal services provided by the Municipality itself and that complies with the Municipal Systems Act, (Act no. 32 of 2000);

5.1.70 "**Tampering**" means the unauthorised interference with a service rendered by the

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Municipality, or to damage or make unauthorised changes to the equipment or property of the Municipality used in connection with the provision of Municipal services. Reconnection of a supply that has been disconnected for non-payment, the interference with the supply mains or bypassing of the metering equipment to obtain an un-metered service;

5.1.71 **“Tenant”** means any person other than the main family members described as a household, occupying the premises.

5.1.72 **“Total household income or household income”** refers to the total formal and informal gross income of all people living permanently or temporarily on the property on which the account is based.

5.1.73 **“Unauthorised service”** means the receipt, use or consumption of any municipal service which is not in terms of an agreement with or approved by the Municipality.

## 6. LEGISLATIVE FRAMEWORK

6.1 This Policy is designed and implemented with the framework of the following legislation:

- (a) The Constitution of the RSA, 1996;
- (b) The Municipal Systems Act, 2000 (Act 32 of 2000);
- (c) The Municipal Finance Management Act, 2003 (Act 56 of 2003);
- (d) The Promotion of Administration Justice Act, 2000 (Act 3 of 2000);
- (e) The Promotion of Access to information Act, 2000 (Act 2 of 2000); and
- (f) The Property Rates Act 2000 (Act 6 of 2004).

6.2 The framework also covers the duties and functions of Council, Executive Mayor all councillors, Accounting Officer, municipal staff, communities, rates payers and residents.

## 7. CUSTOMER CARE

7.1 Objectives

7.1.1 To focus on the client’s needs in a responsible and pro-active way, to enhance the payment for services and to create a positive and cooperative relationship between the persons responsible for the payment for services received, and the Municipality, and where applicable, any service provider.

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7.1.2 In terms of Section 95 of the Local Government Municipal Systems Act 2000, in relation to the levying of property rates and other taxes by a Municipality and the charging of fees for municipal services, a Municipality must, within its financial and administrative capacity provide for the following as discussed in paragraphs 7.2 to 7.19 below.

## 7.2 Service delivery

7.2.1 Establish a sound Customer Management System that aims to create a positive and reciprocal relationship between persons liable for these payments and the Municipality itself.

## 7.3 Communication

7.3.1 Establish mechanisms for users of services and ratepayers to provide feedback to the Municipality or other service provider regarding the quality of the services and the performance of the service provider.

7.3.2 Take reasonable steps to ensure that users of services are informed of the costs involved in service provision, the reasons for the payment of service fees, and the manner in which monies raised from the service are utilised.

7.3.3 Within its financial and administrative capacity, conduct an annual process of compiling and communicating its budget, which may include targets for credit control and debt collection.

7.3.4 Make available Council's Customer Care, Indigent, Credit Control, Debt Collection, Indigent and Tampering Policy by general publication, on specific request, and which will also be available for perusal at the Municipality.

7.3.5 Endeavour to distribute a regular newsletter, which will give prominence to customer care and debt issues.

7.3.6 Require ward councillors to hold regular ward meetings, at which Customer Care and Debt Collection issues will be given prominence.

7.3.7 Encourage the press to give prominence to Council's Customer Care, Credit control, Debt Collection Indigent and Tampering Policies.

## 7.4 Personal contact

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7.4.1 Telephonic contact, agents calling on clients –

- (a) The Municipality will endeavour, within the constraints of affordability and available capacity, to make personal, electronic or telephonic contact with certain arrear debtors to encourage their payment, and to inform them of their arrears state, their rights (if any) to conclude arrangements or to indigent subsidies, other related matters and will provide information on how and where to access such arrangements or subsidies; and
- (b) Such contact is not a right for debtors to enjoy and disconnection of services and other collection proceedings may continue in the absence of such contact for whatever reason.

7.5 Metering

7.5.1 The Municipality will, endeavour, within practical and financial limits, to provide meters to every paying consumer for all services.

7.5.2 Where the consumption of services has to be measured, take reasonable steps to ensure that the consumption by individual users of services is measured through accurate and verifiable metering systems.

7.5.3 All meters will be read monthly, if at all possible. If the meter is not read monthly the Council will estimate the consumption in terms of Council's operational procedures.

7.5.4 Consumers are entitled to request verification of meter readings and accuracy within reason, but may be held liable for the cost thereof.

7.5.5 Consumers will be informed of meter replacement.

7.5.6 If a service is metered but it cannot be read due to financial and human resource constraints or circumstances out of the control of the Municipality or its authorised agent, and the consumer is charged for an estimated consumption, the account following the reading of the metered consumption must articulate the difference between the actual consumption and the average consumption, and the resulting credit or debit adjustments.

7.5.7 If an electricity meter cannot be read due to no access for six consecutive months, the meter may be replaced with a pre-paid meter at the cost of the owner.

7.5.8 The occupier can give the readings through email but at least every six months a true reading must be obtained by the meter reader.

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7.5.9 In the case of holiday houses, average consumption will not be levied monthly. A true reading must be obtained by the meter reader at least 4 times a year where there is no smart meter.

7.5.10 If no reading on a water or electricity meter can be obtained for more than six consecutive months, the meter may be moved at the cost of the owner/tenant or smart meter to be installed at owner/tenant cost.

#### 7.6 Accounts and billing

7.6.1 Consumers on the billing system will receive an understandable and accurate bill from the Municipality, which bill will consolidate all rates and service costs for that property.

7.6.2 Accounts will be produced in accordance with the meter reading cycle and due dates will be linked to the statement date.

7.6.3 Accounts will be rendered monthly in cycles of approximately 35 days at the address last recorded with the Municipality or its authorised agent.

7.6.4 It is the consumer's responsibility to ensure that the postal address and other contact details are correct.

7.6.5 It is the consumer's responsibility to make enquiries and ensure timeous payments in the event of accounts not received.

7.6.6 Settlement or due dates will be as indicated on the statement.

7.6.7 Where any payment is made to the Municipality or its authorized representative by negotiable instrument and it is later dishonoured by the bank, the Municipality or its authorized agent –

(a) May recover an admin fee as determined by Council against the account of the consumer relating to dishonoured negotiable instruments or if used an incorrect reference when making EFT payments;

(b) Shall regard such an event as a default on payment; and

(c) May insist on cash payments for all future accounts.

7.6.8 The Municipality or its authorised agent must, if administratively possible, issue a duplicate account or any acceptable alternative to a consumer on request, at a cost determined by

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Council from time to time.

- 7.6.9 Where the municipality, through its processes discovers that a service has not been charged on a customer's account by error, due to the service not been activated or any other reason, the municipality may bill the service after having informed the customer retrospectively for up to three (3) years.

7.7 Payment facilities and methods

- 7.7.1 The Municipality will operate and maintain suitable payment facilities, which facilities will be accessible to all users.

- 7.7.2 The Municipality will, at its discretion allocate a payment between service debts. A consumer who has overdue debt, may not specify that the payment is for a specific portion of the account.

- 7.7.3 The Municipality may in terms of Section 103 of the Systems Act, with the consent of a consumer, approach an employer to secure a debit or stop order arrangement.

- 7.7.4 The consumer will acknowledge, in the consumer agreements that the use of consumer agents in the transmission of payments to the Municipality is at the risk of the consumer – also for the transfer time of the payment.

- 7.7.5 Postal orders must be crossed and be made payable to Bitou Municipality.

- 7.7.6 Payments will always be appropriated to the oldest account (notwithstanding the kind of service), where after it will be appropriated in order of a predetermined priority as approved by the Municipality.

- 7.7.7 Payments can be made:

- (a) At Bitou Municipal Revenue services offices from Mondays to Thursdays from 07h30 to 15h30 and from 07h30 to 13h00 on Fridays (closed on public holidays);
- (b) At any of the Easy Pay, Pay@ Snap scan, Zapper, Spar and Post Office pay points as approved by Council. Please note that at least 48 hours should be allowed for processing of all third-party payments; However, payments made at a third party will be done at own risk. It also remains the responsibility of the person making the payment, to ensure that the receipt is correct;
- (c) By direct Bank – and/or electronic payments to the Municipal bank account using Bitou Municipality as beneficiary. The Debtor's Municipal services account number must at all times be used as the reference number; or

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- (d) By way of an automatic debit order. These forms are available at any of the Municipal Offices.

## 7.8 Enquiries, appeals and service complaints

7.8.1 Within its administration and financial ability, the Municipality will establish –

- (a) A central complaints/feedback office;
- (b) A centralized complaints database to enhance co-ordination of complaints, their speedy resolution and effective communication with consumers;
- (c) Appropriate training for officials dealing with the public to enhance communications and service delivery;
- (d) A communication mechanism to give Council feedback on the application of the policies on customer care and management, credit control debt collection and other issues of concern;
- (e) Accessible mechanisms for those persons to query or verify accounts and metered consumptions, and appeal procedures which allow such persons to receive prompt redress for inaccurate accounts; and
- (f) Mechanisms to monitor the response time and efficiency in complying with the above points.

## 7.9 Water leakages – Non-indigent consumers

7.9.1 If the leakage is on the consumer's side of the meter, the consumer will be responsible for the payment of all water supplied to the property. The consumer has the responsibility to control and monitor his/her water consumption.

7.9.2 A consumer may qualify for a reduction in levy as determined by Council on his/her account in the event of a water leakage, if –

- (a) The leakage was underground or under the foundation of the building and not easily detectable;
- (b) The leakage was repaired after detection / notification by the Municipality;
- (c) The consumer submits a sworn affidavit by him/herself;

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- (d) The consumer has not applied for discount on water leakages within the previous 12 months; and
- (e) An authentic certificate issued by a registered plumber must be submitted to the Municipality after completion of repairs done with respect to a water leakage and must contain the following –
  - (i) The date of the invoice and repair work as well as the receipt; and
  - (ii) Confirmation that surface leakage was not visible; or
- (f) If repairs were done by the consumer themselves, his/her sworn affidavit must be submitted to the Municipality after completion of repairs done with respect to a water leakage and must contain the following –
  - (i) The date of the invoice and repair work as well as the receipt and/or date stamped photos proving that the leak was underground and repaired by themselves;
  - (ii) That the reading has normalised; and
  - (iii) Confirmation that surface leakage was not visible.

7.9.3 Once the Accounting Officer declares that the Roodefontein dam volume has dropped to below 40%, no water charges in respect of water losses because of leakages will be reduced.

7.9.4 Water lost due to the meter being stolen, defective irrigation, broken geyser, leaking toilet or leaking tap cannot be considered for reduction.

7.9.5 Council will only allow a reduction up to the difference between the levied amount of the leakage and the recalculated amount calculated as follows –

- (a) The consumer's daily average consumption for the 1<sup>st</sup> month after the leakage was repaired will be used to do the recalculations.
- (b) The consumer's daily average billed consumption up to a maximum of six (6) months may be used to determine the correction to the consumer's account.
- (c) The consumer's account will be corrected by charging the usage above the average consumption at the second level tariff.

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#### 7.10 Leakages -Indigent consumers

7.10.1 If the leakage is on the indigent or poor household consumer's side of the meter, the consumer will be responsible for the payment of all water supplied to the property. The indigent or poor household consumer has the responsibility to control and monitor his/her water consumption.

7.10.2 An indigent or poor household consumer may qualify for a reduction as determined by Council on his/her account in the event of a water leakage, if –

- (a) The indigent or poor household consumer must log a call to report the leak and must repair and ensure the reading has normalised; and
- (b) The indigent or poor household consumer has not applied for discount on water leakages within the previous 12 months.

7.10.3 Council will only allow a reduction up to the difference between the levied amount of the leakage and the recalculated amount calculated as follows –

- (a) The consumer's daily average consumption for the 1<sup>st</sup> month after the leakage was repaired will be used to do the recalculations.
- (b) The consumer's daily average billed consumption up to a maximum of six (6) months may be used to determine the correction to the consumer's account.
- (c) The consumer's account will be corrected by charging the usage above the average consumption at the cost price per kilolitre for water.

#### 7.11 Temporary suspension of actions for special reasons

7.11.1 The written approval of the Chief Financial Officer (CFO) or his/her delegate to temporary suspend actions must at all times be obtained for special reasons. If the suspension of actions in terms of this Policy exceeds 3 months, it must be reported to Council.

#### 7.12 Restricted water

7.12.1 If a person is in arrears and his/her water has been restricted, such person should negotiate a settlement agreement to redeem the debts.

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7.12.2 The water restriction however cannot be restored until the arrear debt is paid in full (unless payment arrangements are in place);

7.12.3 Once the account has been paid in full, the water flow can be restored.

7.13 Process regarding disabled persons or persons who are linked to a respirator or life supporting machine or old age people

7.13.1 All collection actions can be suspended where needed with the Chief Financial Officer or his/her delegated officials' consent.

7.13.2 A medical certificate to confirm the client's health condition must be obtained at regular intervals to qualify for this support.

7.14 Inheritor of an insolvent estate

7.14.1 Where the inheritor of a property, with no/or an insolvent estate, qualifies for an indigent subsidy, the outstanding debt can be written off by Council in order for clearance to be given and the property to be transferred.

7.15 Property Rates rebates

7.15.1 Subject to certain criteria the Municipal Council may grant rate rebates annually to certain categories of ratepayers in accordance to the Municipality's Property Rates Policy and By-law.

7.15.2 The following properties will be excluded from the payment of rates –

- (a) Properties of which the municipality itself is the owner;
- (b) First 30% of the market value of public service infrastructure in terms of Section 17(1)(a) of the Act;
- (c) Rights registered against immovable property in the name of a person –
  - (i) *On property registered in the name of and used primarily as a place of public worship by a religious community, including the official residence registered in the name of that community, which is occupied by the office-bearer of that community who is, officiates at services at that place of worship in terms of Section 17(1)(i) of the Act;*

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- (d) *On the first R 15,000 of the market value of a property assigned in the valuation roll or supplementary valuation roll to a category determined as residential property or multiple used property provided that one or more component is used for residential purposes in terms of Section 17(1)(h);*
- (e) *An additional R 335,000 of the valuation of domestic/residential property with property value up to R 350 000 (excluding accommodation establishments and vacant land) will be exempted from paying property rates.*
- (f) Businesses including accommodation establishments 1-8 and accommodation establishments 9+ will be rated at business rates tariff. Properties that are used as accommodation establishments 1-8 bedrooms will be granted a 10% rebate on the business tariff;
- (g) Properties registered or recognised as private nature reserves in terms of relevant legislation, which are not developed or used for commercial, business, agricultural or residential purposes in terms of Section 17(1)(e) of the Act.

7.15.3 Rebates granted in terms of Section 4 of the Property Rates Policy may be considered for the following categories of properties –

- (a) Market value of residential property below a determined threshold;
- (b) Retention and restoration of conservation worthy buildings; and
- (c) Heritage areas

7.15.4 Over and above the determinations contemplated in Section 17(1)(h) of the Act owners of property who depend on pensions or social grants for their livelihood may qualify for a rebate as determined by Council's Indigent Policy.

## 7.16 Arrangements for settlements

7.16.1 If required, consumers with arrears must convert to a prepayment meter, and when implemented the cost of the conversion and the arrears total, will be paid off either by –

- (a) Adding the debt to the arrears bill and repaying it over the agreed period; or
- (b) Adding the debt as a surcharge (auxiliary) to the pre-paid electricity cost, and repaying it with each purchase of electricity until the debt is settled; or
- (c) Installation of pre-paid meter is free of charge if a person is indigent.

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7.16.2 Council reserves the right to increase the deposit requirement of debtors who seek arrangements.

7.16.3 If an arrangement is not honoured the arrangement will be cancelled and the total outstanding amount becomes payable in full with any applicable disconnection fees

7.16.4 All arrangements for settlements will be in accordance with the processes and guidelines approved by the Accounting Officer or Chief Financial Officer from time to time in pursuance of the credit control and debt collection targets set by Council.

#### 7.17 Restriction of services

7.17.1 If the Accounting Officer, or his/her delegated authority, is of the opinion that the termination of services, in the case of a particular property in respect of which the account is in arrear, is not in the best interests of the community, specifically because of the potential endangerment of the life of any person, whether resident in or outside the property concerned, the Accounting Officer, or his/her delegated authority, may appropriately restrict rather than terminate the services in question.

#### 7.18 Estate Account Collection

##### 7.18.1 Estates with legal status –

(a) The accounts of debtors who are declared insolvent, or are under administration or deceased are dealt with according to normal legal practices by collection staff of the Municipality.

(b) Unsuccessful claims must be submitted to Council for approval to be written off.

##### 7.18.2 Estates without formalised legal status –

(a) In numerous cases the head of a household has died without leaving a will indicating to whom ownership of the family residence is to be transferred upon the event of his or her death OR the owner of the property has abandoned his or her family to fend for themselves. As these exceptions are not provided for in the normal legal practice, the following process will be followed in such cases:

(i) The remaining family must report the situation to the Municipality's revenue services office, who will require the relevant documentation to be obtained by the family, i.e. a death certificate OR an order of the local magistrate allocating right of ownership to a member of the surviving family in the case of a

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deceased estate OR an order of the local magistrate allocating right of ownership to a member of the abandoned family

- (ii) In all of these cases, extension for the payment of the arrears () as at the date of notification will be given by the debt collectors of the Finance Department. Disconnected electricity will also be reconnected and the remaining family will be expected to pay all amounts levied on monthly current accounts in excess of the amount of the extension until such time as the matter has been finalised. This will prevent any further service restrictions or collection actions at the residence while the family are legalising ownership of the property.

They will also instruct the appointed responsible person to make an arrangement for the payment of the arrears to prevent credit control and collection action by the Municipality. Alternatively, if the family qualifies to be registered for assistance in terms of the Municipality's Indigent Policy, they must apply for it. After registration, their arrears can be dealt with in terms of the Policy. Child headed families, where the parents are deceased and there are only unemployed minor children living in the dwelling, may qualify for the debt being written off.

In the event of the death of a member of an indigent household, the municipality may exempt the household from the cost of digging and preparation of a grave, provided that the burial takes place in a municipal cemetery. The affected household has to apply for above benefit.

- (iii) Unsuccessful claims must be submitted to Council for approval to be written off.

## 8. CREDIT CONTROL

### 8.1 Specific objectives

- 8.1.1 To implement procedures that will restrict the unauthorised use of municipal services, escalation of debt and limit the Municipality's risks.

### 8.2 Application for Municipal Services

- 8.2.1 All consumers of services will be required to sign an agreement governing the supply and cost of Municipal services.
- 8.2.2 The process must occur at least seven days prior to taking occupation of the premises, so that the Municipality can ensure that a meter reading is taken on the appropriate day and

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that the services are available when occupation is taken. Failure to adhere to the timeframe may result in customers not having the services available when occupation is taken.

8.2.3 Applicants for municipal services may be checked for creditworthiness including banking details and information from credit bureaus, other local authorities, trade creditors and employers. This will require the provision of, an Identity Document, binding lease agreement, title deed and other supporting documents as required by Council from time to time.

8.2.4 An applicant must provide all the information and documentation which the Municipality requires.

8.2.5 If an applicant for Municipal service is an existing customer of the Municipality in respect of any other municipal service and such customer has an outstanding amount that is due and payable to the Municipality –

(a) The arrears must be paid on this property or any other property within the municipal boundaries; or

(b) An agreement for payment of arrears must be concluded with the Municipality before an application for services can be approved.

8.2.6 If a consumer fails or refuses to sign a new service agreement or pay the deposit, the Municipality may discontinue services until the necessary agreement has been signed and/or deposit been paid.

8.2.7 The Municipality will render the first account after the first meter reading cycle to be billed following the date of signing the service agreement.

8.2.8 Consumers who illegally consume services without this agreement will be subject to punitive action.

### 8.3 Property Developments

8.3.1 A property developer must inform the Municipality of the nature and extent of the municipal services or services that will be provided as well as the measuring devices that will be used.

8.3.2 A property developer who fails to comply with the provisions of paragraph (a) shall be liable for the payment of all the applicable charges that would have been payable by customers in respect of municipal services that have been used or consumed by such customers.

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#### 8.4 Termination of Services

8.4.1 It is the responsibility of the consumer to notify the Municipality when municipal services are no longer required due to the sale of the property or other reasons.

8.4.2 Failure to comply with the provision of paragraph (a) above renders the consumer liable for all service charges and interest thereon accumulated from the date when the premises are vacated to the date when Council becomes aware of such vacation.

8.4.3 A customer shall remain liable for all arrears and applicable charges that are payable for Municipal services rendered prior to the termination of an agreement.

8.4.4 An owner may request for the disconnection of services where the meters are on his name, under the following conditions –

- (a) The meter must be removed from the property by our Technical Department;
- (b) Availability will be charged; and
- (c) Normal new connection fees and procedures will be applicable for reconnection.

#### 8.5 Payment of a Deposit

8.5.1 Every consumer must, on application for the provision of Municipal services pay a deposit to the Municipality, prior to the provision of any Municipal services. A minimum deposit will be payable equal to the amount determined by Council from time to time.

8.5.2 The Council may require a consumer to whom services are provided and who was not previously required to pay a deposit, for whatever reason, to pay a deposit on request, within a specified period.

8.5.3 The Council may from time to time review the sum of money deposited by a consumer in terms of this Section and, in accordance with such review require that an additional amount be deposited by the consumer. The deposit will also be reviewed where any change in service connection is done. This adjustment will be in line with the amount determined by council for that specific financial year.

8.5.4 The Municipality shall give the owner or occupier of the premises, where Municipal services are rendered reasonable notice of any increase of the deposit.

8.5.5 An amount deposited with the Municipality in terms of this paragraph shall not be regarded as being in payment or part payment of an account due for services rendered except in the

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case of a final account where the final amount will first be cleared before the remaining portion of the deposit can be paid back.

8.5.6 No interest shall be payable by the Municipality on the amount of a deposit held by it in terms of this paragraph.

8.5.7 An agreement for the provision of services may contain a condition that a deposit shall be forfeited to the Municipality or its authorised agent if it has not been claimed within twelve months of the termination of the agreement.

8.5.8 Only on the termination of the agreement the amount of the deposit, less any outstanding amount due to the Municipality, will be refunded to the consumer or transferred to any other outstanding account of the client.

8.5.9 For any changes to a connection type, the deposit will be adjusted in accordance with the approved tariff list.

8.5.10 In case of lowering of amps or supply, the deposit will not be adjusted on the municipal account.

8.5.11 Any inactive deposit that is correctly recognised in the financial statements as payable and has not been claimed back within a period of three years after the service has been delivered completed or finalised, will be forfeited –

(a) The only exception to this is when a block booking has been made and the deposit is carried over for the next booking. This is only applicable within a financial year. The deposit must be repaid and revised at the beginning of a new financial year.

(b) A request for repayment of an inactive deposit after the three-year period can be made after which the CFO will consider each case on its own merit.

8.5.12 Commercial, Business and Industrial –

(a) Deposits for businesses will be levied according to twice the highest bill during the previous 12 months for similar businesses or the deposit as specified in the tariff list, whichever is the highest.

(b) New connections at new extensions of businesses will be as specified in the tariff list for the current financial year.

8.5.13 Payment of a deposit is not applicable to properties where the property has been identified as an indigent household.

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8.5.14 For any changes requested on the connection type the deposit will be adjusted accordingly and in accordance with the current approved tariff list. All outstanding debt on this premises or any other property of the consumer must be paid in full. The deposit will not be decreased with the lowering of amps or supply.

#### 8.6 Recovery of Additional Costs

8.6.1 The Municipality may, in addition to any charge, tariff, levy or payment of any kind referred to in this Policy, recover from a customer any reasonable costs incurred by it in implementing this Policy, including all legal costs, including attorney and client costs incurred in the recovery of arrears which shall be debited against such customer as arrears in his/her account.

#### 8.7 Payment for Municipal Services Provided

8.7.1 A customer shall be responsible for the payment of all Municipal services accounts rendered to him/her from the commencement date of the agreement until the account has been paid in full and the Municipality shall be entitled to recover all payments due to it from the customer concerned.

8.7.2 Payments will always be appropriated to the oldest account (notwithstanding the kind of service), where after it will be appropriated in order of a priority as determined by the Municipality.

8.7.3 If a customer uses a Municipal service for a use other than that for which it is rendered by the Municipality in terms of an agreement and if he is charged an amount lower than the applicable prescribed charge, the Municipality may alter the amount so charged and recover from him/her the difference between the altered charge and the amount initially charged to him/her.

8.7.4 Discontinuation of services and rendering of a final account will always be between two debit raisings. Thus, any request for discontinuation of services (or if on a weekend or public holiday the first working day thereafter) will only be finalised with the next debit raising of the following month and the basic charges for that period will be payable. The charges will be pro rata divided as per the date of transfer.

8.7.5 The basic fee for water and/or electricity will only be levied on accounts with active meters or active tariffs. This is to ensure that the basic fee is not duplicated where one consumer vacates a property and a new consumer moves in. For example, if a final account is requested during a period as mentioned above, the meter will stay active until the following debit raising when the account will be finalised and transferred to the new consumer.

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Although the new consumer will be liable for the water usage from date of the final reading the basic fee will only be levied from the following debit raising when the meter becomes active on the new account.

8.7.6 “Full and final settlement” of an amount: Where an account is not settled in full, any lesser amount tendered to and accepted by the Municipality shall not constitute a full and final settlement of such an account despite the fact that the payment was tendered in full and final settlement unless the Accounting Officer or his/her nominee or the manager of the Municipality's authorized agent expressly accepts such payment in writing as being in full and final settlement of the amount reflected on the relevant account.

8.7.7 Responsibility for payment of amounts due and payable –

- (a) Notwithstanding any other provision in this Policy, an owner of premises shall be liable for the payment of any amount that is due and payable to the Municipality by a customer who is a lessee or occupier of such premises to which municipal services have been provided, if the Municipality, after having taken reasonable steps to recover from such customer any amount due and payable by him/her, could not do so.
- (b) Sub-Paragraph (a) must not be construed as absolving the Municipality from its responsibility to collect outstanding amounts in respect of Municipal services provided to premises from the customer who has benefited from it.

8.7.8 Dishonoured payments –

- (a) If the payee or the consumer is an existing consumer of Council, the reversal and penalty fee may be debited to an account of the drawer or beneficiary.
- (b) If the consumer who received value from the payment is not an existing debtor of Council, a sundry debtor account is opened and the debit and penalty is raised. Once the account is submitted and the debtor fails to honour the payment including the penalty within 14 days of receipt, a final demand is generated and submitted.
- (c) If the debtor who received value from the payment is an existing debtor of Council, the reversal and penalty fee may be debited to an account of the drawer or beneficiary and a letter of notification must be sent to the debtor. Such fee shall be deemed to be a tariff charge and shall be recovered from the debtor. Council reserves the right to institute legal action which may include criminal charges against the offender.

8.7.9 The Council may, by resolution, approve incentive schemes to encourage prompt payment

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of charges for services rendered and to reward customers who pay their accounts regularly and on time.

8.7.10 The aforementioned incentive schemes may include the conclusion of a written agreement with the employer of a customer in terms of which such employer undertakes to deduct outstanding rates and service charges or to settle regular monthly accounts, through deductions from the relevant customer's salary or wages,

8.7.11 Pay points and payment methods –

- (a) A customer must pay his account at pay points specified by the Municipality or by an approved agent of the Municipality.
- (b) The Municipality will inform customers of the location of specified pay-points and the identity of approved agents who may receive payments on its behalf in respect of services rendered to customers.
- (c) Subparagraphs (a) and (b) must not be construed as prohibiting a customer from paying amounts due to the Municipality or its authorized agent by means of electronic payment methods provided that the date of receipt of a payment shall be the date such payment appears on or is reflected in the banking account of the Municipality.

## 8.8 Payment of Interest

8.8.1 Except where expressly provided to the contrary in this Policy, the Municipality will levy interest on all arrear accounts at a rate of prime plus 1%.

8.8.2 Interest on arrear debt shall be calculated for each month for which such payment remains unpaid and part of the month shall be deemed to be a month.

8.8.3 The interest that is payable cannot exceed the capital amount that is owed by the consumer.

## 8.9 Accounts and Billing

8.9.1 The Municipality shall provide every person liable to pay for Municipal services assessments rates and taxes with an account in respect of every property for which that person is liable and all services rendered in respect of that property at the address last recorded with the Municipality.

8.9.2 Failure by the Municipality to render an account does not relieve a consumer of the obligation to pay any amount due and payable. The onus shall be on the consumer to obtain

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a copy of the account before the due date.

- 8.9.3 If no account has been received before the 7<sup>th</sup> of a month, a copy should be obtained from the Municipality. The account must at all times be produced when payments are done or enquiries are made. The request of copies of monthly accounts for a whole financial year, will be provided through email.
- 8.9.4 An account rendered by the Municipality for services provided to a consumer shall be paid not later than the last date for payment specified in such account which date will not be more than 21 days after the date of the account.
- 8.9.5 Accounts will be rendered on a monthly basis in cycles of about 35 days and shall be payable on the due date as indicated on the account.
- 8.9.6 Payments shall be deemed to be late unless received on or before the due date as determined by the Municipality. Electronic payments and payments made through agents must be received in a Municipal bank account by the close of business on the due date.
- 8.9.7 The Municipality may consolidate any separate accounts for the municipality will –
- (a) Consolidate any separate accounts of a person(s) or entity liable for payments to the municipality.
  - (b) Credit a payment by such a person against any account of that person.
  - (c) Implement any of the debt collection and credit control measures provided for in this Policy in relation to any arrears on any of the accounts of such a person.
  - (d) Subsection (a) to (c) above does not apply where there is a dispute between the Municipality and a person referred to in that subsection concerning any specific amount claimed by the municipality from that person.
- 8.9.8 Accounts must contain at least the following –
- (a) The consumption or estimated consumption of water and electricity;
  - (b) Property rates and services; and
  - (c) Interest and arrears.
- 8.9.9 Accounts may be accompanied by a notice stating that –

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- (a) Legal action may be instituted against any consumer for the recovery of any arrear amount in terms of the Policy contained herein;
- (b) The defaulting consumer's name may be listed with a credit bureau or any other equivalent body as a defaulter; and
- (c) The account may be handed over to a debt collector for collection.

#### 8.10 Disputes, Queries and Complaints

8.10.1 In this Section "Dispute" refers to when a consumer questions the correctness of any account rendered by the Municipality to such consumer and the consumer lodges an appeal with the Council in accordance with this Section. A consumer may lodge a query or a complaint in respect of any amount that is due and payable by him/her before or on the due date for payment specified in the account concerned or as soon as reasonably possible thereafter.

8.10.2 In order for a dispute to be registered with the Municipality, the following procedures must be followed:

(a) By the Consumer

- (i) The consumer must submit the dispute in writing to the Customer Care Unit of the Municipality before or on the due date for payment specified in the account concerned or as soon as reasonably possible thereafter;
- (ii) It must clearly state that it is a dispute;
- (iii) No dispute will be registered verbally whether in person or over the telephone;
- (iv) The consumer must furnish his full personal particulars including the account number, direct contact telephone number, fax, e-mail addresses and any other relevant information as may be required by the Municipality;
- (v) The full nature of the dispute must be described in the correspondence referred to above;
- (vi) The onus will be on the consumer to ensure that he receives a written acknowledgement of receipt of the dispute from the Municipality; and
- (vii) In the interim the debtor must pay the average normal amount that the debtor paid monthly before the dispute until the matter is resolved.

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(b) By the Council

On receipt of the query or dispute, the following actions are to be taken –

- (i) All incoming queries or disputes must be registered on the Collaborator system and a reference number obtained.
- (ii) A written acknowledgement of receipt of the dispute must be provided to the consumer within 7 days
- (iii) Within 14 days after receipt of a query it must be answered via e-mail, telephonically or by normal mail depending on the contact details available.
- (iv) If the client is not satisfied with the reply or the corrective actions regarding the query and a formal written dispute is received, the authorised official must ensure that the dispute is taken to the Chief Financial Officer for a final decision.
- (v) The Municipality should not institute enforcement proceedings against the consumer for an amount or an account entry that is in dispute until it has resolved the dispute.
- (vi) All investigations regarding disputed amounts must be concluded by Council's Chief Financial Officer or his/her delegate within 21 calendar days from receipt thereof.
- (vii) The consumer shall be advised in writing of the findings.

8.11 Appeals against Findings

8.11.1 A consumer may, in writing, appeal against a finding of the Municipality.

8.11.2 An appeal shall be in writing and shall clearly state that it is an appeal, set out the reasons for the appeal and be lodged with the Accounting Officer within 21 days from the date the consumer was advised of the findings of the dispute investigation.

8.11.3 An appeal must be decided by the Council of the Municipality at its first ordinary meeting held after the appeal was lodged.

8.11.4 The decision of the Council shall be final and the consumer must pay any amounts due and payable in terms of such decision within 14 days from the date of the letter of him/her being advised of the Council's decision.

8.11.5 The Council may, in its sole discretion, condone the late lodging of an appeal or other procedural irregularity.

8.11.6 If the consumer is not satisfied with the outcome of the appeal, he/she may, under protest, pay the amount in dispute and redress his/her action in a court of law.

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## 8.12 Agreement for the Payment of Arrears in Instalments

- 8.12.1 The offer by the consumer to payment arrangements for arrear amounts plus accrued interest thereon shall be embodied in a written agreement signed by the parties. The aforesaid agreement shall include an acknowledgement of debt signed by the consumer and a copy of the agreement shall be made available to the consumer.
- 8.12.2 The Municipality may, on an individual basis, allow a longer period than twenty-four months for the payment of arrears if special circumstances prevail that, in the opinion of the Head: Income, warrants such an extension and which the consumer reasonably could not prevent or avoid. Documentary proof of any special circumstances must be furnished by the consumer on request by the Municipality.
- 8.12.3 In concluding an agreement with a consumer, the arrangement criteria referred to in other sections of this policy shall be applied and, as far as possible, be incorporated into the agreement referred to in this Section.
- 8.12.4 The Municipality may, in exercising its discretion have regard to a consumer's –
- (a) Credit record;
  - (b) Consumption;
  - (c) Level of service;
  - (d) Previous breaches of agreements for the payment of arrears in instalments; and
  - (e) Any other relevant factors.
- 8.12.5 Should a consumer fail to comply with an agreement for the payment of arrears in instalments, the total of all outstanding amounts, including the arrears, any interest thereon, administration fees, costs incurred in taking relevant action, and penalties, including payment of a higher deposit, will immediately be due and payable, without further notice or correspondence.
- 8.12.6 A consumer may, in the sole discretion of the Manager: Income, be allowed to enter into a new agreement for the payment of arrears in instalments where that consumer has failed to honour a previous agreement for the payment of arrears in instalments, entered into after the receipt of a discontinuation notice. In the event of such further agreement been permitted, then the arrangements mentioned in 9.4(f) below shall be applied to such consumer on the basis of primary arrangements.

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8.12.7 Where a body corporate is responsible for the payment of any arrear amount to the Municipality in respect of a sectional title development, other development, private town or complex the liability of the body corporate shall be extended to the members thereof, jointly and severally and the agreement shall reflect this status accordingly.

8.12.8 A copy of the agreement will, on request, be made available to the consumer.

8.12.9 If water is already restricted, the restriction cannot be restored until the arrear debt is paid or a payment arrangement is entered into in terms of this Policy

8.13 Unauthorised Reconnection of Water/Electricity Supply Tampering

8.13.1 The unauthorised reconnection of, or tampering with a service supply is prohibited and shall constitute a criminal offence that will result in legal action being taken against the person responsible for such unauthorised reconnection or tampering. Where this happens, the service reconnected without authorisation or tampered with will be effectively disconnected.

8.13.2 The full amount of arrears plus any unauthorised consumption, and any applicable reconnection tariffs, interest and increased deposit will be payable prior to reconnection. Should exceptional circumstances exist, adequate payment arrangements may be permitted at the discretion of the Accounting Officer in consultation with the Chief Financial Officer.

8.13.3 Tampering at indigent/subsidy household will be handled the same as with normal households

8.14 Unoccupied Premises

8.14.1 When a consumer terminates a services agreement and no new service agreement is entered into with the Municipality, the property shall be deemed to be unoccupied.

8.14.2 Whenever water and/or electricity consumption is recorded at a property that is deemed to be unoccupied, an account will be raised and forwarded to the owner of the property for payment. A written notice in this regard will also be mailed to the owner.

8.15 Installation of Prepaid Meter

8.15.1 If required consumers with arrears must convert to a pre-payment meter, and the arrears total, will be paid off either by –

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- (a) Adding the debt to the arrears bill and repaying it over the agreed period; or
- (b) Adding the debt as a surcharge (auxiliary) to the pre-paid electricity cost, and repaying it with each purchase of electricity until the debt is liquidated.

8.15.2 The first installation of pre-paid meter is free of charge for indigent and subsidised households; however, this is not applicable for more than one meter per property.

8.15.3 The cost of the conversion must first be paid before the actual conversion can be done.

8.15.4 Cancellation of prepaid electricity tokens with a value of R500 or more, must first be inspected before cancellation of the token.

#### 8.16 Allocation of Prepaid Purchases to Arrears

8.16.1 The Municipality will use its pre-payment system to –

- (a) Link the provision of electricity by the Municipality to a "prepayment" system comprising, first prepaid kWh electricity;
- (b) Raise and recover payments in respect of arrear municipal taxes and other municipal levies, tariffs and duties in respect of services such as water, refuse removal and sanitation via a percentage as determined by Council, of the value of units purchased for electricity allocated to any arrears at the following ratio: 50/50 ; and
- (c) To enforce satisfactory arrangements with consumers in arrears by blocking the prepaid meter in order to prevent purchasing of electricity and also enforce the consumer to enter into a service agreement with council and pay the necessary fees as per the Policy.

8.16.2 Pre-paid electricity tokens must be inserted into the meter within three months after the purchase date as the tokens can expire after three months and no refund or replacement of the tokens are allowed.

#### 8.17 Right of Access

8.17.1 An authorised representative of the Municipality must, at all reasonable hours, be given unrestricted access to the consumer's premises in order to read, inspect, install or repair any meter, service or service connection for reticulation, or to disconnect, reconnect, stop or restrict the provision of any service.

8.17.2 The owner will be responsible for all the cost associated with the relocation of a meter if

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satisfactory access is not possible.

#### 8.18 Employer Deductions

8.18.1 The Council may, enter into a written agreement with any employer within the Council's area of jurisdiction to deduct outstanding rates and service charges or to settle regular monthly accounts through deductions from salaries or wages of its employees.

#### 8.19 Property Rates

##### 8.19.1 Property rates (and other annual levies)

- (a) Where rates, sanitation and availability fees (on vacant erven) are paid on a monthly basis or annually, such payment must be made by the due date for payment. Failing this, interest at the standard rate of prime plus 1%, will be levied on the outstanding amount.
- (b) If an account is not paid by the due date as displayed on the account, a notice shall be issued showing the total amount owed to Council.
- (c) If an account is not settled or there is no response from the consumer to make acceptable arrangements to repay the debt, summons may be issued and the legal process followed.
- (d) At any stage while the debt is outstanding, all reasonable steps shall be taken to ensure that the ultimate sanction of a sale-in-execution is avoided or taken only as a last resort. The Council, however, has total commitment to a sale-in execution should the consumer fail to make use of the alternatives provided for by the Council from time to time.
- (e) All rate payers will be placed on the monthly rates payment arrangement, but on application can be changed to an annual rates payment.

##### 8.19.2 Monthly Rates

- (a) Interest will be charged on all overdue accounts at an interest rate of Prime plus 1%;
- (b) The monthly amount payable for current annual rates will be calculated to allow the total balance of such amount to be paid in equal instalments by the end of that financial year.

##### 8.19.3 Rates Clearance Certificate

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- (a) With the sale of a property within the municipal jurisdiction the council shall withhold rates clearance certificate until all rates, services and sundry costs attached to the property is paid and an amount equal to four months' rates and service charges will be collected in advance as part of the rates clearance process. The rates clearance remains valid for 60 days from the date of issuing.

#### 8.19.4 Persons and Businesses Who Tender to the Municipality

- (a) The Procurement Policy and Tender Conditions of the Municipality will include the following –
- (i) Reject any bid from a bidder 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, unless a suitable arrangement has been made between the supplier and the Bitou municipality that the total amount in arrears be recovered directly from the suppliers Invoice during the contract period.

### 9. **DEBT COLLECTION**

#### 9.1 Objective

- 9.1.1 To provide procedures and mechanisms to collect all the monies due and payable to Council arising out of the supply of services and any levies, in order to ensure financial sustainability and delivery of Municipal services in the interest of the community.

#### 9.2 Disconnection / Restriction of Services

- 9.2.1 Consumers who are in arrears with their Municipal account and who have not made arrangements with the Council will have their supply of electricity and water, and other Municipal services, suspended, restricted or disconnected.
- 9.2.2 Council reserves the right to deny or restrict the sale of electricity to consumers who are in arrears with their rates or other Municipal charges.

#### 9.3 Restoration of Services

- 9.3.1 Upon the liquidation of arrears, or the conclusion of an acceptable arrangements for term payment, the service will be reconnected as soon as conveniently possible.

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#### 9.4 Discretion: Negotiable Amounts

- 9.4.1 Discretion in terms of the agreement amounts as per this Policy is delegated to the Chief Financial Officer with the right to sub-delegate.
- 9.4.2 Officials with delegated powers may use discretion as a final tool by which decisions can be made in accordance with this Policy.
- 9.4.3 At all times, and at all levels, discretion will only be used so as to apply the principles embodied in the Policy and to ensure that some form of payment acceptable to Council is forthcoming from negotiations with the consumer.

#### 9.5 Arrangements

##### 9.5.1 Principles for Residential Debtors

- (a) Notwithstanding that all debts should be treated the same, certain categories of debt may be subject to category specific repayment parameters.
- (b) Current charges must be paid in full and cannot be negotiated.
- (c) The consumer may be required to prove levels of income and must agree to a monthly payment towards arrears based on his ability to pay or based on his total liquidity if Council so requires.
- (d) All negotiations with the consumer should strive to result in an agreement that is sustainable and is most beneficial to Council.
- (e) Debtors, excluding housing debtors, who default on two occasions in respect of arrangements made, will be denied the privilege of making further arrangements and the full amount becomes due and payable.
- (f) All arrangements should be subject to periodic review.
- (g) All services may be disconnected or restricted and legal action will be taken against consumers as provided for in this Policy and/or such debt may be referred to third party debt collectors, for recovery.

##### 9.5.2 Arrangement Criteria for Residential Debtors

- (a) All consumers who are in arrears and apply to make arrangements to reschedule their

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debt will, be obliged to make the following minimum payment requirements at the time of entering into such arrangement –

- (i) Current account plus the cost of credit control actions;
- (ii) A monthly instalment which will liquidate the arrear amount plus accrued interest thereon within a period of 36 months at the discretion of the Manager Income. The below table to be used as guide:

Household income	Debt R 2 001 – R 5 000	Debt R 5 001 – R 10 000	Debt above R 10 000
Up to R 10 000	12 months	24 months	36 months
More than R 10 000	8 months	18 months	24 months

#### 9.5.3 Arrangement Criteria for Non-Residential Debtors

- (a) Non-residential debtors may make arrangements to liquidate their arrears where it would be financially beneficial to the Council for them to do so.
- (b) The final decision to make these arrangements will rest with the Chief Financial Officer with the authority to sub-delegate.

#### 9.6 Listing of Debtor with Credit Bureau

9.6.1 Where an account rendered to a consumer remains outstanding for more than 60 days –

- (a) The defaulting consumer's name may, at the option of the Municipality, be listed with a credit bureau or any other equivalent body as a defaulter; and
- (b) May be handed over to a debt collector or an attorney for collection.

#### 9.7 Termination, Limitation and Discontinuation of Services

9.7.1 A consumer may terminate an agreement for the provision of services by giving to the Municipality not less than seven days' notice in writing of the consumer's intention to do so.

9.7.2 The Municipality may, after having given notice, terminate an agreement for services if a

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consumer has vacated the premises to which such agreement relates.

9.7.3 The Municipality may, subject to the conditions contained in this Policy, limit or discontinue services provided in terms of this Policy –

- (a) On failure by the consumer to pay the prescribed tariffs or charges on the date specified and after the final demand referred to in this Policy has been issued and there has been no response from the consumer.
- (b) On the failure of the consumer to comply with the provisions of any agreement entered into with the Municipality in terms of this Policy.
- (c) On failure by the consumer to comply with any other provisions of this Policy and after due notice has been given to the consumer.
- (d) If the agreement for the provision of services has been terminated and the Municipality has not received an application for subsequent services to the premises after a period of 30 days of such termination, transfer the services to the account of the owner. After 3 months, a deposit will be levied on the owners account.
- (e) If the building on the premises to which services were provided has been demolished.
- (f) If the consumer has interfered with a limited or discontinued service; or
- (g) Obstructs the efficient supply of electricity, water or any other municipal services to another customer.
- (h) Supplies such municipal service to a consumer who is not entitled thereto or permits such service to continue.
- (i) Causes a situation, which in the opinion of the Municipality is dangerous, or a contravention of relevant legislation.

9.7.4 The deposit of any defaulter may be adjusted and brought into line with relevant policies of Council.

9.7.5 The cost of the restriction or disconnection and the reconnection, will be payable as per the tariffs approved by Council.

9.7.6 The Municipality will not be liable for any damages or claims that may arise from the limitation or discontinuation of services provided in terms of this Section.

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## 9.8 Services Not Reconnected or Reinstated

9.8.1 If services have been terminated or restricted in the case of a property in respect of which the account is in arrear, and the accountholder has not paid such arrears, including the interest raised on such account, or made an acceptable arrangement with the Accounting Officer for the payment of the arrear account, including the interest raised on such account, within a period of 28 (twenty eight) calendar days after the date of termination or restriction of the service(s) concerned, the Accounting Officer or the Municipality's Debt Collection Agent can forthwith proceed with legal collection actions and such further action as is deemed necessary.

9.8.2 Such further action shall include if necessary, the sale in execution of such property to recover arrear property rates and service charges (if the accountholder is also the owner of the property). All legal expenses incurred by the Municipality shall be for the account of the defaulting accountholder.

## 9.9 Notices and Documentation

9.9.1 An order, notice or other document issued by the Municipality in terms of this Policy shall be deemed to be duly authorised by the Council of the Municipality if signed by the Accounting Officer or by a duly authorised employee of the Council.

9.9.2 Any notice or other document served on a person by the Municipality in terms of any other legislation is regarded as having been served by –

- (a) Delivering the notice to him/her personally or to his duly authorised agent; or
- (b) Delivering the notice at his residence or place of employment to a person apparently not less than sixteen years of age and apparently residing or employed there.
- (c) If he has nominated an address for legal purposes, by delivering the notice to such an address; or
- (d) If he has not nominated an address for legal purposes, delivering it to the address given by him/her in his application for the provision of water services, for the reception of an account for the provision of water services.
- (e) Sending it by pre-paid registered or certified post addressed to his last known address.
- (f) In the case of a body corporate, by delivering it to the registered office or the business premises of such a body corporate.

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(g) If service cannot be effected in terms of the aforesaid subsections by affixing it to the principal door of entry to the premises, or displaying it on a conspicuous place.

9.9.3 In the case where compliance with a notice is required within a specified number of working days, such period shall be deemed to commence on the date of delivery or sending of such notice.

9.9.4 Delivery of a copy of the document shall be deemed to be delivery of the original.

9.10 Legal Processes / Use of Attorneys / Use of Credit Bureaus

9.10.1 The Accounting Officer may, when a debtor is in arrears for a period of more than 60 days, commence legal process against that debtor, which process could involve final demands, disconnections, restrictions, summonses, judgements, execution of loose assets, garnishee orders and as a last resort, sales in execution of property.

9.10.2 The Accounting Officer will exercise strict control over this process, to ensure accuracy and legality within it, and will require regular reports on progress from outside parties, be they attorneys or any other collection agents appointed by Council.

9.10.3 Council will establish procedures and codes of conduct where external service providers have been appointed to collect outstanding debtors.

9.10.4 Emolument Attachment order, in the case of employed debtors, are preferred to sales in execution, but both are part of Council's system of debt collection procedures.

9.10.5 All steps in the consumer care and credit control procedure will be recorded for Council's records and for the information of the debtor.

9.10.6 Individual debtor accounts are protected and are not the subject of public information. However, Council may release debtor information to credit bureaus.

9.10.7 Council may consider the cost effectiveness of the legal process, and will receive reports on relevant matters.

9.10.8 Council may consider the use of agents as service providers and innovative debt collection methods and products. Cost effectiveness, the willingness of agents to work under appropriate codes of conduct and the success of such agents and products will be part of the agreement Council might conclude with such agents or service providers; and will be closely monitored by Council.

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## 10. INDIGENT, SENIOR CITIZENS AND PEOPLE WITH DISABILITY

### 10.1 Objectives of this Policy

#### 10.1.1 The objectives of this Policy is to –

- (a) Determine the criteria for qualification of indigent and poor households;
- (b) Ensure that the criteria are applied correctly and fairly to all applicants;
- (b) Allow the Municipality or its authorised agent to conduct in local visits to the premises of applicants to verify the actual status of the household;
- (d) Allow the Municipality to maintain and publish the register of names and addresses of account holders receiving subsidies;
- (e) Ensure the provision of basic services to the community in a sustainable manner within the financial and administrative capacity of the Council; and
- (f) Ensure the provision of procedures and guidelines for the subsidisation of basic service charges to indigent households.

### 10.2 Principles of this Policy

10.2.1 The administrative integrity of the Municipality must be maintained at all costs. The democratically elected Councillors are responsible for making the Policy, while it is the responsibility of the Accounting Officer to ensure the execution of this Policy.

10.2.2 All applicants qualifying for an indigent subsidy, must complete an official application form, which is to be submitted together with the supporting documents as specified in this Policy.

### 10.3 Criteria for Indigent or Poor Households

#### 10.3.1 Indigent Income Households

- (a) To qualify as an Indigent Income Household, a household must comply with the following criteria –
  - (i) For an Indigent subsidy the verified gross household monthly income, may not exceed the sum of two times the amount of Government old age pensions plus 30% rounded up to the next R 100. (For the 2023/2024 financial year the

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indigent household threshold will be R 5,200 per month ((R 2 000 x 2 = R 4 000) plus 30%) = R 5,200 per month rounded up to next R 100 = R 5 200 per month)

- (ii) The registered indigent must be the full-time occupant of the property concerned.
- (iii) Owners may only qualify for one property/household. Should the indigent household's owner/s of a property have another property registered in his/her name/s; the owner will not qualify for indigent subsidy on the property not occupied by the owner. The occupants of the second property may, subject to the provisions of paragraph 10.6.7 qualify for the full indigent subsidy or alternatively receive only 50 kWh units of free electricity and 6 kl of free water per month if they meet the criteria of being registered as an indigent household.

#### 10.4 Application for Indigent Income Households

10.4.1 The applicant must apply in person at the Municipal Finance Offices on the prescribed application form. The following items must accompany the application –

- (a) The latest municipal account of the household;
- (b) Certified copy of the applicants' identity document and all other occupants;
- (c) Proof of income (SASSA Affidavit, Salary Slip, Bank Statement etc.) of the total household income; and
- (d) Sworn affidavit if unemployed.
- (e) Consent for income verification (ADDENDUM)
- (f) Any other documentation required to assist with the application

10.4.2 The indigent status for a household will be valid as follows:

10.4.2.1 The indigent status of a customer will remain valid and will be determined continuously throughout the year as determined by the municipality either by physical audit checks or by external verification checks ( accredited service providers) but will be verified at least annually. Should the requirements for qualification as indigent not be met, the subsidy for the consumer will be cancelled..

10.4.2.2 The application period for indigents will be continues throughout the financial year

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## 10.5 Consequence of a false sworn affidavit

10.5.1 If a sworn affidavit is false, the following will happen –

- (a) The indigent benefit will be cancelled and the applicant will not be eligible to apply for indigent support for a period of 2 years;
- (b) All previous discounts for the current financial book year will be reversed; and
- (c) Local Audit (Verification) of Indigent Household Income.

10.5.2 The Municipality reserves the right to send officials and/or representatives of the Municipality to the property/household or site of the applicant(s) at any reasonable time, with the aim of carrying out a local verification of the accuracy of the information provided by the applicant(s).

10.5.3 The Municipality also reserves the right to contact employers in Bitou to verify whether a person applying for subsidy is employed by them.

## 10.6 Subsidy

10.6.1 Indigent subsidies will be funded from the equitable share contribution made from the national government's fiscal policy and as provided for in the municipal budget.

10.6.2 Subsidised services may include water, electricity, sanitation, refuse removal and assessment rates or any other sundry levies.

10.6.3 If a consumer's consumption or use of the municipal service is less than the subsidised service, the unused portion will not be accrued by the consumer and will not entitle the consumer to cash or a rebate in respect of the unused portion.

10.6.4 All consumers who qualify for a subsidy must agree to the installation of a prepaid electricity meter and a smart water meter/water management device and will, if in arrears, be placed on restricted service levels in order to limit further escalation of debt. Installation of these meters is free of charge for indigent and subsidised households.

10.6.5 Approved applicants will qualify for a debt write-off on arrears for the property applied for.

10.6.6 Where a qualifying consumer's account is paid in full at the date of application, or regularly maintains a paid-up account after receiving the subsidy, the restriction on service levels will be waived. If the account is cleared due to the arrear debts being written off, the restriction

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on service levels can only be waived after usages normalised and during which the account was paid in full every month.

10.6.7 Where the household qualifies for the subsidy but is not the owner or account holder of the property, the tenant can be subsidised for the services received as per on the owners account.

10.6.8 A subsidised consumer must immediately request deregistration by the Municipality or its authorized agent if his/her circumstances have changed to the extent that he/she no longer meet the criteria.

10.6.9 A subsidised consumer may at any time request deregistration.

10.6.10 A list of subsidised consumers will be maintained and audited on a regular basis and the info may be supplied to the general public.

#### 10.7 Rates and Services Subsidies per Category

##### 10.7.1 Indigent Households

- (a) 6 kl free Water and the basic charge per month;
- (b) 50 kWh Electricity and no basic charge per month.
- (c) Refuse removal – no basic charge per month;
- (d) Sewerage – no basic charge per month and 1 free sewer removals (septic tank) per month;
- (e) Property Rates – property rates up to a maximum municipal valuation of R 350,000;
- (f) Other Indigent Household Subsidies –
  - (i) Water leakages where water leakages occur at indigent or pensioner's households, such leakages must be reported in accordance with the water leakage policy, after which the remaining debt may be written off and recovered from the equitable share grant.
  - (ii) Fire Fighting Fees –
    - (aa) All firefighting fees that was levied on indigent income households and pensioner's households may be written off.
    - (bb) In cases where the client is an indigent valuation household or pensioner household, an audit must be performed to determine whether the client would have qualified as an indigent income household or pensioner household, before the debt will be presented to Council for write off.

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(g) Blocked Drains and Sewerage –

- (i) All fees relating to blocked drains and sewerage may be written off that was levied on indigent income households and pensioner households.
- (ii) In cases where the client is an indigent valuation household or pensioner household, an audit must be done to determine whether the client would have qualified as an indigent income household or pensioner household, before the debt will be presented to Council for write off.

10.7.2 Additional financial assistance categories

- (a) Additional financial assistance will be given to households in the following income groupings above the indigent household's threshold –
  - (i) Category A: R 5,201 – R 6,710 = 40%;
  - (ii) Category B: R 6,711 – R 8,723 = 30%;
  - (iii) Category C: R 8,724 – R 11,340 = 20%;
  - (iv) Category D: R 11,341 – R 14,743 = 10%
- (b) The financial assistance through the percentages quoted in sub-paragraph (a) above to be provided through the equitable share allocation will apply to all basic service charges (water, sanitation, refuse and electricity) levied as per the income groups quoted above.
- (c) The financial assistance through the percentages quoted in sub-paragraph (a) above to be provided through the equitable share allocation will apply to property rates levied up to a maximum municipal valuation of R 350 000 as per the income groups quoted above.

**11. IRRECOVERABLE DEBT**

11.1 Irrecoverable debt will be written-off in terms of Council's Writing-Off of Irrecoverable Debt Policy.

11.2 Debt Will Be Regarded as Irrecoverable If

11.2.1 The Accounting Officer has ensured that all avenues were utilized to collect the arrear debt.

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11.2.2 Circumstances whereby a Council may validate the termination of debt collection procedures as contemplated in Section 109(2) of the Municipal Systems Act:

- (a) All reasonable notifications and cost-effective measures to recover a specific outstanding amount have been exhausted; or
- (b) If the amount to be recovered is too small to warrant further endeavours to collect it; or
- (c) The cost to recover the debt does not warrant further action, i.e. to summons in another country; or
- (d) Inactive accounts where all the necessary steps have been taken with no success and/or the debtor has no assets; or
- (e) The amount outstanding is the residue after payment of a dividend in the rand from an insolvent estate, sequestration, liquidation; or
- (f) A deceased estate has no liquid assets to cover the outstanding amount; or
- (g) Poor household with no liquid assets (*nulla bona*) to cover the outstanding debt; or
- (h) It has been proven that the debt has prescribed; or
- (i) The consumer is untraceable or cannot be identified so as to proceed with further action; or
- (j) It is impossible to prove the debt outstanding; or
- (k) The outstanding amount is due to an administrative error by Council; or
- (l) If the debtor qualifies as an indigent or poor household and are receiving a subsidy; or
- (m) Clients in correctional care or clients who are imprisoned and there is no way of recovering the debt; or
- (n) Water leakages resulting in high water levies at registered indigent or poor households; or
- (o) Firefighting fees at registered indigent or poor households; or

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- (p) Blocked drains and sewerage at registered indigent or poor households.

### 11.3 Criteria for the Determination of the Recoverability or Non-Recoverability of Debt

11.3.1 All cases with the following classification “summons, judgment or execution” should be tested prior to the taking of action, with regard to the following –

- (a) Asset’s Survey. To undertake a home visit to make a survey of the type of house, its contents and other assets like vehicles registered in the name of the account holder; and
- (b) As well as the combined income of the household. The result of this survey will determine whether further action is to be taken.

11.3.2 If the survey however reveals that the debt is still not recoverable after all necessary steps has been taken, it should be tabled for consideration by Council to write off the debts.

## 12. OFFENCES AND PENALTIES

12.1 The Council acknowledges that, in terms of Section 119 of the Local Government: Municipal Systems Act of 2000 it is an offence for any person who –

- (a) Fails to give the access required by a duly authorised representative of the Municipality in terms of this Policy as refers to in clause 8.17 above;
- (b) Obstructs or hinders a duly authorised representative of the Municipality in the exercise of his or her powers or performance of functions or duties in terms of this Policy;
- (c) Unlawfully uses or interference with municipal equipment or the consumption of services supplied to any customer;
- (d) Tampers with or breaks any seal on a meter or on any equipment belonging to the Municipality, or causes a meter not to register properly for the service used;
- (e) Fails, or refuses, to give a duly authorised representative of the Municipality such information as he or she may reasonably require for the purpose of exercising or performing his or her powers or functions in terms of this Policy, or gives such representative false or misleading information, knowing it to be false or misleading; or

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- (f) Contravenes, or fails to comply with, a provision of this Policy, shall be guilty of an offence.

12.2 When any of the above-mentioned offences is detected, a tamper fee will be payable. Services will only be reconnected once this fee and outstanding debt is paid.

12.3 Council may decide on further prosecution through the court, where the court will determine further penalties or imprisonment.

### 13. TAMPERING POLICY

#### 13.1 Objective

13.1.1 Section 97(1) (h) of the Act stipulates that a Municipality's Credit Control and Debt Collection Policy must provide for matters relating to unauthorised consumption of services, theft and damages.

13.1.2 The objective of this Policy is to provide in this Policy an extension of Credit Control and Debt Collection Policy for the matters referred to in that section.

#### 13.2 Implementing Authority

13.2.1 The Accounting Officer must implement and enforce this Policy and any By-laws enacted to give effect to this Policy.

#### 13.3 Unauthorised use of property of the Council

13.3.1 No one may tamper with any municipal equipment or property.

13.3.2 An authorised officer must inspect the equipment and property of the Municipality when he or she suspects tampering –

- (a) That any illegal connections were attached to such equipment or property; or
- (b) That any unauthorised consumption or use of services is taking place; or
- (c) Any theft of such equipment or property; or
- (d) Any damage to such equipment or property.

#### 13.4 Municipality's right of access to premises

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13.4.1 In terms of Section 101 of the Act the occupier of premises in a Municipality must give an authorised officer access at all reasonable hours to the premises in order to read, inspect, repair; any meter or service connection for reticulation, or to stop or restrict the provision of any service.

13.5 Power to restrict or terminate supply of services

13.5.1 Where the Municipality has suffered any loss or damage as a result of any act contemplated in paragraph 13.3 a penalty equal to the amount of damages or loss may be imposed on the occupier of the premises concerned.

13.5.2 The occupier must be notified of the amount of damage or loss by means of a notice which is hand delivered, or sent per mail, to the latest recorded address of the occupier, and such notice must also stipulate the date on or before which such amount must be paid to the Municipality.

13.5.3 The Council may in addition to the steps contemplated in paragraph (2) limit or discontinue the supply of water and electricity in terms of the prescribed disconnection procedures or discontinue any other service to any premises.

13.5.4 The Council may notify the consumer to the latest recorded address of the consumer a discontinuation notice informing such consumer –

(a) That the provision of the service will be, or has been discontinued on the date stated on the discontinuation notice; and

(b) Of the steps which can be taken to have the service reconnected.

13.5.5 The Council shall reconnect or restore full levels of supply of any of the restricted or discontinued Municipal services only after the full amount of the penalty, including the costs of such disconnection and reconnection, if any, have been paid in full, or any other relevant condition or conditions of the Council's Credit Control Policy as it may deem fit have been complied with.

13.5.6 The right of the Council or any duty appointed agent to limit or discontinue water to any premises or customer, shall be subject to the provisions of Sections 3 and 4 of the Water Service Act, (Act No. 108 of 1997).

13.6 Illegal reconnections and/or tampering

13.6.1 The Accounting Officer shall, as soon as it comes to his/her attention that any terminated

Policy Title: Customer Care, Credit Control, Debt Collection, Indigent and Tampering Policy FINANCIAL YEAR: 2023/24  
Status: Final Review, submitted to Council on 29 May 2023 with Final Budget per Item C/2/126/05/23

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or restricted service has been irregularly reconnected or reinstated, instate one, some or all of the following enforcement actions –

- (a) Not reinstate such service(s) until the arrear account, including the interest raised on such amount, the charges for the notice sent and the charges for both the original and subsequent reconnection or reinstatement of the service(s) and the revised deposit and penalty have been paid in full for normal meters and prepaid electricity meters;
- (b) Laying criminal charges with the police;
- (c) Cancel the contract; or
- (d) In the event of a second tampering of an electricity installation or where the meter has been damaged with the tampering, the meter will be removed, and only be replaced with a prepaid split meter, after the cost of the meter as well as the fine has been paid.

13.6.2 All indigent households shall be visited by a person or firm delegated by Council on a regular basis to investigate tampering and illegal connection cases and or to inspect the status of meter's connections and restrictions and/or flow limiters.

#### **14. COMMENCEMENT**

14.1 In the event of an inconsistency between the English, Afrikaans or Xhosa text, the English text shall prevail.

14.2 This Policy will come into effect on 1 July 2023.

14.3 This Policy will be reviewed each year as part of the budget approval process.

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# Writing-Off Of Irrecoverable Debt Policy

**REVIEWED**

**2023/2024**



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## **1. INTRODUCTION**

- 1.1 To ensure that household consumers with no or little income are not denied reasonable basic services and that the Municipality is not financially burdened with non-payment of these basic services, the Council of Bitou Municipality approved policies on property rates, tariffs, customer care, credit control, debt collection and indigent support to be implemented.
- 1.2 Despite strict enforcement of the above policies, Council will continuously be confronted by circumstances requiring the possible writing-off of irrecoverable debt.
- 1.3 The Municipal Manager must ensure that all avenues are utilised to collect the Municipality's debt. However, for various reasons there will always be bad debt cases that needs to be catered for through a policy on the writing-off of irrecoverable debt for circumstances that allow for the valid termination of debt collection procedures as contemplated in section 109(2) of the Local Government: Municipal Systems Act (No 32 of 2000), such as –
  - 1.3.1 The insolvency of a debtor whose estate has insufficient funds;
  - 1.3.2 A balance being too small to recover, for economic reasons, considering the cost of recovery; and
  - 1.3.3 Where Council deems that a customer or group of customers are unable to pay for services rendered.
- 1.4 The Municipality will have to maintain audit trails in such instances where bad debt is written-off and document the reasons for the abandonment of the actions or claims in respect of the bad debt.

## **2. PURPOSE OF THE POLICY**

- 2.1 The purpose of the Writing-Off of Irrecoverable Debt Policy is to ensure that the principles and procedures for the writing-off of irrecoverable debt are formalised to ensure that consumers (especially households) are relieved of their spiral of debt.

## **3. RESPONSIBILITY AND ACCOUNTABILITY**

- 3.1 The Council has the overall responsibility and accountability for adopting and approving of the Writing-Off of Irrecoverable Debt Policy.

## **4. POLICY PRINCIPLES**

- 4.1 The following are the guiding principles for the implementing of the Writing-Off of Irrecoverable Debt Policy (hereafter called the Policy) –
  - 4.1.1 The Policy will comply with the Local Government: Municipal Finance Management Act (No 56 of 2003), the Local Government: Municipal System Act (No 32 of 2000) and other related legislation.
  - 4.1.2 Before any debt is written-off it must be proved that the debt has become irrecoverable. To ensure that recommendations for the writing-off of debt are consistent and accurate; irrecoverable debt will be defined as –
    - (a) Where the tracing of the debtors is unsuccessful;

- (b) All reasonable steps, in terms of the Policy, were taken by the administration to recover the debt; and
- (c) Any debt defined by a committee of Council at their discretion as irrecoverable.

- 4.1.3 Bad debt to be written-off must be considered in terms of cost benefit. Therefore, when it becomes too costly to recover and the chances of collecting the debt are very slim, a write-off should be considered.
- 4.1.4 Time value of money is very important because the older the debt becomes, the more difficult and costly it becomes to collect. It is therefore imperative that a proper system of credit control is implemented and maintained to avoid debt reaching the stage of becoming too expensive to recover.
- 4.1.5 Differentiation must be made between those household consumers who cannot afford to pay for basic services (indigent households) and those who just do not want to pay for basic services.
- 4.1.6 Debt can only be written-off if the required provision for bad debts exists in the Municipality's budget and/or reserves.

## **5. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR INCENTIVES AND WRITING-OFF OF IRRECOVERABLE DEBT**

### **5.1 Indigent household consumers**

- 5.1.1 Upon approval for registration as an indigent household consumer, the debtor's outstanding balance as at the date of approval will be written-off.
- 5.1.2 Any new arrears accumulated by the debtor (i.e. any amounts in excess of the indigent allowance for free basic services) whilst registered as an indigent consumer, will not qualify to be written-off and must be dealt with strictly in accordance with the Municipality's Customer Care, Credit Control, Debt Collection, Indigent and Tampering Policy. Therefore, these arrears can only accumulate for –
  - (a) The kilolitres of water consumed or to be consumed above the six (6) kilolitres of free water per month by an indigent household who has an installed conventional water meter; and
  - (b) Excess rates payable on the market value of a residential property that are not exempted from paying property rates and that does not qualify for a 100% indigent subsidy in terms of Council's Property Rates Policy.

### **5.2 Small balances**

- 5.2.1 Where final accounts have been submitted and paid by the respective consumer, and the remaining balance after finalisation of any final readings, other administrative costs and consumer deposits taken into consideration results in a balance of two thousand rand (R 2,000) or less, or the amount determined by Council from time to time during the budget approval process, such amount must be written-off with the proviso that:
  - (a) When the balance amounts to R 500 or less, or the amount determined by Council from time to time during the budget approval process, the account must be forwarded once to the consumer for payment;

- (b) When the balance amounts to R 1,000 or less, or the amount determined by Council from time to time during the budget approval process, the account must be forwarded once to the consumer with a follow-up reminder for payment; and
- (c) When the balance amounts to R 2,000 or less, or the amount determined by Council from time to time during the budget approval process, the account must be forwarded once to the consumer with a follow-up reminder and a final reminder for payment.

5.2.2 Where such account is not paid by the respective consumer within a period of ninety (90) days, such amounts will automatically be written-off subject to the provisions of paragraph 6.1 below.

### 5.3 Insolvent debtors and insolvent deceased estates

5.3.1 Where a debtor becomes insolvent the Municipality must ensure that a creditor's claim is timeously registered. Any amount not being recovered due to insufficient funds must be written-off subject to the provisions of paragraph 5.5 and 6 below.

5.3.2 In case of the death of a debtor a creditor's claim must be timeously registered against the deceased's estate. Any amount not being recovered due to insufficient funds must be written-off subject to the provisions of paragraph 5.5 and 6 below.

### 5.4 Untraceable debtors

5.4.1 Where for any reason the forward address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such an account must be handed over to a collection agent for recovery of the debt (paragraph 5.2 cases excluded).. The terms of reference for such a collection agent must include the appointment of a tracing agent to locate the debtor. Should a debtor be untraceable, the collection agent must report to the Municipality on the actions that were taken to attempt to trace the debtor.

5.4.2 Any amount owed by a debtor that has become untraceable must be written- off or may be sold to a debt collection agent at a discount.

5.4.3 Debt written-off in terms of paragraph 5.4.2 above will automatically result in the debtor being reported to a credit bureau by the Municipality.

### 5.5 Clearance certificates

5.5.1 In terms of Section 118 of the Local Government: Municipal Systems Act, Bitou Municipality may not issue a clearance certificate on any property unless all outstanding amounts that became due during the two years preceding the date of application are paid to date.

5.5.2 In terms of Section 118 (3) of the Systems Act, an amount due for municipal service fees, surcharge on fees, property rates and other municipal rates, levies and duties are a charge upon the property in connection with which the amount is owing and enjoys preference over any mortgage bond registered against the prop

5.5.3 All debt is deemed to be collectable from the seller of a property by the municipality despite a Clearance Certificate issued in terms of section 118 (1)(b). After registration of the transfer the outstanding debt of the previous owner may not be collected from the new owner.

5.6 Special incentives for household consumers

- 5.6.1 Notwithstanding the Municipality's Customer Care, Credit Control, Debt Collection, Indigent and Tampering Policy, a debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the Municipality under the following conditions –
- (a) The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments as determined per arrangement;
  - (b) The current monthly amount must be paid in full; and
  - (c) The written agreement has to be signed on behalf of the Municipality by a duly authorised official.
- 5.6.2 In order to determine monthly instalments; a declaration of the households monthly / or yearly income must be provided by the debtor and reviewed by a finance official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer (amount to be capped not to exceed 20% of gross income), taking into account that the payment of the monthly current account is a prerequisite for concluding a suitable arrangement.
- 5.6.3 Due to ineffective implementation of credit control measures in the past; the majority of household consumers have accumulated significant arrear amounts and these consumers are not in a position to pay off these arrear amounts in full together with their current monthly accounts. In order to improve the current payment levels from consumers the Municipality has resolved to implement special incentives to address the arrear debt as from the effective date of the implementation of this policy.
- 5.6.4 To encourage household consumers to pay off arrear debt, Council will enter into a once-off arrangement with a household consumer to pay off his / her arrear debt over a period of time in terms of specific incentives. The main aim of an agreement will be to promote full payment of the current account and to address affordable arrear payments on a consistent basis.
- 5.6.5 Writing-off any irrecoverable debt in terms of such an agreement will be strictly in accordance with a maximum repayment period of 36 months and the capped limitation of 20% of gross income referred to in paragraph 5.6.2 above.
- 5.6.6 Two suspended accounts may be created; one for the arrear debt to be paid of through arrangements (monthly instalments) and another one for the irrecoverable debt portion to be written-off. Levying of interest on suspended accounts will immediately be suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the suspended account balances.
- 5.6.7 As long as the agreement is honoured no further interest will be added to the suspended account/s. However, in the case of continuous default for a period of six months or more the suspended amount/s will be reversed to the monthly current account and interest will again be levied on the full outstanding debt from the date of reversal.
- 5.6.8 Should a household consumer have more than one account (suspended and handed over debt) and wants to make an arrangement in terms of this Policy; the household consumer's debt will be consolidated and a single arrangement be made with the

Municipality. Handed over accounts will be withdrawn from collection agents (attorneys) and arrangements made with the Municipality on the household's consumer debt will be managed by the Municipality itself.

- 5.6.9 Where arrangements are made to pay off the arrear amount in instalments, such instalments should be determined on the outstanding amount/s, taking the limitations of paragraph 5.6.2 into consideration. Such arrangements (over a three-year period) must be honoured for at least a year where after one third of the irrecoverable debt will be written-off. If the arrangements are honoured for year two as well, another one third of the irrecoverable debt will be written-off. The same will apply for year three where after the household consumer should be out of his spiral of municipal debt.
- 5.6.10 When a debtor who does not want to make arrangements for the repayment of his / her arrear debt as set out in paragraph 5.6.2 above wants to pay 50% on their arrear debt through a once-off payment, the remaining 50% on their arrear debt will be written-off immediately. The arrear debt amount to be considered to be written-off on the 50% incentive basis will be the arrear debt amount (principal debt, interest levied and other costs) older than 12 months from the date of application .
- 5.6.11 Irrecoverable amounts to be written-off in terms of paragraph 5.6 above shall be subject to the provisions of paragraph 6.1, 6.2 and 6.3 below.
- 5.7 Special incentives for churches, welfare organisations, sporting bodies, emerging farmers, etcetera
- 5.7.1 Notwithstanding the Municipality's Customer Care, Credit Control, Debt Collection, Indigent and Tampering Policy, a debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the municipality under the following conditions –
- (a) The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
  - (b) The current monthly amount must be paid in full; and
  - (c) The written agreement has to be signed on behalf of the Municipality by a duly authorised official.
- 5.7.2 In order to improve the current payment levels from this category of consumers the municipality has resolved to implement special incentives to address the arrear debt.
- 5.7.3 To encourage this category of consumers to pay off arrear debt, Council will enter into a once-off arrangement with this category of consumers to pay off their arrear debt over a period of time in terms of specific incentives. The main aim of an agreement will be to promote full payment of the current account and to address the affordable arrears on a consistent basis.
- 5.7.4 Suitable and acceptable arrangements in terms of such an agreement will be strictly in accordance with a maximum repayment period of 12 months.
- 5.7.5 Levying of interest on arrear accounts (arrear account to be created separately from the current account) should immediately be suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the arrear account balances.

- 5.7.6 As long as the agreement is honoured no further interest will be added. However, in case of default the suspended amount will be reversed and interest will again be levied from the date of reversal.
- 5.7.7 When a debtor in this category of consumers who does not want to make arrangements for the repayment of their arrear debt as set out in paragraph 5.7.4 above pays 50% on their arrear debt through a once-off payment, the remaining 50% on the arrear debt will be written-off immediately. The arrear debt amount to be considered to be written-off on the 50% incentive basis will be the arrear debt amount (principal debt, interest levied and other costs) older than 12 months from the date of application .
- 5.7.8 Where debtors fail to honour their arrangements without prior consultation, the suspended debt will be reversed to their current account and interest will be reinstated and added to their current account from date of reversal.
- 5.7.9 Any amount to be written-off in terms of paragraph 5.7 above shall be subject to the provisions of paragraph 6.1, 6.2 and 6.3 below.
- 5.8 Special incentives for businesses, industrial and agricultural consumers
- 5.8.1 Notwithstanding the Municipality's Customer Care, Credit Control, Debt Collection, Indigent and Tampering Policy, a debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the municipality under the following conditions:
- (a) The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
  - (b) The current monthly amount must be paid in full; and
  - (c) The written agreement has to be signed on behalf of the Municipality by a duly authorised official.
- 5.8.2 In order to improve the current payment levels from this category of consumers the Municipality has resolved to implement special incentives to address the arrear debt.
- 5.8.3 To encourage this category of consumers to pay off arrear debt Council will enter into a once-off arrangement with this category of consumers to pay off their arrear debt over a period of time in terms of specific incentives. The main aim of an agreement will be to promote full payment of the current account and to address the affordable arrears on a consistent basis.
- 5.8.4 Suitable and acceptable arrangements in terms of such an agreement will be strictly in accordance with a maximum repayment period of 12 months.
- 5.8.5 Levying of interest on arrear accounts (arrear account to be created separately from the current account) should immediately be suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the arrear account balances.
- 5.8.6 As long as the agreement is honoured no further interest will be added. However, in case of default the suspended amount will be reversed and interest will again be levied from the date of default.
- 5.8.7 When a debtor in this category of consumers who does not want to make arrangements for the repayment of their arrear account as set out in paragraph 5.8.4

above pays 50% on their arrear debt through a once-off payment, the remaining 50% on their arrear debt will be written-off immediately. The arrear debt amount to be considered to be written-off on the 50% incentive basis will be the arrear debt amount (principal debt, interest levied and other costs) older than 12 months from the date of application .

5.8.8 Where debtors fail to honour their arrangements without prior consultation, the suspended debt will be reversed to their current account and interest will be reinstated and added to their current account from date of reversal.

5.8.9 Any amount to be written-off in terms of paragraph 5.8 above shall be subject to the provisions of paragraph 6.1, 6.2 and 6.3 below.

#### 5.9 Special incentives for government departments and schools

5.9.1 Any incentive arrangement and amount to be written-off for this category of consumers will be reviewed by a committee of Council who will make a recommendation to the Executive Mayor and Mayoral Committee for consideration.

5.9.2 The Executive Mayor will have the discretion and the delegated powers to resolve on any amount to be written-off notwithstanding the recommendation of the committee of Council.\*

#### 5.10 Irrecoverable debt not catered for in the Policy

5.10.1 Should there be any irrecoverable debt cases that the administration and the committee of Council cannot dispose of in terms of this Policy, particulars of the irrecoverable debt cases shall be submitted to the committee of Council who will make a recommendation to the Executive Mayor and Mayoral Committee for consideration.

5.10.2 The Executive Mayor will have the discretion and the delegated powers to resolve on any amount to be written-off in these instances notwithstanding the recommendation of the committee of Council.

### 6. **DELEGATIONS**

#### 6.1 Chief Financial Officer

6.1.1 The Chief Financial Officer will, after thorough review of any applications in terms of this policy, have the delegated powers to write-off any irrecoverable debt to the maximum amount of R 20,000 per consumer (current, suspended and handed over amounts consolidated) per submission or the amount determined by Council from time to time during the budget approval process.

#### 6.2 Municipal Manager

6.2.1 Any amount in excess of the delegation provided for in paragraph 6.1.1 above must be submitted together with a recommendation to the Municipal Manager for consideration. The Municipal Manager will, after thorough review of any recommendation by the Chief Financial Officer and in terms of this Policy, have the delegated powers to write-off any irrecoverable debt to the maximum amount of R 40,000 per consumer (current, suspended and handed over amounts consolidated) per submission or the amount determined by Council from time to time during the budget approval process.

### 6.3 Committee of Council

6.3.1 Council has established a Finance Portfolio Committee in terms of Section 80 of the Local Government: Municipal Structures Act (No 117 of 1998) to assist the Executive Mayor and Mayoral Committee. It is hereby determined that the Finance Portfolio Committee will be the committee of Council to monitor the implementation of this policy.

6.3.2 Any amount in excess of the delegation provided for in paragraph 6.2.1 above must be submitted together with a recommendation to the Finance Portfolio Committee for consideration. The Finance Portfolio Committee will, after thorough review of any recommendation by the Chief Financial Officer and Municipal Manager in terms of this Policy, have the delegated powers to write-off any irrecoverable debt in excess of R 40,000 per consumer (current, suspended and handed over amounts consolidated) per submission or the amount determined by Council from time to time during the budget approval process.

### 6.4 Executive Mayor

6.4.1 All amounts to be written-off in terms of paragraph 5.9 and 5.10 above must be considered individually and each case on its own merits must be separately reported to the committee of Council who will make a recommendation to the Executive Mayor and Mayoral Committee.

6.4.2 The Executive Mayor will have the discretion and the delegated powers to resolve on any amount to be written-off in these instances notwithstanding the recommendation of the committee of Council.

### 6.5 Debt Collectors / Attorneys

6.5.1 Outstanding debt handed over to debt collectors / attorneys may be written-off on instruction of the Municipality after approval by the Chief Financial Officer, Municipal Manager, Committee of Council and Executive Mayor in terms of their delegations above.

## 7. **REPORTING AND DISCLOSURE**

7.1 The Chief Financial Officer will report on a quarterly basis to Council on the irrecoverable debt amounts written-off. The report will include the following information –

- (a) The total amount of irrecoverable debt written-off for indigent household consumers (a list of names, addresses and amounts per consumer written-off included as Annexure A to the report);
- (b) The total amount of irrecoverable debt approved by the Chief Financial Officer to be written-off (a list of names, addresses and amounts per consumer written-off included as Annexure B to the report);
- (c) The total amount of irrecoverable debt approved by the Municipal Manager to be written-off (a list of names, addresses and amounts per consumer written-off included as Annexure C to the report);
- (d) The total amount of irrecoverable debt approved by the Finance Portfolio Committee to be written-off (a list of names, addresses and amounts per consumer written-off included as Annexure D to the report); and



- (e) The total amount of irrecoverable debt approved by the Executive Mayor to be written-off (a list of names, addresses and amounts per consumer written-off included as Annexure E to the report).

- 7.2 The Chief Financial Officer will disclose the total amount of irrecoverable debt written-off as a note in the annual financial statements of the municipality.

## **8. IMPLEMENTATION AND REVIEW OF THIS POLICY**

- 1.1 This policy shall be implemented once approved by Council. All future submissions for the writing-off of debt must be considered in accordance with this Policy.
- 1.2 This Policy will come into effect on 1 July 2023.
- 1.3 The Policy will be reviewed each year as part of the budget approval process.

## ANNEXURES

<b>ANNEXURE A: APPLICATION FORM FOR A HOUSEHOLD TO CONSOLIDATE OUTSTANDING DEBT AND TO MAKE ARRANGEMENTS TO PAY OF OUTSTANDING DEBT IN TERMS OF THE WRITING-OFF OF IRRECOVERABLE DEBT POLICY</b>			
<b>Particulars of breadwinner</b>			
Name and surname			
ID Number			
Phone/cellular number/s			
Marital status			
Employer / source of income			
Monthly gross income			
<b>Particular of spouse (husband or wife)</b>			
Name and surname			
ID Number			
Phone/cellular number/s			
Marital status			
Employer / source of income			
Monthly gross income			
<b>Particulars of property</b>			
Stand number of property			
Street address			
<b>Declaration under oath</b>			
I/we the undersigned herewith declare under oath that my/our gross monthly income amounts to R _____ (breadwinner R _____ and spouse R _____) as the attached copies of my/our source/s of income (payslip, pension slip, etcetera) confirm.			
<b>Signature: Breadwinner</b>		<b>Signature: Spouse</b>	
The above statement was read by me to the above declarer/s who under oath declared that his/her/their gross income is as confirmed by the attached copies to the application form.			
Place		Date	
Name			
Designation			
<b>Signature and official stamp</b>			

ANNEXURE A1: ARRANGEMENT'S CALCULATION FORM FOR HOUSEHOLD CONSUMERS			
<b>Calculation of 20% of gross income and affordable instalment on arrears</b>			
Breadwinner gross monthly income (for season workers calculate a monthly			R
Spouse gross monthly income (for season workers calculate a monthly			R
Household gross monthly income (copies of ID's and income sources must be attached)			R
Affordable payments - capped at 20% of household gross income			R
Less: Average monthly current account (property rates, services charges and			R
Affordable monthly instalment on arrears – monthly current account			R
<b>Calculation of consolidated outstanding debt</b>			
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Grand Total =			R
<b>Calculation of suspended account/s</b>			
Grand total of consolidated outstanding debt			R
Less: Affordable monthly instalment on arrears x 36 months (suspended			R
Amount to be written-off in terms of Policy (suspended account 2)			R
<b>Calculation of amounts to written-off</b>			
Date:	1/3 <sup>rd</sup> of suspended account to be written-off after 12		R
Date:	1/3 <sup>rd</sup> of suspended account to be written-off after 24		R
Date:	1/3 <sup>rd</sup> of suspended account to be written-off after 36		R
Suspended account 2 total to be written-off ( if no default in paying current			R
<b>Certification</b>			
Calculations made by:		Signature:	Date:
Calculations verified by:		Signature:	Date:
<i>The above calculations must be recorded in an arrangement agreement and in the financial</i>			

**ANNEXURE B: APPLICATION FORM FOR A CUSTOMER TO PAY 50% OF THE OUTSTANDING DEBT AND THAT COUNCIL WILL WRITE-OFF THE OTHER 50% OF THE OUTSTANDING DEBT IN TERMS OF THE WRITING-OFF OF IRRECOVERABLE DEBT POLICY**

<b>Particulars of breadwinner</b>			
Name and surname			
ID Number			
Phone/cellular number/s			
<b>Particular of spouse (husband or wife)</b>			
Name and surname			
ID Number			
Phone/cellular number/s			
<b>Particulars of business / company / organisation</b>			
Name			
Postal address			
Phone/cellular number/s			
<b>Particulars of property</b>			
Stand number of property			
Street address			
<b>Certification</b>			
I/we the undersigned herewith declare that the information on this application form is to the best of my knowledge the truth.			
<b>Signature: Breadwinner</b>		<b>Date:</b>	
<b>Signature: Spouse</b>		<b>Date:</b>	
<b>Signature: Business / Company / Organisation Representative/s</b>		<b>Date:</b>	

<b>ANNEXURE B1: CALCULATION FORM FOR 50% DISCOUNT ON DEBT OLDER THAN 12 MONTHS</b>					
<b>Calculation of outstanding debt</b>					
<b>Account No:</b>		<b>Current / Suspended / Handed over</b>		<b>R</b>	
<b>Outstanding Debt older than 12 months from the date of application : TotalA</b>				<b>R</b>	
<b>50% of Total A =</b>				<b>R</b>	
<b>Proof that levies post 12 months billing run is paid up to date</b>					
<b>Outstanding debt older than 12 months from date of application (Total A)</b>				<b>R</b>	
<b>Plus: Levies as from month following 12 months</b>				<b>R</b>	
<b>Less: Payments made as from month following 12 months</b>				<b>R</b>	
<b>Plus / Minus: Journals corrections since after 12 months</b>				<b>R</b>	
<b>Outstanding debt as on the day of this calculations being made (Total B)</b>				<b>R</b>	
<b>Less: 50% of Total A</b>					
<b>Amount to have been paid before the 50% of Total A may be written-off</b>					
<b>NB:</b>					
<ol style="list-style-type: none"> <li><i>Please note that if the outstanding debt (Total B) is more than the outstanding debt as on (Total A) then current debt is not serviced as per this Policy. Write-off of the 50% portion may only be made if all levies made as from month following 12 months has been serviced.</i></li> <li><i>Please attach to the calculation form a printout/s of the Samras system as proof of the above calculations made. If necessary please attached a spread sheet or your handwritten calculations on how you arrived at the above figures.</i></li> </ol>					
<b>Proof that the amount of Total C has been paid</b>					
<b>Date:</b>		<b>Receipt</b>		<b>Amount:</b>	<b>R</b>
<b>Date:</b>		<b>Receipt</b>		<b>Amount:</b>	<b>R</b>
<b>Date:</b>		<b>Receipt</b>		<b>Amount:</b>	<b>R</b>
<b>Date:</b>		<b>Receipt</b>		<b>Amount:</b>	<b>R</b>
<b>Date:</b>		<b>Receipt</b>		<b>Amount:</b>	<b>R</b>
<b>Date:</b>		<b>Receipt</b>		<b>Amount:</b>	<b>R</b>
<b>Payments made must exceed or equal Total C=</b>				<b>R</b>	
<b>Calculation of amount to be written-off</b>					
<b>50% of Total A or the lessor amount =</b>				<b>R</b>	
<b>Certification</b>					
<b>Calculations made by:</b>		<b>Signature:</b>		<b>Date:</b>	
<b>Calculations verified by:</b>		<b>Signature:</b>		<b>Date:</b>	



# **BITOU MUNICIPALITY**

## **PREFERENTIAL PROCUREMENT POLICY, 2023/2024**

**Policy Title: PREFERENTIAL PROCUREMENT POLICY**

**FINANCIAL YEAR: 2023/24**

**Status: Final Review, submitted to Council on 29 May 2023 with Final Budget per Item C/2/126/05/23**

**THIS PREFERENTIAL PROCUREMENT POLICY** is adopted in terms of section 2 of the Preferential Procurement Policy Framework Act, No. 5 of 2000 and Section 217 (2) of the Republic of South Africa Constitution

## **PREAMBLE**

**WHEREAS** the Bitou Municipality aims to improve the quality of life of the local community and to free the potential of each person within a framework of facilitating service delivery, through effective governance and the Council considers the need for transparent procedures that give the effect to the principle of preferential procurement.

**AND WHEREAS** local economic development plays a crucial role in creating a prosperous, equitable, stable, and democratic society and the overall national vision of economic development is one of decent work and living standards for all in the context of qualitative improved equality in ownership, skills, and access to opportunities.

**NOW THEREFORE** the Council of the Bitou Municipality resolves in terms of Section 2 of the Preferential Procurement Policy Framework Act, No. 5 of 2000, that the Bitou Preferential Procurement Policy is are herewith adopted to form the basis of its procurement activities.

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PREFERENTIAL PROCUREMENT POLICY**

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VERSION CONTROL					
<b>POLICY OWNER:</b>			Bitou Municipality Supply Chain Management Unit		
<b>POLICY EFFECTIVE DATE:</b>			January 2023		
Version	Date	Revision	Section	Page	Reason for change
1	05 June 2017		All	All	Amended Draft
2	12 July 2017		All	All	New Draft Policy
3	December 2022		All	All	New Draft Policy



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## 1. Definitions

1.1. In this policy, unless the context indicates otherwise, a word or expression to which a meaning has been assigned in the Act bears the same meaning, and:

#	Term	Definition
1.1.	<b>"Act"</b>	means the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) – PPPFA.
1.2.	<b>"B-BBEE"</b>	means Broad-Based Black Economic Empowerment as defined in Section 1 of the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003).
1.3.	<b>"Broad-based black economic empowerment act" (B-BBEEA)</b>	means the Broad-Based Black Economic Empowerment Act, 2003 (Act No.53 of 2003) – BBEEA.
1.4.	<b>"B-BBEE status level of contributor"</b>	means the B-BBEE status received by a measured entity based on its overall performance using the relevant scorecard contained in the Codes of Good Practice on Black Economic Empowerment, issued in terms of section 9(1) of the BBEEA.
1.5	<b>"Bid"</b>	
1.6	<b>"Black designated groups"</b>	has the meaning assigned to it in the codes of good practice issued in terms of section 9 (1) of the BBEEA.
1.7	<b>"Black people"</b>	has the meaning assigned to it in section 1 of the BBEEA.
1.8	<b>"Consortium or joint venture"</b>	means an association of persons for the purpose of combining their expertise, property, capital, efforts, skill, and knowledge in an activity for the execution of a contract.
1.9	<b>"Contract"</b>	means the agreement that results from the acceptance of a bid by the Bitou Municipality.
1.10	<b>"Comparative price"</b>	means the price after the factors of a non-firm price and all unconditional discounts that can be utilised have been taken into consideration.
1.11	<b>"Co-operative"</b>	means a co-operative registered in terms of Section 7 of the Cooperatives Act, 2005 (Act No. 14 of 2005).
1.12	<b>"Designated group"</b>	means: 1) black designated groups 2) black people 3) women 4) people with disabilities; or 5) small enterprises which are enterprises, owned, managed, and controlled by previously disadvantaged persons and which is overcoming business impediments arising from the legacy of apartheid.
1.13	<b>"Designated sector"</b>	means a sector, sub-sector or industry that has been designated by the Department of Trade and Industry in line with national development and industrial policies for local production, where only locally produced services, works or goods or locally manufactured goods meet the stipulated minimum threshold for local production and content.
1.14	<b>"Disability"</b>	means, in respect of a person, a permanent impairment of a physical, intellectual, or sensory function, which results in restricted, or lack of, ability to perform an activity in the manner, or within the range, considered normal for a human being.
1.15	<b>"District municipality"</b>	means the Garden Route District Municipality, a municipality that has municipal executive and legislative authority in an area that includes more than one municipality, and which is described in section 155 (1) of the RSA Constitution as a category C municipality.
1.16	<b>"Fronting practice"</b>	means a transaction, arrangement or other act or conduct that directly or indirectly undermines or frustrates the achievement of the objectives of this Act or the implementation of any of the provisions of

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#	Term	Definition
		<p>this Act, including but not limited to practices in connection with a B-BBEE initiative-</p> <p>(a) in terms of which black persons who are appointed to an enterprise are discouraged or inhibited from substantially participating in the core activities of that enterprise.</p> <p>(b) in terms of which the economic benefits received because of the broad-based black economic empowerment status of an enterprise do not flow to black people in the ratio specified in the relevant legal documentation.</p> <p>(c) involving the conclusion of a legal relationship with a black person for the purpose of that enterprise achieving a certain level of broad-based black economic empowerment compliance without granting that black person the economic benefits that would reasonably be expected to be associated with the status or position held by that black person.</p> <p>(d) involving the conclusion of an agreement with another enterprise to achieve or enhance broad-based black economic empowerment status in circumstances in which-</p> <p>(i) there are significant limitations, whether implicit or explicit, on the identity of suppliers, service providers, clients, or customers.</p> <p>(ii) the maintenance of business operations is reasonably considered to be improbable, having regard to the resources available.</p> <p>(iii) the terms and conditions were not negotiated at arm's length and on a fair and reasonable basis.</p>
1.17	<b><i>"Functionality"</i></b>	means the ability of a tenderer to provide goods or services in accordance with specifications as set out in the tender documents.
1.18	<b><i>"Historically disadvantaged individual (HDI)"</i></b>	<p>means a South African citizen –</p> <p>(1) who, due to the apartheid policy that had been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No 110 of 1983); and / or</p> <p>(2) who is a female; and / or</p> <p>(3) who has a disability:</p> <p>Provided that a person who obtained South African citizenship on or after the coming to effect of the Interim Constitution, is deemed not to be an HDI.</p>
1.19	<b><i>LED</i></b>	"Local economic development"
1.20	<b><i>"Locality"</i></b>	means the local suppliers and/or service providers that reside within the Bitou Municipality area and within the Region or Garden Route District Municipality.
1.21	<b><i>"Military veteran"</i></b>	has the meaning assigned to it section 1 of the Military Veteran's Act, 2011 (Act no. 18 of 2011).
1.22	<b><i>"National treasury"</i></b>	has the meaning assigned to it in section 1 of the Public Finance Management Act 1999 (Act No. 1 of 1999).
1.23	<b><i>"People with disabilities"</i></b>	has the meaning assigned to it in section 1 of the Employment Equity Act, 1998 (Act No. 55 of 1998).
1.24	<b><i>"Price"</i></b>	Includes all applicable taxes less all unconditional discounts.
1.25	<b><i>"Proof of B-BBEE status level of contributor"</i></b>	<p>Means the B-BBEE status level certificate issued by an authorised body or person</p> <p>1) a sworn affidavit as prescribed by the B-BBEE Codes of Good Practice; or</p> <p>any other requirement prescribed in terms of the Broad-Based Black Economic Empowerment Act</p>
1.26	<b><i>"Rand value"</i></b>	means the total estimated value of a contract in Rand, calculated at the time of bid invitation.

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#	Term	Definition
1.27	<b><i>“Region”</i></b>	2) means the district and/or Garden Route District Municipality
1.28	<b><i>“Rural area”</i></b>	means- 1) a separately populated area in which people farm or depend on natural resources, including villages and small towns that are dispersed through the area; or an area including a large settlement which depends on migratory labour and remittances and government social grants for survival and may have a traditional land tenure system.
1.29	<b><i>“Stipulated minimum threshold”</i></b>	means that portion of local production and content as determined by the Department of Trade and Industry.
1.30	<b><i>“Township”</i></b>	2) means urban living area that any time from the late 19 <sup>th</sup> century until 27 April 1994, was reserved for black people, including areas developed for historically disadvantaged individuals post 27 April 1994.
1.31	<b><i>“Treasury”</i></b>	has the meaning assigned to it in section 1 of the Public Finance Management Act, 1999 (Act No. 1 of 1999).
1.32	<b><i>“Youth”</i></b>	has the meaning assigned to it in section 1 of the National Youth Development Agency Act, 2008 (Act No. 54 of 2008).

## **2. Legislative Framework**

### ***Constitution, 1996 (Act 108 of 1996)***

- 2.1. Sections 152(1)(c) and 152(2) of the Constitution provides that local government must promote social and economic development and that the municipality must strive within its financial and administrative capacity, to achieve the objects set out in subsection 152(1).
- 2.2. Section 217(1) of the Constitution, 1996 (Act 108 of 1996) provides that when contracting for goods and services, organs of state must do so in accordance with a system that is fair, equitable, transparent, competitive, and cost effective. Section 217(2) and (3) of the Constitution allows organs of state to grant preferences when procuring for goods and services within a Framework prescribed by National legislation.

### ***Local Government Municipal Finance Management Act, 2003 (Act 56 of 2003) – [MFMA] and related SCM Treasury Regulations, 2005 [SCM TR]***

- 2.3. The MFMA aims to regulate financial management and Supply Chain Management [SCM] of local government to ensure that all revenue, expenditure, assets, and liabilities are managed efficiently and effectively.
- 2.4. Sections 110 – 119 of the MFMA deals with SCM requirements and must be read together with the SCM TR's 1 – 52 issued in terms of section 168 of the MFMA through GG 27636 effective from 30 May 2005. Both these sets of prescripts support the application of the PPPFA.

### ***Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) – [PPPFA]***

- 2.5. The PPPFA, 2000 took effect on 3 February 2000. The main thrust of the PPPFA, 2000 is that an organ of state must determine its preferential procurement policy and implement such within the preferential procurement framework, the latter which is commonly called the '80/20 or 90/10 principle'.
- 2.6. As per the recent Constitutional judgement of 17 February 2022 that the PPPFA Regulations of 2017 are unconstitutional and invalid in totality concluding that: *"Since each organ of state is empowered to determine its own preferential procurement policy, it cannot also lie with the Minister to make regulations that cover the same field."* According to the judgement organs of state are therefore required to determine its own preferential procurement policy.
- 2.7. The other relevant legislation and prescripts are discussed in the Municipal SCM Policy and can be obtained from the Office of the CFO.

### **3. Application, Objectives & General Requirements**

- 3.1. This Policy complies with the framework as prescribed by section 2 of the PPPFA and as contemplated by section 217(2) of the Constitution of the Republic of South Africa.
- 3.2. This Policy applies to the Bitou Municipality.
- 3.3. This Policy will apply to all active industry sectors in the Municipal Area. It is accepted that through the population of reliable data, trends will be evident which will continuously require a review of the Policy to ensure its relevance of all active industry sectors.
- 3.4. This Policy must be read and applied jointly with the Bitou Municipality's SCM Policy and the PPPFA prescripts amended from time-to-time.
- 3.5. The principles of this policy, where possible, must apply to deviations, sharing of contracts with other organs of state and transversal contracts.
- 3.6. The objectives of the Policy are to:
  - 3.6.1. Promote Bitou Municipality's Local Economic Development Strategy and endeavour to ensure the attainment of the award of at least 40% of all procurement within the boundaries of the Bitou Municipality.
  - 3.6.2. Implement best procurement practises through effective planning, strategic purchasing, and contract management.
  - 3.6.3. Standardise levels of skill and knowledge of employees/workers.
  - 3.6.4. Promote B-BBEE - enterprises providing services and goods within the Bitou Municipal Area.
  - 3.6.5. Introduce a systematic approach to the appointment of service providers and to promote consistency in respect of supply chain management.
  - 3.6.6. Promote SMME's, Joint Ventures, Consortiums, Co-ops, and partnerships, especially within the Bitou Municipal Area.
  - 3.6.7. Create new jobs or intensify labour absorption within the local area.
  - 3.6.8. Promote enterprises located within the Bitou Municipal Area for work to be done or services to be rendered.
  - 3.6.9. Promote enterprises located in rural areas in and around the Bitou Municipal Area.
  - 3.6.10. Empower the work force by standardising the level of skill and knowledge of workers.
  - 3.6.11. Develop human resources, inclusive of assistance with tertiary and other advanced training programs, in line with key indicators such as percentage of wage bill spent on education and training and improvement of management skills.
  - 3.6.12. Uplift local communities through, but not limited to, housing, transport, schools, infrastructure donations, and charity organisations.
  - 3.6.13. Ensure that specific goals are measurable and quantifiable, and the municipal officials must monitor the execution of the contract for compliance with such goals.
  - 3.6.14. Provide clarity on the municipality's approach to procurement, particularly with regards to requirements of preferential procurement.

3.7. The Policy specific requirements are that:

- 3.7.1. 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, considering the prescripts of the Construction Industry Development Board [CIDB] in respect of construction related contracts.
- 3.7.2. Outputs required will be quantified and will form part of the contractual arrangement upon awarding of the contract.

#### **4. Applicable preference point system**

- 4.1. The Municipality must determine and stipulate in the tender documents-
  - 4.1.1. The 80/20 or 90/10 preference point system applicable to the tender as envisaged in this Policy; and/or
  - 4.1.2. 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.

#### **5. The 80/20 preference point system for acquisition of goods, works and / or services up to a Rand value of R50million**

- 5.1. The following formula must be used to calculate the points for price in respect of competitive bids / price quotations with a Rand value equal to, or above R 30 000 and up to a Rand value of R50 000 000 (all applicable taxes included):

$$Ps = 80 \left( 1 - \frac{(Pt - Pmin)}{Pmin} \right)$$

Where:

*Ps = Points scored for comparative price of tender under consideration*

*Pt = Comparative price of tender under consideration*

*Pmin = Comparative price of lowest acceptable tender*

- 5.2. A maximum of 20 points may be awarded to a tenderer in relation to its achieving any of the specified goals.

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<b>Specific Goal</b>	<b>Policy targets for 2022/2023</b>	<b>Points to be allocated</b>
Improving opportunities for black people via the BBBEE scorecard, inclusive of: (i) Ownership (ii) Management control (iii) Skills development (iv) Enterprise and supplier development		10
<b>Locality</b>		
(a) Bitou Area	10	
(b) Garden Route	6	
(c) Western Cape Province	3	
(d) South Africa	1	10
<b>TOTAL</b>		<b>20 points</b>
<b>The 10 points in respect of the B-BBEE scorecard will be allocated as follows:</b>		
<b>B-BBEE Status Level of Contributor</b>	<b>Number of Points for Preference (80/20)</b>	<b>Number of Points for Preference (90/10)</b>
1	10	5
2	8	4
3	6	3
4	4	2
5	2	1
6	2	1
7	2	1
8	2	1
Non-compliant contributor	0	0

- 5.3. A tenderer must submit proof of its BBBEE status level contributor [scorecard].
- 5.4. A tenderer failing to submit proof of BBBEE status level of contributor -
  - 5.4.1. may only score in terms of the 80-point formula for price; and
  - 5.4.2. Failure on the part of a tenderer to submit proof or documentation required in terms of this tender to claim points for specific goals with the tender, will be interpreted to mean that preference points for specific goals are not claimed.
- 5.5. A tenderer failing to submit proof of required evidence to claim preferences for other specified goals, excluding the BBBEE scorecard -
  - 5.5.1. may only score in terms of the 80-point formula for price; and
  - 5.5.2. scores 0 points out of the relevant preference points where the supplier or service provider did not provide proof thereof.
- 5.6. The preference points scored by a tenderer must be added to the points scored for price.
- 5.7. The points scored must be rounded off to the nearest two decimal places.



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- 5.8. Subject to clause 11 below, the contract must be awarded to the tenderer scoring the highest procurement points.

## **6. The 90/10 preference point system for acquisition of goods, works and / or services with a Rand value above R50 million**

- 6.1. The following formula must be used to calculate the points for price in respect of competitive bids / price quotations with a Rand value above R50 000 000 (all applicable taxes included):

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

Where:

$P_s$  = Points scored for comparative price of tender under consideration

$P_t$  = Comparative price of tender under consideration and

$P_{min}$  = Comparative price of lowest acceptable tender

- 6.2. A maximum of 10 points may be awarded to a tenderer in relation to any of the specified goals.

Specific Goal	Policy targets for 2022/2023	Points to be allocated
Improving opportunities for black people via the BBEE scorecard, inclusive of: (v) Ownership (vi) Management control (vii) Skills development (viii) Enterprise and supplier development		5
Locality		
(e) Bitou Area	5	
(f) Garden Route	3	
(g) Western Cape Province	2	
(h) South Africa	1	5
<b>TOTAL</b>		<b>10 points</b>
The 5 points in respect of the B-BBEE scorecard will be allocated as follows:		
B-BBEE Status Level of Contributor	Number of Points for Preference (80/20)	Number of Points for Preference (90/10)
1	10	5
2	8	4
3	6	3
4	4	2
5	2	1
6	2	1
7	2	1
8	2	1
Non-compliant contributor	0	0

- 6.3. A tenderer must submit proof of its BBBEE status level contributor [scorecard].
- 6.4. A tenderer failing to submit proof of BBBEE status level of contributor -
  - 6.4.1. may only score in terms of the 90-point formula for price; and
  - 6.4.2. Failure on the part of a tenderer to submit proof or documentation required in terms of this tender to claim points for specific goals with the tender, will be interpreted to mean that preference points for specific goals are not claimed.
- 6.5. A tenderer failing to submit proof of required evidence to claim preferences for other specified goals, excluding the BBBEE scorecard -
  - 6.5.1. may only score in terms of the 90-point formula for price; and
  - 6.5.2. scores 0 points out of the relevant preference points where the supplier or service provider did not provide proof thereof.
- 6.6. The preference points scored by a tenderer must be added to the points scored for price.
- 6.7. The points scored must be rounded off to the nearest two decimal places.
- 6.8. Subject to clause 11 below, the contract must be awarded to the tenderer scoring the highest procurement points.

## **7. The 80/20 preference point system for tenders to generate income or to dispose of or lease assets up to a Rand value up to R50million**

- 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. Tenders that generate income or to dispose of or lease assets with a rand value above R30 000 and up to Rand value of R50 million, the following formula must be used to calculate the points for price:

$$Ps = 80 \left( 1 + \frac{Pt - Pmax}{Pmax} \right)$$

Where:

*Ps* = Points scored for comparative price of tender under consideration

*Pt* = Comparative price of tender under consideration and

*Pmin* = Comparative price of highest acceptable tender

- 7.3. A maximum of 20 points may be awarded to a tenderer for the specified goals envisaged in this Policy.
- 7.4. The points scored must be rounded off to the nearest 2 decimal places.
- 7.5. Subject to clause 11 below, the contract must be awarded to the tenderer scoring the highest procurement points.

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7.6. Specific goals for the tender and points claimed are indicated per the table below.

Table 1: Number of points for contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability.

B-BBEE Status Level of Contributor	Number of Points for Preference (80/20)
1	10
2	8
3	6
4	4
5	2
6	2
7	2
8	2
Non-compliant contributor	0

Table 2: Number of points for promotion of enterprises located in the local area

Specific Goal	Policy targets for 2022/2023
Improving opportunities for black people via the BBEE scorecard, inclusive of:  Ownership Management control Skills development Enterprise and supplier development	10
<b>Locality</b>	
Bitou Area	10
Garden Route	6
Western Cape Province	3
South Africa	1
<b>TOTAL</b>	<b>20 points</b>

## **8. The 90/10 preference point system for tenders to generate income or to dispose of or lease assets up to a Rand value above R50million**

- 8.1. Tenders that generate income or to dispose of or lease assets with a rand value above R 50 million, will be awarded to the bidder with the highest bid on offer.
- 8.2. Tenders that generate income or to dispose of or lease assets with a rand value above R30 000 and up to Rand value of R50 million, the following formula must be used to calculate the points for price:

$$Ps = 90 \left( 1 + \frac{Pt - Pmax}{Pmax} \right)$$

Where:

*Ps* = Points scored for comparative price of tender under consideration

*Pt* = Comparative price of tender under consideration and

*Pmin* = Comparative price of highest acceptable tender

- 8.3. A maximum of 10 points may be awarded to a tenderer for the specified goals envisaged in this Policy.
- 8.4. The points scored must be rounded off to the nearest 2 decimal places.
- 8.5. Subject to clause 11 below, the contract must be awarded to the tenderer scoring the highest procurement points.
- 8.6. Specific goals for the tender and points claimed are indicated per the table below.

Table 1: Number of points for contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability

B-BBEE Status Level of Contributor	Number of Points for Preference (90/10)
1	5
2	4
3	3
4	2
5	1
6	1
7	1
8	1
Non-compliant contributor	0

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Table 2: Number of points for promotion of enterprises located in the local area

Specific Goal	Policy targets for 2022/2023
Improving opportunities for black people via the BBEE scorecard, inclusive of:  Ownership Management control Skills development Enterprise and supplier development	5
Locality	
Bitou Area	5
Garden Route	3
Western Cape Province	1
South Africa	1
<b>TOTAL</b>	<b>10 points</b>

## 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 preferences.
- 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 drawing of lots.

## 10. Award of contracts to bids not scoring the highest number of 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 the municipality intends to apply objective criteria in terms of section 2(1)(f) of the Act, and it is feasible to do so, the municipality must stipulate the objective criteria in the tender documents.

## **11. Cancellation and re-invitation of bids**

- 11.1. In the event that, in the application of the 80/20 preference point system as stipulated in the tender documents:
- i. all tenders received exceed the estimated Rand value of R50 million the tender invitation must be cancelled.
  - ii. If one or more of the acceptable tenders received are within the prescribed threshold of R50 million, all tenders received must be evaluated on the 80/20 preference point system.
- 11.2. In the event that, in the application of the 90/10 preference point system as stipulated in the tender documents,
- 11.2.1. all tenders received are equal to, or below R50 million the tender must be cancelled.
  - 11.2.2. If one or more of the acceptable tenders received are above the prescribed threshold of R50 million all tenders received must be evaluated on the 90/10 preference point system.
- 11.3. The Municipality may, prior to the award of a tender, cancel a tender if:
- 11.3.1. no acceptable tenders were received, or
  - 11.3.2. due to changed circumstances, there is no longer a need for the services, works or goods requested, or
  - 11.3.3. funds are no longer available to cover the total envisaged expenditure, or
  - 11.3.4. no acceptable tenders are received, or
  - 11.3.5. a material irregularity in the tender process has been identified, or
  - 11.3.6. the validity period has expired, due to unforeseen and unavoidable circumstances.
- 11.4. The decision to cancel a tender in terms of clause 11.1 above must be published in the media in which the original tender invitation was advertised.

## **12. Remedies**

- 12.1. Upon detecting that a tenderer submitted false information regarding its BBBEE status level of contributor, or any other matter 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-
- 12.2. Inform the tenderer accordingly.
- 12.3. Give the tenderer an opportunity to make representations within 7 days as to why-
- 12.3.1.1. 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; and
  - 12.3.1.2. 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.
- 12.3.2. After considering the representations referred to above, resolves that-
- 12.3.2.1. Such false information was submitted by the tenderer-
  - 12.3.2.1.1. Disqualify the tenderer or terminate the contract in whole or in part.
  - 12.3.2.1.2. If applicable, claim damages from the tenderer.
  - 12.3.2.1.3. Apply any other approved consequence management action as deemed necessary.

12.4. Where the successful tenderer sub-contracted a portion of the tender to another person without disclosing, penalise the tenderer up to 10% of the value of the contract.

12.5. The Municipality must-

12.5.1. Inform the National Treasury, in writing, of any actions taken as above.

12.5.2. Provide written submissions as to whether the tenderer should be restricted from conducting business with any organ of state.

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

### **13. Mechanisms to support preferential procurement**

#### **13.1. Uniformity and simplification:**

13.1.1. Tender documents will be rationalised and simplified.

13.1.2. Tender documents will include all certificates, declarations, and preference requirements.

13.1.3. Where possible standardised contract templates will form part of tender documents.

13.1.4. Contracts will include payment cycles linked to delivery and performance reporting cycles.

#### **13.2. Database, panels, roster and/or rotation application:**

13.2.1. A supplier database or various supplier databases, dependent on the commodity, will be maintained.

13.2.2. The supplier's database(s) will be updated on an annual basis and used on a roster or rotation mechanism basis.

#### **13.3. Unbundling:**

13.3.1. Tenders must, where practical, be unbundled into cost components and specific strategies be determined for each, e.g., for the semi- and unskilled labour portion, only locally based unemployed youth must be targeted.

13.3.2. Unbundling strategies can be afforded to the full spectrum of businesses, from those operating as labour only contractors to those operating as prime contractors. Some of these strategies can be summarised as follows:

13.3.2.1. Providing third-party management support to enterprises which are not capable of operating as prime contractors.

13.3.2.2. Providing training to new entrants.

13.3.2.3. Promoting learner-ships, internships, pupil-ships, etc.

13.3.2.4. Obligating main contractors or service providers to engage targeted enterprises in the performance of their contracts incorporating resource specifications.

13.3.2.5. Foster joint ventures that are formed between large businesses and targeted enterprises (termed as Structured Joint Ventures).

13.3.2.6. Encourage and involve funding institutions to assist small businesses with access to finance and negotiate for credit lines.

13.3.2.7. Encourage local manufacturing and procurement from small businesses within the Bitou municipal area.

13.3.2.8. Unbundling of big projects and identifying opportunities and areas/scope of works that can be carried out by emerging contractors bar those from the main assignment shall be pursued vigorously.

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13.3.2.9. Unbundling strategies do not include the breaking down of projects into smaller portions to remain below certain threshold values or more than one contract.

**13.4. Payment cycles:**

13.4.1. The payment of invoices is dependent on timely invoicing, approval of invoices and on the payment administration. Responsible officials must process approved invoices within 30 days of receiving the invoice, unless otherwise provided for in the contract.

13.4.2. Reasons for not approving an invoice must be communicated to the tenderer prior to the lapsing of the said 30 days.

13.4.3. Officials must endeavour to, where feasible, process invoices of SMME's within 5-7 days to promote their cash flow position. Invoices must be submitted before 10:00 on a Wednesday, to facilitate timely payment.

13.4.4. Depending on the commodity and the procurement process adopted, deposits, establishment fees, upfront payments, front-loaded payments, etc may be allowed if provided for in the tender specifications and contract provisions. Appropriate control mechanisms and guarantees must support such payments.

**13.5. Performance guarantees:**

13.5.1. The following level of sureties or guarantees will be introduced as a minimum, based on the risk exposure and type of contract, where relevant, inclusive of CIDB tenders:

TYPE	DEFINITION	LEVEL OF SURETY
Major	<ul style="list-style-type: none"><li>➤ Onerous requirements</li><li>➤ High contract value</li><li>➤ Large scale development</li></ul>	➤ 10% above R 10m contract value
Minor	<ul style="list-style-type: none"><li>➤ Risks are judged to be acceptable</li><li>➤ Low value</li><li>➤ Straight-forward work</li></ul>	➤ 5% above R 5m contract value
Micro	<ul style="list-style-type: none"><li>➤ Risks are judged to be limited or non-existent</li><li>➤ Low value</li><li>➤ Limited documentation flow</li><li>➤ Short term project</li></ul>	➤ 2.5% below R 5m contract value

**13.6. Skills transfer:**

13.6.1. Skills transfer is promoted, and Bitou Municipality will endeavour to support SMME's and BBBEE enterprises skills transfer through:

13.6.1.1. Proper contract management.

13.6.1.2. Provision of adequate information of why tenders were not successful.

13.6.1.3. Develop and provide a training programme and related sessions for small suppliers as part of the Municipal Local Economic Development [LED] programme.

13.6.1.4. Promoting access to uniform and standardised bid documents with proper instructions for completion.

13.6.2. The following skills transfer principles will be introduced as a minimum, based on the risk exposure and type of contract, where relevant, inclusive of CIDB tenders:

TYPE	DEFINITION	LEVEL OF SKILLS TRANSFER
Major	<ul style="list-style-type: none"><li>➤ Onerous requirements</li><li>➤ High contract value</li><li>➤ Large scale development</li><li>➤ Above R 5m</li><li>➤ Long-term contracts</li></ul>	Formal training, inclusive of accredited training; Certificates/ Diplomas/ Degrees; Interns; Learner ships; Pupil-ships and Bursaries



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TYPE	DEFINITION	LEVEL OF SKILLS TRANSFER
Minor	<ul style="list-style-type: none"><li>➤ Risks are judged to be acceptable</li><li>➤ Low value</li><li>➤ Straight-forward work</li><li>➤ Above R 3 m</li><li>➤ Contracts for more than 1-year</li></ul>	Informal training inclusive of Interns; Learner ships; Pupil-ships and Bursaries
Micro	<ul style="list-style-type: none"><li>➤ Risks are judged to be limited or non-existent</li><li>➤ Low value</li><li>➤ Limited documentation flow</li><li>➤ Short term projects</li></ul>	Basic training and certificate of jobs performed

**13.7. CSI – Corporate Social Investment:**

13.7.1. Corporate social investment (CSI) is defined as contributions (either employee time and/or resources) which bring benefits over and above those directly associated with the Municipal core business activities.

13.7.2. Depending on the principles of fairness and cost-effectiveness, the relevant commodity required and the profile of the supply industry, the Municipality may require that specific CSI contributions be made in line with the Municipal Grant-in-Aid Policy.

13.7.3. The suppliers shall be expected to indicate or provide an outline of socio-economic projects to be implemented through its Corporate Social Responsibility in the Bitou Municipal area. Proposed projects must be measurable with specific focus on vulnerable groups. Bidders can suggest or explore the following socio-economic project practices for consideration:

13.7.3.1. On the job training and development of staff (learnerships), particularly for the unemployed or young people including the recruitment of long-term job seekers and handicapped people.

13.7.3.2. Young women / mother's upliftment / leadership programme.

13.7.3.3. Skills development initiatives (technical and soft skills) must be accredited with recognised institutions.

13.7.3.4. Youth leadership and empowerment projects.

13.7.3.5. Early childhood development.

13.7.3.6. Projects can be in collaboration with local CBO's, NGOs, and relevant institutions.

13.7.3.7. Business skills and enterprise support including mentoring of local enterprises.

13.7.3.8. Development of Parks and open spaces.

13.7.4. It is specifically recorded that NO CSI financial contributions will be required or accepted.

13.7.5. The Municipality will adopt a uniform standard in acknowledging, monitoring, and reporting on CSI contributions.

**13.8. Contract conditions:**

13.8.1. Contract conditions for each strategy needs to consider the following elements:

13.8.1.1. Is an additional contract necessary and if so, what will the terms be?

13.8.1.2. What is the contract monitoring and reporting mechanism?

13.8.1.3. Consider whether Employment contracts to be in place and how will it be monitored (to ensure minimum wages are paid and UIF, etc in place)

13.8.1.4. Is LED support required?

13.8.1.5. Identified contract manager and contract administrator.

**13.9. Performance management:**

- 13.9.1. The effectiveness and efficiency of this Policy will be reviewed as per the Bitou Municipality's SCM Policy and related performance management provisions.
- 13.9.2. Constructive and active contract management and administration will result in an increase in the capacity of suppliers and service providers as well as continuous performance improvements.

**13.10. Enterprise development:**

- 13.10.1. Co-ordinate the appropriate Supplier and Contractor Development Programmes for the active promotion of the following development outcomes:
  - 13.10.1.1. Improve the grading status of suppliers, service providers and contractors in targeted categories and grades.
  - 13.10.1.2. Increase the number of black women, disabled, and youth-owned companies in targeted categories.
  - 13.10.1.3. Create sustainable contracting enterprises by enabling continuous work through a competitive process.
  - 13.10.1.4. Improve the performance of suppliers, service providers and contractors in terms of quality, employment practices, skills development, safety, health, and the environment.
  - 13.10.1.5. Improve the business management and technical skills of these suppliers, service providers and contractors.

**14. Alignment with the procurement process**

- 14.1. The Municipal SCM Policy will guide the relevant SCM activities required.
- 14.2. The 'tender format/strategy' as identified in the policy statements and the targets above will be considered and where feasible included in any tender specifications as 'special conditions to tender'.

**15. Deviations and exemptions**

- 15.1. Any exemption from compliance to this Policy shall be permitted only within the delegatory powers permitted by Council and as prescribed in terms of the MFMA and the PPPFA.

**16. Complaints, enquiries, disputes, or appeals**

- 16.1. The Bitou Municipality SCM Policy, provides for a mechanism to deal with SCM related complaints, enquiries or disputes which will apply when bidders wish to record any complaint, enquiry, or dispute regarding this Policy.

## **17. Access to information and training**

- 17.1. Unsuccessful bidders will be informed of the reasons for their bid not being successful, if so, requested in writing. To ease the administrative burden a checklist will be used.
- 17.2. Bidders should be supported to obtain tender information.
- 17.3. Any prospective bidder will be entitled to receive information and/or training regarding the following:
  - 17.3.1. Financial support.
  - 17.3.2. SCM related training.
  - 17.3.3. Assistance with tendering process.
  - 17.3.4. Bidding process.
  - 17.3.5. Preferential procurement.
  - 17.3.6. Completion of Bid documentation.
  - 17.3.7. Project and contract management.
- 17.4. Formal requests for access to information must be dealt with within the PAIA Policy of the Bitou Municipality.
- 17.5. Requests for access to training must be directed to the LED Manager.

## **18. Administration of policy**

### **18.1. Responsibility**

- 18.1.1. Responsibility for the implementation and administration of the Policy is delegated to the Accounting Officer, who will use the support from the LED Manager.
- 18.1.2. The Accounting Officer must ensure that each budget holder assumes responsibility for the implementation of the Policy within his/her area of responsibility and that such responsibility is included in his/her Performance Indicators, if so required.

### **18.2. LED**

- 18.2.1. The Accounting Officer must ensure that the organisational design of the LED Office is appropriately structured, resourced, and capacitated.
- 18.2.2. The data captured by the SCM Unit will be analysed and report on by the Manager: LED.

### **18.3. SCMU**

- 18.3.1. The SCMU must maintain a database of requests and transactions to develop a trend-analysis and through such a process identify areas for efficiency and cost-effective improvements, e.g., minimising smaller purchases and maximising term contracts as well as determining strategies for universal commodities.
- 18.3.2. The data relevant to this Policy will be maintained by the SCM Unit as part of its contract register.

**18.4. Oversight by Council**

18.4.1. The Accounting Officer must align its reporting requirements to the Council as per SCM TR 6 to also report on progress with the implementation of the Policy.

**19. Maintenance**

19.1. Given the changing nature of the regulatory, control and operational environment of the Municipality, this Policy will be regularly reviewed and updated on an ongoing basis.

19.2. For clarification of any matter contained in this Policy, please address queries to the LED Manager.

**20. Implementation**

20.1. This Policy is effective from January 2023.

20.2. This Policy will be implemented in phases as follows:

20.2.1. For the 2022/2023 financial year this Policy will apply to all tenders more than R 200 000 and long-term contracts for which formal tenders are invited.

20.2.2. In the interim, all tenders invited in terms of the PPPFA Regulations of 2017 at the time this Policy is adopted must be evaluated and adjudicated *mutatis mutandis*, within the provisions of this Policy.

**21. SHORT TITLE**

This policy is called the Bitou Municipality Preferential Procurement Policy and takes effect upon Council approval.

**As approved by Council at the Council meeting which was held on .....**

**Signed at Plettenberg Bay on the ..... day of ...../20.....**

.....

**Municipal Manager**



# ASSET MANAGEMENT POLICY

2023/2024



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## 1 PREAMBLE

Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued.

And whereas the municipal council of Bitou Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets.

And whereas the municipal manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets.

And whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes.

Now therefore the municipal council of the Bitou Municipality adopts the following asset management policy:



## 2 DEFINITIONS

**Accounting Officer** means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

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

**Biological Assets** are defined as living animals or plants.

**Capital Assets (assets)** are items of Biological Assets, Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.

**Carrying Amount** is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

**Chief Financial Officer (CFO)** means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

**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 recognised in accordance with the specific requirements of other 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 or a liability between knowledgeable, willing parties in an arm's length transaction.

**GAAP** are standards of Generally Accepted Accounting Practice.

**GRAP** are standards of Generally Recognised Accounting Practice.

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

**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, car parks and electricity supply.

**Intangible Assets** are defined as identifiable non-monetary assets without physical substance.

**Investment Properties** are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

**Land and Buildings** are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

**MFMA** refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

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

**Property, Plant and Equipment (PPE)** are tangible assets that:-

- (a) 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
- (b) Are expected to be used during more than one period.

**Recoverable Amount** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

**Recoverable Service Amount** is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

**Residual Value** is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

**Useful Life** is:-

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

### 3 OBJECTIVE

The MFMA was introduced with the objective of improving accounting in the municipalities sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

With the cash system, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

According to the MFMA, the Accounting Officer in the Municipality should ensure:

- (e) that the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;
- (f) the effective, efficient and economical use of the resources of the municipality;
- (g) the management (including safeguarding and maintenance) of the assets of the municipality;
- (h) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- (i) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- (j) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

The objective of this Asset Management Policy is to ensure that the municipality:

- (k) has consistent application of asset management principles;

- (l) implements accrual accounting;
- (m) complies with PFMA, MFMA, Treasury Regulation, GAAP, GRAP and other related legislation;
- (n) safeguards and controls the assets of the municipality; and
- (o) optimises asset usage.

## 4 POLICY FRAMEWORK

The main challenges associated with managing fixed assets can be characterised as follows:

- (p) Moveable assets – controlling acquisition, location, use, and disposal (over a relatively short term lifespan)
- (q) Immovable assets – life-cycle management (over a relatively long-term lifespan).

The policy approach has been to firstly focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets, and secondly to focus on the management of immovable assets as a fundamental departure point for service delivery. This arrangement is summarised in Figure 1.



**Figure 1: Proposed policy and strategic framework**

## 5 ASSET RECOGNITION

### 5.1 CLASSIFICATION OF CAPITAL ASSETS

#### *General*

When accounting for Capital Assets, the municipality should follow the various standards of GRAP relating to the capital assets. An item is recognised in the statement of financial position as a Capital Asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Capital Assets are classified into the following categories for financial reporting purposes:

1. Property, Plant and Equipment (GRAP 17)
  - Land and Buildings (land and buildings not held as investment)
  - Infrastructure Assets (immovable assets that are used to provide basic services)
  - Community Assets (resources contributing to the general well-being of the community)
  - Other Assets (ordinary operational resources)
2. Intangible Assets (GRAP 31)
  - Intangible Assets (assets without physical substance held for ordinary operational resources)
3. Investment Property (GRAP 16)
  - Investment Assets (resources held for capital or operational gain)
4. Heritage Assets (GRAP 103)
  - Heritage Assets (culturally significant resources)
5. Biological Assets (GRAP 27)
  - Biological Assets (livestock and plants held)
6. Discontinued Operations (GRAP 100)
  - Discontinued Operations (Component of an entity that has been disposed of)
7. Land Inventories (GRAP 12)
  - Land Inventories (land or buildings owned or acquired with the intention of selling such property in the ordinary course of business)

Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used.

To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified. The recommended classifications are provided in ***the Immoveable Asset Update Strategy, which is periodically reviewed and approved by the Chief Financial Officer in conjunction with Heads of Departments.***

### ***Policy***

The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in ***the Immoveable Asset Update Strategy*** shall be adopted.

### ***Procedures and Rules***

- The CFO shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to.
- The CFO shall inform the Heads of Departments of the classification requirements.
- Every Head of Department shall ensure that all fixed assets under their control are classified correctly.

## **5.2 IDENTIFICATION OF ASSETS**

### ***General***

An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immoveable assets are usually identified by means an accurate description of their physical location.

### ***Policy***

An asset identification system shall be operated and applied in conjunction with an asset register. As far as practicable, every individual asset shall have a unique identification number.

### ***Procedures and Rules***

- The CFO shall develop and implement an asset identification system, while acting in consultation with the Heads of Departments.
- The Heads of Departments shall ensure that all the assets under their control are correctly identified.
- As far as practicable, all movable assets must be bar-coded or uniquely marked.
- Immoveable assets must be identified using naming and numbering conventions that enable easy location of the assets in the field.



### 5.3 ASSET REGISTER

#### *General*

An asset register is a database of information related to all the assets under the control of the municipality. The asset register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the asset register. The data requirements for the asset register are as follows:

Data type	Land	Movable	Infrastructure/ Buildings
<b>Identification</b>			
• Unique identification number or asset mark	✓	✓	✓
• Unique name	✓	✓	✓
• GRAP Classification	✓	✓	✓
• Internal Classification	✓	✓	✓
• Descriptive data (make, model, etc.)	✓	✓	✓
• Erf/Registration	✓	✓	✓
• Title deed reference	✓		
<b>Accountability</b>			
• Department	✓	✓	✓
• Insurance reference		✓	✓
<b>Performance</b>			
• Age		✓	✓
• Condition		✓	✓
• Remaining Useful life		✓	✓
• Expected Useful Life		✓	✓
<b>Accounting</b>			
• Historic cost	✓	✓	✓
• Take on value	✓	✓	✓
• Take on date	✓	✓	✓
• Depreciation charge for the current financial year	✓	✓	✓
• Impairment losses in the current year	✓	✓	✓
• Accumulated depreciation	✓	✓	✓
• Carrying value	✓	✓	✓
• Residual value	✓	✓	✓
• Source of financing	✓	✓	✓

Assets remain in the asset register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated is not in itself a reason for writing-off such an asset.

The asset register does not include assets that belong to other third parties, unless it is classed as a finance lease or comply with conditions set out in other relevant standards and legislation.

### ***Policy***

An asset register shall be maintained for all assets. In some cases, such as Investment Properties and Intangible Assets, separate asset registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The asset register should be continuously updated and asset records should be reconciled to the general ledger on a quarterly basis.

### ***Procedures and Rules***

- The CFO must define the format of the asset register in consultation with the Heads of Departments and must ensure that the asset register format complies with legislative requirements.
- The CFO must ensure that a defined process and forms exist to update and maintain the asset register.
- The Heads of Departments must provide the CFO with the information required to compile and maintain the asset register.

## **5.4 RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT**

### ***General***

A Capital Asset should be recognised as an asset in the financial and asset records when:

- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- The cost or fair value of the item to the municipality can be measured reliably;
- The cost is above any municipal capitalisation threshold (if any); and
- The item is expected to be used during more than one financial year.

Spare parts and servicing equipment are usually carried as inventory in terms of the Standard of GRAP on *Inventories* and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Further guidance for the recognition of assets is provided below:

### Capitalisation Threshold

The capitalisation threshold is a policy decision of the municipality and is the value above which assets are capitalised and reported in the financial statements as tangible or intangible capital assets as opposed to being expensed in the year of acquisition. As a result, the threshold has a significant impact on the size of the asset register and the complexity of asset management. However, the capitalisation threshold is regarded as a deviation from GRAP standards and should be determined annually against materiality and must be determined at a level that will ensure that the municipality do not deviate materially from the requirements of GRAP 17.

The capitalisation threshold should not be applied to the components of an asset, but should be applied to the value of the capital asset as a whole. If the threshold is applied at component level, the asset register would be incomplete in the sense that an asset recorded as such would not be a complete asset.

The municipality should take the following into account when considering a capitalisation threshold:

- The impact of the threshold on the financial statements and the decisions/assessments the users of the financial statement may or may not make;
- The cost of maintaining financial and management information on assets when the threshold is very low;
- The impact on comparability and benchmarking cost of services may be difficult if different capitalisation thresholds are applied;
- The size of the municipality or the size of its service areas when setting capitalisation thresholds levels. Municipalities vary greatly in size, so what is relevant to one may be immaterial to another.
- The nature of the asset

Every Head of Department shall, however, ensure that any movable asset item with a value lower than the capitalisation threshold and with an estimated useful life of more than one year, shall be recorded on a *Minor Assets inventory listing*. Every Head of Department shall moreover ensure that the existence of items recorded on such inventory stock lists are physically verified from time to time, and at least once in every financial year, and any amendments which are made to such inventory stock lists pursuant to such stock verifications shall be retained for audit purposes.

### Calculation of initial cost price

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

- Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Capital Asset
- The cost of site preparation;
- Initial delivery and handling costs;
- Installation costs;
- Professional fees such as for architects and engineers; and
- The estimated cost of dismantling and removing the asset and restoring the site.

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

### Component approach

The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:

- Significant cost; and
- Considerable difference in useful life

If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset as a whole, it should be recognised as a separately depreciable part (component).

### Subsequent Expenses

The municipality should not recognise the costs of day-to-day servicing of the item in the carrying amount of an item of capital asset. These costs are recognised as expenditure as and when incurred. Day-to-day costs are primarily the costs of labour and consumables and may include the costs of small parts. The purpose of these expenditures is usually for the 'repair and maintenance' of the capital asset.

Parts of some capital assets may require replacement at regular intervals. For example, a road may need resurfacing every few years. It may be necessary to make less-frequently recurring replacement of parts, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle, an entity recognises in the carrying amount of the capital asset the cost of replacing the part of such an item when that cost is incurred if the recognition criteria are met. At the same time the part to be replaced should be derecognised.

### Rehabilitation/Enhancements/Renewals of capital assets

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if:

- The expenditure satisfies the recognition criteria;

- that expenditure is enhancing the service provision of that capital asset beyond its original expectation and either that expenditure:
  - increases the useful life of that capital asset (beyond its original useful life);
  - increases the capital asset capacity (beyond its original capacity);
  - increases the performance of the capital asset (beyond the original performance);
  - increases the functionality of that capital asset;
  - reduces the future ownership costs of that capital asset significantly; or
  - increases the size of the asset or changes its shape.

The expenditure to restore the functionality of the capital asset to its original level is a maintenance/refurbishment expense and will not be capitalised to the carrying value of the capital asset.

The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or renewed, the amount incurred will be added to the carrying value of the asset.

### **Leased Assets**

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases:

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as a Capital asset.
- Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

### ***Policy***

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. The capitalisation threshold will be determined annually by the municipality. All assets with values less than the capitalization threshold shall be recorded in a minor assets inventory

### ***Procedures and Rules***

- Every Head of Department shall ensure that all assets under their control are correctly accounted for and recognised as assets in its significant depreciable components.
- Every Head of Department shall identify major spare parts held by its department and ensure that these spare parts are correctly classified as either PPE or Inventory.
- Every Head of Department shall identify all subsequent expenditure or expenditure incurred on rehabilitation/enhancements/renewals to evaluate whether these costs

should be included in the carrying values of capital assets or expensed when the costs is incurred.

- The Council shall specify which kinds of leases the municipality may enter into.
- The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, , capital redemption, etc.

## **5.5 SUBSEQUENT MEASUREMENT OF CAPITAL ASSETS**

### ***General***

After initial recognition of Property, plant and Equipment, the municipality values its assets using the cost model, unless a specific decision have been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation model.

When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.

When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

### ***Procedures and Rules***

- The CFO shall ensure that all Property, Plant and Equipment are correctly recorded in the asset register and revaluated (if applicable) in terms of the municipality's policies.

## **5.6 RECOGNITION OF INVENTORY ITEMS (NON CAPITAL ITEMS)**

### ***General***

Inventories encompass finished goods purchased or produced, or work in progress being produced by the municipality. They also include materials and supplies awaiting use in the production process and goods purchased or produced by the municipality, which are for distribution to other parties for no charge or for a nominal charge. GRAP 12.7 defines Inventories as assets:

- In the form of materials or supplies to be consumed in the production process;
- In the form of materials or supplies to be consumed or distributed in the rendering of services;

- Held for sale or distribution in the ordinary course of operations; or
- In the process of production for sale or distribution.

Examples of Inventories may include the following:

- Ammunition;
- Consumable stores;
- Maintenance materials;
- Spare parts for plant and equipment other than those dealt with under PPE;
- Strategic stockpiles (Energy reserves, Water reserves);
- Work in progress; and
- Land / Property held for sale.

Cost of inventories shall comprise of all costs of purchase (i.e. purchase price, import duties, other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and supplies), costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Trade discounts, rebates and other similarities are deducted. Taxes recoverable by the entity from the SARS may not be included.

Costs of development for housing or similar developments which are acquired or developed for resale will include costs directly related to the development – e.g. purchase price of land acquired for such developments, surveying, conveyance costs and the provision of certain infrastructure. Infrastructure costs relating to extending the capacity of existing infrastructure are excluded. The costs of inventories of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads are included.

### ***Policy***

Assets acquired or owned by the municipality for the purpose of selling or developing such assets with the intention to sell it or utilising the asset in the production process or in the rendering of services, shall be accounted for in the municipality's financial statements as inventory items and not as property, plant and equipment.

### ***Procedures and Rules***

- The CFO must record inventories in a dedicated section of the Inventory Register and maintain it for this purpose. The amount of cost of inventories is to be recognised and carried forward until related revenues are recognised.
- Inventories shall be measured at the lower of cost and current replacement cost where they are held for:
  - Distribution at no charge or for nominal charge, or
  - Consumption in the production process of goods to be distributed at no charge or for a nominal charge.
- In cases where the above does not apply, inventories shall be measured at lower of cost and net realisable value.

## 6 ASSET TYPES

### 6.1 PROPERTY, PLANT AND EQUIPMENT: LAND AND BUILDINGS

#### **General**

*Land and Buildings* comprise any land and buildings held (by the owner or by the lessee under a finance lease) by the municipality to be used in the production or supply of goods or for administrative purposes. Land held for a currently undetermined future use, should not be included in PPE: Land and Buildings, but should be included in Investment Properties. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

The municipality shall apply Interpretation Standard, IGRAP18, relating to the initial recognition and de-recognition of land. This interpretation also considers joint control of land by more than one entity.

When the municipality concludes that it controls the land after applying the principles in this Interpretation, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories (GRAP 12), Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets (GRAP 103), as this Interpretation does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined.

An entity also applies the applicable Standards of GRAP to the de-recognition of land when it concludes that it does not control the land after applying the principles in this Interpretation.

The municipality shall choose either the **cost model** or the **revaluation model** as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

If the municipality chooses the cost model for its Land and Buildings, then after recognition as an asset, Land and Buildings shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

If the municipality chooses the revaluation model for its Land and Buildings, then after recognition as an asset, Land and Buildings whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount



does not differ materially from that which would be determined using fair value at the reporting date.

### **Policy**

Subsequent to initial recognition, the Municipality choose the cost model as the accounting policy for its Land and Buildings. Land is not depreciated as it is deemed to have an indefinite useful life.

### **Procedures and Rules**

- The CFO shall ensure that all land and buildings are correctly recorded in the asset register and revaluated (if applicable) in terms of the municipality's policies.
- The CFO shall ensure the recognition and measurement of *Land and Buildings* in terms of GRAP 17.

## **6.2 PROPERTY, PLANT AND EQUIPMENT: INFRASTRUCTURE ASSETS**

### **6.2.1 General**

*Infrastructure Assets* comprise assets used for the delivery of infrastructure-based services. These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Many infrastructure assets form part of a greater facility e.g. a pump in a pump station.

#### Level of detail of componentisation

For the technical management of infrastructure, the most effective level of management is at the maintenance item level. This data is useful for maintenance analysis to improve infrastructure management decision making. However, the collection of data at this of detail can be very costly when dealing with assets that are very numerous in nature e.g. water meters, street signs, household connections, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data. The different levels of detail can be viewed in the Immoveable Asset Update Strategy.

The compilation of a detailed infrastructure asset register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing asset registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increase their knowledge in the assets they own. .

### **Policy**

The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. Infrastructure assets should be valued at cost less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the depreciation methods applied to Infrastructure assets should be reviewed regularly, but the cost related to such reviews should be measured against benefits derived to ensure value for money.

### **Procedures and Rules**

- The CFO shall define the level of detail of the infrastructure asset register in consultation with the Heads of Department.
- The CFO shall prepare an improvement process that defines the target level of detail for each infrastructure asset type with the target year of implementation in consultation with the Heads of Department.
- The CFO shall ensure the recognition and measurement of *Infrastructure Assets* in terms of GRAP 17.

<b>6.3 PROPERTY, PLANT AND EQUIPMENT: COMMUNITY ASSETS</b>
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### **General**

*Community Assets* include a variety of assets used to provide services to the community. These assets include building assets such as aquariums, cemeteries, clinics, hospitals, game reserves, museums, parks, etc. Community assets also include recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

### **Policy**

Community assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.

*The different levels of detail can be viewed within the Immoveable Asset Update Strategy*

### **Procedures and Rules**

- The CFO, in consultation with the Heads of Department, shall ensure that all community assets are appropriately recorded and valued in terms of the municipality's policies.

## 6.4 PROPERTY, PLANT AND EQUIPMENT: OTHER ASSETS

### **General**

*Other Assets* include a variety of assets that are of indirect benefit to the communities they serve. These assets include office equipment, furniture and fittings, bins and containers, emergency equipment, motor vehicles, plant and equipment.

### **Policy**

Other assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not revalued.

*Other Assets* shall be recorded under the following main categories;

- Aircraft;
- Bins and Containers;
- Emergency Equipment;
- Furniture and Fittings;
- Motor Vehicles;
- Office Equipment;
- Plant and Equipment;
- Specialised Vehicles;
- Watercraft; and
- Other Assets as indicated in the Municipality's accounting policy.

### **Procedures and Rules**

- The CFO, in consultation with the Heads of Department, shall ensure that all other assets are appropriately recorded in terms of the municipality's policies.

## 6.5 HERITAGE ASSETS

### **General**

A *Heritage Asset* is an asset that has historical, cultural or national importance and needs to be preserved. The following is a list of some typical heritage assets encountered in the municipal environment:

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

### ***Policy***

Heritage assets are valued at cost less accumulated depreciation and accumulated impairment losses. No depreciation shall be charged against such assets. If the cost price of heritage assets are not known, then the heritage asset will be valued at fair value.

### ***Procedures and Rules***

- For reporting purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note in the asset register.
- The CFO, in consultation with the Heads of Department, shall ensure that all heritage assets are appropriately recorded and valued in terms of the municipality's policies.

## **6.6 INTANGIBLE ASSETS**

### ***General***

*Intangible Assets* can be purchased, or can be internally developed, by the municipality and includes, but are not limited to, computer software, website development cost, servitudes and mining rights.

### ***Policy***

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 31 has been met.

### ***Procedures and Rules***

- The CFO, in consultation with the Heads of Department, shall ensure that all intangible assets are appropriately recorded in terms of the municipality's policies.

## **6.7 INVESTMENT PROPERTY**

### ***General***

*Investment Property* comprise of land or buildings (or parts of buildings) or both, held by the municipality as owner, or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

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

### **Policy**

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Investment Property shall initially be measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

After initial recognition, all investment property shall be measured in terms of the municipality's Accounting Policy.

### **Procedures and Rules**

- The CFO shall ensure that investment assets are recorded in an Investment Property register.
- The CFO shall ensure the recognition and measurement of *Investment Property* in terms of GRAP 16.

## **6.8 BIOLOGICAL ASSETS**

### **General**

*Biological Assets* are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. **Managed agricultural activity** such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the municipality from its ownership or control of the asset.

Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to the market.

Where the municipality is unable to measure the fair value of biological assets reliably, a biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

**Policy**

Biological assets, such as livestock and crops, shall be valued annually at fair value less estimated point-of-sales costs.

**Procedures and Rules**

- The CFO, in consultation with the Heads of Department, shall ensure that all biological assets obtained from a managed agricultural activity, such as livestock and crops, are valued at 30 June each year by a recognised valuator in the line of the biological assets concerned.
- The CFO shall ensure the recognition and measurement of *Biological Assets* in terms of GRAP 27.

**6.9 DISCONTINUED OPERATIONS (GRAP 100)****General**

A Discontinued Operation is a component of an entity that has been disposed of and:

- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale

**Policy**

Discontinued operations shall be presented and disclosed in accordance with GRAP 100 and other related standards and legislation.

**Procedures and Rules**

- The CFO, in consultation with the Heads of Department, shall ensure that discontinued operations are appropriately recorded in terms of the municipality's policies as well as the relevant GRAP Standards.

**6.10 INVENTORY PROPERTY (GRAP 12)****General**

*Inventory Property* comprises 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.

### ***Policy***

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's Statement of Financial Position. Inventory property shall be valued annually at reporting date at the lower of its carrying value or net realisable value, except where they are held for:

- (a) distribution at no charge or for a nominal charge, or
- (b) consumption in the production process of goods to be distributed at no charge or for a nominal charge, then they shall be measured at the lower of cost and current replacement cost.

### ***Procedures and Rules***

- The CFO shall ensure that inventory properties are recorded in the Inventory register.
- The CFO shall ensure the recognition and measurement of *Inventory Property* in terms of GRAP 12, read in conjunction with the provisions of iGRAP18.

## **6.11 MINOR ASSETS (CAPITAL ASSETS BELOW APPROVED THRESHOLD)**

### ***General***

*Minor Assets* comprise movable assets not capitalised in terms of the threshold policy of the municipality. However, these assets must still be controlled, safeguarded and verified by the municipality. They are not capitalised for the number of assets compared to their value does not warrant the complex procedures applicable to asset management, rendering a manageable asset register by concentrating on what is material and significant to the municipality's operation.

### ***Policy***

Minor assets shall be expensed in the Statement of Financial Performance and not be capitalised. However, these assets shall be recorded at cost in the Minor Asset Inventory Listing. These assets shall not be depreciated or tested for impairment and shall not generate any further transactions, except in the cases where losses are recovered by means of insurance claims or recoveries from disciplinary actions.

### ***Procedures and Rules***

- The CFO shall ensure that minor assets are recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

## 7 ASSET ACQUISITION

### 7.1 ACQUISITION OF ASSETS

#### **General**

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing.

#### **Policy**

Should the municipality decide to acquire a Capital asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset fit the definition of a Capital Asset (as defined by the relevant GRAP Standards )
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place; and
- The most suitable and appropriate type, brand, model, etc. has been selected.

#### **Procedures and Rules**

- The CFO shall ensure that the Supply Chain Management Policy makes provision for these principles.
- The CFO shall ensure that all acquired assets are appropriately insured.
- The CFO, in conjunction with the Heads of Departments shall ensure that all planned moveable asset acquisitions (including delivery), as approved within the original budget, are done by 31 January each year.
- The CFO, in conjunction with the Heads of Departments shall ensure that all planned moveable asset acquisitions (including delivery), as approved within an adjustment budget are done by 31 March each year.
- The CFO, in conjunction with the Heads of Departments shall ensure that in addition to the existing Supply Chain Management documentation, all moveable asset acquisitions are accompanied with the relevant Asset Procurement



documentation, required by Asset Register custodians, prior to the approval of these orders.

## **7.2 CREATION OF NEW INFRASTRUCTURE ASSETS**

### ***General***

Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that has not been in the control or ownership of the municipality in the past.

### ***Policy***

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.

Work in progress shall be flagged as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.

Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

### ***Procedures and Rules***

- The Heads of Department shall ensure that a form is completed and submitted to the Asset Register Custodian that includes the details of the work in progress relating to the work in progress.
- The Heads of Department shall notify the Asset Register Custodian when the works have been completed and the assets can be recognised.
- The Heads of Department shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the asset register.

## **7.3 SELF-CONSTRUCTED ASSETS**

### ***General***

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.

### ***Policy***

All assets that can be classified as assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction

of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.

### ***Procedures and Rules***

- Heads of Department shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.
- Heads of Department shall open a job card for each infrastructure project constructed by the municipality.
- On completion of the infrastructure project, the Heads of Department shall ensure that all costs (both direct and indirect) associated with the construction of the assets be summed and be capitalised to the assets that make up the project.

## **7.4 DONATED ASSETS**

### ***General***

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

### ***Policy***

Donated assets should be valued at fair value, reflected in the asset register, and depreciated as normal assets.

### ***Procedures and Rules***

- All donated assets must be approved by the Municipal Manager and ratified by Council prior to acceptance.
- Management of the municipality must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the municipality.
- The conditions associated with the donation must be agreed upon and signed by the Municipal Manager.
- The Asset Register custodian must be informed in writing of all donated assets approved and accepted by the Municipal Manager.

## 8 ASSET MAINTENANCE

### 8.1 USEFUL LIFE OF ASSETS

#### **General**

*Useful Life* of assets is defined in paragraph 2 of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

National Treasury (NT) published its Local Government Asset Management Guideline in August 2008 that includes directives for useful lives of assets, but municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for the particular classes of assets. The calculation of useful life is based on a particular level of planned maintenance.

#### **Policy**

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

#### **Procedures and Rules**

- Every Head of Department must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the CFO or Senior Manager: Budget and Treasury Office
- The CFO shall ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.
- The CFO shall ensure that the *Remaining Useful Life* of an asset shall be reviewed at each reporting date.

### 8.2 RESIDUAL VALUE OF ASSETS

#### **General**

The *Residual Value* of an asset is the estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

#### **Policy**

Residual values should be determined upon the initial recognition (capture) of assets. However, this will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. In practise, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value of assets shall be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

### ***Procedures and Rules***

- Every Head of Department must determine the reasonable residual values of the assets under their control.
- The CFO shall ensure that residual values, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.
- The CFO shall ensure that the *residual value* of an asset shall be reviewed at each reporting date.

## **8.3 DEPRECIATION OF ASSETS**

### ***General***

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

The depreciation method used **must** reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

8. Straight-line;
9. Diminishing Balance; and
10. Sum of the Units.

### ***Policy***

All assets, except land and heritage assets, shall be depreciated over their reasonable useful lives. The *residual value* and the *useful life* of an asset shall be reviewed at each reporting date. The depreciation method applied must be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality, or expected to be so controlled or used during the ensuing financial year.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed. Depreciation of an asset should begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner it is intended by management. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production.

In the case of intangible assets being included as assets, 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 assets.

### ***Procedures and Rules***

- Every Head of Department must determine the reasonable useful life of the asset classifications under their control. Deviations from the standards of useful life must be motivated in writing to the Municipal Manager and provided to the CFO.
- In the case of an asset which is not listed in the asset classification list, the Head of Department shall determine a useful operating life, in consultation with the CFO, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.
- Alternative depreciation methods may be used in exceptional cases, if motivated by the Head of Department controlling the asset to the Municipal Manager and in consultation with the CFO. The Head of Department must then provide the CFO with sufficient statistical information to make estimates of depreciation expenses for each financial year.
- The CFO shall ensure that depreciation shall be up to date on a monthly basis and be reconciled between the asset register and the general ledger.
- The CFO shall ensure that the *residual value*, *useful life* and *depreciation method* of an asset shall be reviewed at each reporting date.

## **8.4 IMPAIRMENT LOSSES**

### ***General***

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. The following serve as examples of impairment indicators:

- Significant decline in market value;
- Carrying amount of an asset far exceeds the recoverable amount or market value;
- There is evidence of obsolescence (or physical damage);
- The deterioration of economic performance of the asset concerned; and
- The loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (such as through inadequate maintenance).

The impairment amount is calculated as the difference between the *carrying value* and the *recoverable service value*. The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at revalued amount.

If the asset is carried at a revalued amount (in the case of investment property, infrastructure and community assets) the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

### **Policy**

Assets shall be reviewed annually for all assets with impairment indicators. Impairment of assets shall be recognised as an expense, unless it reverses a previous revaluation in which case it should be charged to the *Revaluation Surplus*. The reversal of previous impairment losses recognised as an expense, is recognised as an income.

### **Procedures and Rules**

- The CFO, in consultation with the Heads of Department must ensure that regular impairment testing and surveys are performed.
- The CFO shall ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the asset register and the general ledger.

## **8.5 MAINTENANCE OF ASSETS AND THE ASSET REGISTER**

### **General**

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

The splitting of linear infrastructure has a data management implication, but it is the easiest method that maintains the data integrity over time.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

## ***Policy***

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are individually identified in the asset register.

## ***Procedures and Rules***

- All Heads of Department responsible for the control and utilisation of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.
- Heads of Department shall ensure that the operating expenses are expended against the operating budget and not the capital budget.
- The Heads of Department shall report to the Council annually of the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance.
- The Heads of Department shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes;
- The Heads of Department shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

<b>8.6 RENEWAL OF ASSETS</b>
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## ***General***

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However if the service is no longer required, the asset should not be renewed. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

## ***Policy***

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

## ***Procedures and Rules***

- The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.

- Heads of Department shall ensure that renewals expenditure are correctly budgeted for in the capital budget and expensed against this budget.
- Heads of Department must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

## **8.7 REPLACEMENT OF ASSETS**

### ***General***

This paragraph deals with the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

### ***Policy***

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset.

### ***Procedures and Rules***

- The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.
- Heads of Department shall ensure that replacement expenditure are correctly budgeted for in the capital budget and expensed against this budget.



## 9 ASSET DISPOSAL

### 9.1 TRANSFER OF ASSETS

#### **General**

The processes and rules for the transfer of a capital asset to another municipality, municipal entity or national/provincial organ of state are governed by an MFMA regulation namely “the Local Government: Municipal Asset Transfer Regulations”.

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed asset register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building to another; and
- One entity to another.

#### **Policy**

The transfer of assets shall be controlled by a transfer process and the asset register shall be updated.

#### **Procedures and Rules**

- The Head of Department must ensure that all asset transfer information is passed to the Asset Control Officer.
- The CFO must ensure that a process is in place to capture and record asset transfer data.
- Staff of the Municipality, except for duly authorised staff, shall not move rented assets, such as photocopy machines.
- Only authorised IT officials will be allowed to transfer any IT network equipment.
- The Head of a Department must immediately report to the CFO of any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.

### 9.2 EXCHANGE OF ASSETS

#### **General**

According to GRAP 17 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

**Policy Title:** ASSET MANAGEMENT POLICY

FINANCIAL YEAR: 2023/24

**Status:** Final Review, submitted to Council on 29 May 2023 with Final Budget per Item C/2/126/05/23

- the exchange transaction lacks commercial substance; or
- the fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

### ***Policy***

The cost of assets acquired in exchange for another asset shall be 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 transferred.

### ***Procedures and Rules***

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The CFO shall approve all asset exchanges in consultation with the relevant Head of Department.

## **9.3 ALIENATION / DISPOSAL OF ASSETS**

### ***General***

Alienation / Disposal (alienation) is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of capital assets. Specifically:

- A municipality may not ...” permanently dispose of a capital asset needed to provide the minimum level of basic municipal services”
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality’s supply chain management policy.

### ***Policy***

There are various methods of disposal. Different disposal methods will be needed for different types of assets. Before deciding on a particular disposal method, the following should be considered:

- The nature of the asset
- The potential market value
- Other intrinsic value of the asset
- Its location
- Its volume

- Its trade-in price
- Its ability to support wider Government programmes;
- Environmental considerations
- Market conditions
- The asset's life

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution
- Sale to another institution
- Letting to another institution
- Trade-in
- Controlled dumping (for items that have low value or are unhygienic)

Alienated assets shall be written-off in the asset register.

### ***Procedures and Rules***

- Every Head of Department shall report in writing to the CFO on 30 April of each financial year on all assets which they wish to alienate.
- The CFO shall consolidate the requests received from the various departments, and shall promptly report the consolidated information to the Municipal Manager of the municipality, recommending the process of alienation to be adopted.
- The Council shall delegate to the Municipal Manager the authority to approve the alienation of any asset with a carrying value less than R5 000 (five thousand rand).
- The Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004. The Act states that the municipality may not alienate any capital asset required to provide a minimum level of service. The municipality may alienate any other capital asset, provided the Council has considered the fair market value and the economic and community value to be received in exchange for the asset.
- Selling: Assets to be sold shall be sold in terms of paragraph 9.4 below.
- Donations: Donations may be considered as a method of alienation, but such requests must be aligned to the principles as set out within the Municipal Asset Transfer Regulation, 2008 .
- Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- Scrapping: Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager.
- Once the assets are alienated, the CFO shall write-off the relevant assets in the asset register.
- The letting of immovable property, excluding municipal housing for officials and political office bearers, must be done at market-related tariffs, unless the relevant

treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.

- The CFO must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

## **9.4 SELLING OF ASSETS**

### ***General***

Selling of assets refers to the public sale of municipal assets approved for alienation.

### ***Policy***

All assets earmarked for sale must be sold by public auction or tender and the following steps shall be followed:

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
- The municipality shall appoint an independent appraiser to fix a minimum selling price;
- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.

Sold assets shall be written-off in the asset register.

### ***Procedures***

- A request for assets to be sold must be submitted to the Municipal Manager and approved by Council. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 9.3 above.
- Auctioneers may be engaged either on a quotation basis or by tender depending on the goods to be alienated.
- Bidding: Bidders are afforded the opportunity to make an offer on identifiable items. Bids are compared and the highest bidder is awarded the bid.
- Tenders: Tenders shall be invited according to the municipality's tender procedures.
- Once the assets are sold, the CFO shall write-off the relevant assets in the asset register.
- If the proceeds of the sales are less than the carrying value recorded in the asset register, such difference shall be recognised as a loss for the department or vote concerned in the Statement of Financial Performance. If the proceeds of the sales, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain for the department or vote concerned in the statement of financial performance.
- Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in

accordance with the above procedures, except that the process of alienation shall be by private treaty.

## **9.5 WRITING-OFF OF ASSETS**

### ***General***

The write-off of assets is the process to permanently remove the assets from the asset register. Assets can be written-off after approval of the Municipal Manager of a report indicating that:

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is outdated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.

### ***Policy***

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

### ***Procedures and Rules***

- Every Head of Department shall report to the CFO on 30 April of each financial year on any assets which such Head of Department wishes to have written-off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Municipal Manager on the assets to be written off.
- An asset, even though fully depreciated, shall be written-off only on the recommendation of the Head of Department controlling or using the asset concerned, and with the approval of the Municipal Manager.
- In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full carrying value of the asset concerned as impairment expenses.
- Assets that are replaced should be written-off and removed from the asset register.

## 10 ASSET PHYSICAL CONTROL (MOVEABLE ASSETS)

### 10.1 PHYSICAL CONTROL / VERIFICATION

#### **General**

Movable assets require physical control and verification of existence.

#### **Policy**

All movable assets shall be actively controlled, including an annual verification process.

#### **Procedures and Rules**

- All movable assets that are supposed to be bar-coded must have a visible bar code in a universal manner as determined by the Municipal Manager.
- Annual verification of movable assets should be conducted under the direction of an individual who neither has responsibility for the custody of fixed assets nor maintains asset records. This procedure would enable the municipality to identify discrepancies and dispositions and properly investigate and record the transactions.
- Procedures should be established to adequately identify assets owned by others or subject to reclamation by donors.
- The CFO shall co-ordinate and control regular physical checks, and all discrepancies are to be reported immediately to the CFO.
- Registers must be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control. These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.
- Where a change in person in direct control of equipment takes place, a handing-over certificate shall be completed and a copy retained for record purposes. If surpluses or deficiencies are found, the certificates shall be dealt with as with stock-taking reports.
- If for any reason the person from whom the asset is being taken over is not available, the his/her supervisor and/or the asset controller should assist the person taking over with the checking of the equipment and the certification of any discrepancies.
- In case of failure to comply with the requirements of a handing-over certificate, the person taking over shall be liable for any shortages, unless it can be established that the shortages existed prior to their taking over.
- Any losses of and damage to equipment, excluding discrepancies at stocktaking of losses resulting from normal handing or reasonable wear and tear, shall be reported to the CFO.
- Independent checks from asset records shall be conducted to ensure that the assets physically exist, especially those that could be disposed of without a noticeable effect on operations.

- Yearly physical inspections of assets shall be performed to identify items which are damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, written off or disposed off.

## **10.2 INSURANCE OF ASSETS**

### ***General***

Insurance provides selected coverage for the accidental loss of the asset value. In terms of section 63 (1) of the Municipal Finance Management Act, the Municipal Manager is responsible for the safeguarding of municipal assets.

It is the responsibility of the Accounting Officer or his/her delegates to ensure that all municipal assets are safeguarded against all risks that will result in loss. The Accounting Officer has to take all reasonable steps to ensure that Bitou Municipality has and implements budget related policies for effective financial and risk management.

### ***Policy***

Assets that are material in value and substance shall be insured at least against all perils as per council insurance policy.

### ***Procedures and Rules***

- The Heads of Department shall annually submit a list of insurable asset types to the Insurance Section for approval by the CFO. The CFO shall ensure that the insurable asset types are insured in accordance with council's Insurance Policy.

## **10.3 SAFEKEEPING OF ASSETS**

### ***General***

Asset safekeeping is the protection of assets from damage, theft, and safety risks.

### ***Policy***

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken.

### ***Procedures and Rules***

- The Municipal Manager must issue directives that detail the safekeeping of assets.
- The Heads of Department must ensure that safekeeping directives are adhered to.
- Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 2 working days of its occurrence or awareness.
- Any costs linked to damages or theft of assets due to the negligence of the responsible official/asset custodian, will be recovered from that official once the

negligence had been confirmed by the relevant authority (H.o.D), after due processes have been followed.

- Once negligence has been confirmed, and where the insurance claim has been approved by the insurer, the excess amount is the amount payable by the responsible official.
- Once negligence has been confirmed, and where the insurance claim is rejected by the insurer, the official will be liable for the total costs incurred by council.
- The Municipal Manager must report criminal activities to the South African Police Service.
- If any biological asset is lost, stolen or destroyed, the matter shall be reported in writing by the Head of Department concerned in exactly the same manner as though the asset were an ordinary asset.
- Loss of assets identified during the physical verification process, and not reported to the relevant stakeholders, will have to be investigated by each respective Head of Department and reported to the CFO.



## 11 ASSET FINANCIAL CONTROL

### 11.1 CAPITAL REPLACEMENT RESERVE (CRR)

#### **General**

The Capital Replacement Reserve is a reserve account to set aside funds for the financing of property, plant and equipment. The CRR is therefore an asset financing source that represents an alternative to the other funding sources available to the municipality, namely external loans (interest bearing borrowings) and government grants & subsidies. The value of this reserve is not represented by any values of assets under the municipality's control and shall preferably be cash-backed.

#### **Policy**

It is the policy of Council to annually make contributions to the CRR to ensure that the CRR remains a capital funding source for the future. The municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The Integrated Development Plan, the municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR.

Whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus on the Statement of Changes in Net Assets.

#### **Procedures and Rules**

- The CFO is responsible for creating and maintaining the CRR in accordance with council's Liquidity, Funding and Reserves Policy
- The CFO must ensure the annual transfers to the CRR from the municipality's appropriation account.
- The CFO must ensure the transfers from the CRR to the municipality's appropriation account in respect of assets purchased.
- .
- The CRR may only be utilised for the purpose of purchasing items of PPE for the municipality and may not be used for the maintenance of these items.

### 11.2 FUNDING SOURCES

#### **General**

The Municipal Finance Management Act (MFMA) provides guidelines on how to utilise funds in financing assets (Section 19 of MFMA). The municipality shall utilise any of the following sources to acquire and / or purchase capital assets:

- Government Grants and Subsidies;
- Public Contributions / Donations;
- Capital Replacement Reserve;
- Finance Leases; and / or
- External Borrowing
- .

### ***Policy***

The annual capital budget must be funded and the sources of finance must be disclosed as part of the Council's budget.

### ***Procedures and Rules***

- The CFO will ensure that the capital budget is financed and that the finance sources have been identified and confirmed in writing.
- The CFO will ensure that all legislation and prescripts regarding the various funding sources be adhered to.

## **11.3 DISASTER**

### ***General***

In terms of the Disaster Management Act, 2002, Disaster means a progressive or sudden, widespread or localised, natural or human – caused occurrence which causes or threatens to cause:

- death, injury or disease;
- damage to property, infrastructure or the environment; or
- disruption of life of community; and
- is of a magnitude that exceeds the ability of those affected by the disaster to cope with its effects using only their own resources.

In terms Section 56 (b) of the Disaster Management Act, 2002 the cost of repairing or replacing public sector infrastructure should be borne by the organ of state responsible for the maintenance of such infrastructure. The National, Provincial and Local organs of state may contribute financially to response efforts and post – disaster recovery and rehabilitation.

### ***Policy***

The Municipality will correspond with the district municipality, as well as other relevant organs of state, in accordance with council's disaster management plan.

### ***Procedures and Rules***

- Municipal officials and all other role players must adhere to the disaster management plan of council for the prevention and mitigation of disasters.



## 12 MANAGEMENT OF IMMOVABLE ASSETS

### 12.1 LEGAL FRAMEWORK

A municipality exercises its legislative and executive authority by, among others, developing and adopting policies, plans, strategies and programmes, including setting targets for delivery (section 11(3) of the MSA).

Participation by the local community in the affairs of the municipality must take place through, among others, generally applying the provisions for participation as provided for in the MSA (section 17(1) of the MSA).

A municipality must communicate to its community information concerning, among others, municipal governance, management and development (section 18(1) of the MSA).

As head of administration the Municipal Manager is, subject to the policy directions of the municipal council, responsible and accountable for, among others, the following:

- The management of the provision of services to the local community in a sustainable and equitable manner;
- Advising the political structures and political office bearers of the municipality (section 55(1) of the MSA); and
- Providing guidance and advice on compliance with the MFMA to the political structures, political office-bearers and officials of the municipality (section 60 of the MFMA).

As accounting officer of the municipality the Municipal Manager is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).

The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 62(1) of the MFMA).

### 12.2 RATIONALE FOR MANAGEMENT OF ASSETS

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objectives:

- Providing democratic and accountable government for local communities;
- Ensuring the provision of services to communities in a sustainable manner;
- Promoting social and economic development;
- Promoting a safe and healthy environment; and
- Encouraging the involvement of communities and community organisations in matters of local government.

In terms of the MFMA, the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.

The MFMA further requires the accounting officer to ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- The municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
- The municipality has and maintains a system of internal control of assets and liabilities.

The OHSA requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.

### 12.3 PRINCIPLES OF ASSET MANAGEMENT

According to the International Infrastructure Management Manual (IIMM), the goal of infrastructure asset management is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers. The core principles of infrastructure asset management are:

- Taking a life-cycle approach;
- Developing cost-effective management strategies for the long-term;
- Providing a defined level of service and monitoring performance;
- Understanding and meeting the impact of growth through demand management and infrastructure investment;
- Managing risks associated with asset failures;
- Sustainable use of physical resources; and
- Continuous improvement in asset management practices.

### 12.4 POLICY OBJECTIVE

The municipality is committed to providing municipal services for which the municipality is responsible, in a transparent, accountable and sustainable manner and in accordance with sound infrastructure management principles.

### 12.5 POLICY PRINCIPLES

The following policy principles serve as a framework for the achievement of the policy objective stated above:

#### 12.5.1 *Effective Governance*

The municipality strives to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected. To this end, the municipality will:

- Adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- Regularly review and update amendments to the above legislation;
- Review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and

- Effectively apply legislation for the benefit of the community.

### **12.5.2 Sustainable Service Delivery**

The municipality strives to provide to its customers services that are technically, environmentally and financially sustainable. To this end, the municipality will:

- Identify levels and standards of service that conform with statutory requirements and rules for their application based on the long-term affordability to the municipality;
- Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- Identify current and future demand for services, and demand management strategies;
- Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable in line with national targets;
- Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- Prepare and adopt an immovable (infrastructure) asset management strategy and immovable (infrastructure) asset management plans to support the achievement of the required performance;
- Prepare and adopt an immovable (infrastructure) asset maintenance strategy and immovable (infrastructure) asset maintenance plans to execute maintenance timeously;
- Allocate budgets based on long-term (20 year) financial forecasts that take cognisance of the full life-cycle needs of existing and future assets and the risks to achieving the adopted performance targets; and
- Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

### **12.5.3 Social and Economic Development**

The municipality strives to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community. To this end, the municipality will:

- Regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- Implement changes to services in response to changing customer needs and expectations where appropriate;
- Foster the appropriate use of services through the provision of clear and appropriate information;
- Ensure services are managed to deliver the agreed levels and standards; and
- Create job opportunities and promote skills development in support of the national EPWP.

### **12.5.4 Custodianship**

The municipality strives to be a responsible custodian and guardian of the community's assets for current and future generations. To this end, the municipality will:

- Establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- Establish appropriate development control measures including community information;
- Cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- Ensure that heritage resources are identified and protected; and
- Ensure a long-term view and life-cycle costs are taken into account in immovable asset management decisions.

### **12.5.5 *Transparency***

The municipality strives to manage its immovable assets in a manner that is transparent to all its customers, both now and in the future. To this end, the municipality will:

- Develop and maintain a culture of regular consultation with the community with regard to its management of immovable assets in support of service delivery;
- Clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- Avail asset management information on a ward basis; and
- Continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

### **12.5.6 *Cost-effectiveness and Efficiency***

The municipality strives to manage its immovable assets in an efficient and effective manner. To this end, the municipality will:

- Assess life-cycle options for proposed new immovable assets;
- Regularly review the actual extent, nature, utilisation, criticality, performance and condition of immovable assets to optimise planning and implementation works;
- Assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of immovable assets;
- Ensure the proper utilisation and maintenance of existing assets;
- Establish and implement demand management plans;
- Timeously renew immovable assets based on capacity, performance, risk exposure, and cost;
- Timeously dispose of immovable assets that are no longer in use;
- Establish documented processes, systems and data to support effective life-cycle immovable asset management;
- Strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- Conduct annual assessments to support continuous improvement of immovable asset management practice.

# ANNEXURES



## ANNEXURE A ABBREVIATIONS

AM	Asset Management
AMS	Asset Management System
AR	Asset Register
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
DM	District Municipality
EPWP	Expanded Public Work Program
GAMAP	Generally Accepted Municipal Accounting Practice
GIS	Geographical Information System
GRAP	Standards of Generally Recognised Accounting Practice
HR	Human Resource
IAM	Infrastructure Asset Management
IAMP	Infrastructure Asset Management Plan
IAR	Infrastructure Asset Register
IAS	International Accounting Standards
IDP	Integrated Development Plan
IIMM	International Infrastructure Management Manual
LM	Local Municipality
MFMA	Municipal Finance Management Act
MSA	Municipal Services Act
NT	National Treasury
O&M	Operation and Maintenance
OAG	Office of the Accountant General
PPE	Property, Plant and Equipment
SCM	Supply Chain Management