

EMAKHAZENI MUNICIPALITY



DEBT MANAGEMENT

POLICY & PROCEDURE MANUAL

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1 Introduction

1.1 Vision and value statement

It is the vision of Council to “create a secure environmental and sustainable development to promote service excellence and unity” Council is committed to its mission creating conducive institutional environment within which communities can thrive economically and socially.

The Values of the Council are:

Transparency
High Quality Service Delivery
Accountability
Serving Communities with Integrity
Efficiency
Professionalism

1.2 Vision

To strive for the transformation of the Emakhazeni Local Municipality into an efficient and cost-efficient institution that renders quality, affordable and sustainable services to the community.

1.3 Mission

To develop, promote and sustain systems and structures of effective governance as well as service delivery for the community of the Emkahazeni Local Municipality.

2 Definitions and abbreviations

Definitions:

“billing” refers to the process of charging for services provided by issuing accounts

“chief financial officer” means a person designated in terms of section 80(2)(a) of the Act

“credit control” refers to where certain basic credit worthiness checks must be completed prior to a municipal service being provided and deposits collected

“debt collection” means the debt recovery process

“disconnection” means interrupting the supply of water or electricity to a debtor as a consequence of ignoring the demand for payment

“dispute” refers to the instance when a debtor questions the correctness of any account rendered by Council to him/her and such debtor lodges an appeal with Council

“due date” means the final date of payment as shown on the account

“effective disconnection” means the physical removal of pipes and/or equipment as a consequence of unauthorized reconnection of the disconnected service

“financial year” means the financial year ending 30 June

“holistic” refers to the combining of all debt in order to establish the total obligation the debtor has to Council

“indigents” are debtors whose households have been evaluated in terms of the Indigent Policy and who is registered as being indigent

“indigent amount” refers to the applicable value of the indigent subsidy as determined by the Council from time to time

“interest on overdue accounts” is based on a full month and part of month shall be deemed a full month

“legal process or procedures and/or legal action” refers to the process and/or action described in the Magistrate Courts Act No. 32 of 1944; Supreme Court Act No. 59 of 1959; Adjustment of Fines Act No. 101 of 1991; Debt Collectors Act No. 114 of 1998, Criminal Procedures Act No. 51 of 1977; Local Government: Cross-Boundary Municipalities Act No. 29 of 2000, Local Government: Municipal Structures Amendment Act No. 33 of 2000; Local Government: Municipal Systems Act No. 32 of 2000

“mayor”, in relation to a municipality with an executive mayor, means the councilor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures

Act; or a municipality with an executive committee, means the councilor elected as the mayor of the municipality in terms of section 48 of that Act;

“the municipality” means Emakhazeni Municipality

“municipal manager” means a person appointed in terms of section 82(1)(a) or (b) of the Municipal Structures Act

“payment” is any form of redemption towards the balance on an account whether by cash cheque or electronic means

“sundry debt” refers to any debt other than for rates, housing, metered services, sewerage and refuse removal

“supply” means any metered supply of water or electricity

“tampering” means the unauthorized 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 unmetered service

“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

Abbreviations:

SARS : South African Revenue Services

3 Purpose of the Guidelines

The purpose of this manual is to prescribe the accounting and administrative policies and procedures relating to debt management of the Emakhazeni Municipality.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of debts.

4 Scope of Application

This Policy applies to all administrations within the defined boundaries of Emakhazeni Municipality and all debtors of these administrations, including employees and Council members of the Municipality.

5 Legislative Framework

The Municipality operations are governed by an array of different acts and this manual should be understood within that context.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Public Finance Management Act, 1999
- ◆ Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
- ◆ Municipal Finance Management Act, 2003
- ◆ Regional Services Council Act, 1985 (Act 109 of 1985)

Thus not only is Emakhazeni Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

6 Principles

- 6.1 Human dignity must be upheld at all times.
- 6.2 The policy must be implemented with equity, fairness and consistency.
- 6.3 Details related to the debt and the account of the debtor must be **correct at all times**.
- 6.4 Debts and arrangements to repay debts must be treated holistically, but different repayment periods or methods may be determined for different types of service, debtors or arrears within the general rule that the repayment period should be in sympathy with the instalments that the debtor can afford.
- 6.5 The implementation of this policy should be based on sound business practices. This includes credit worthiness checks when application for services is made, as well as debt collection through sanctions of warnings, disconnections, evictions and other legal processes.
- 6.6 New services will only be provided if a clearance certificate has been issued indicating that all amounts due in respect of municipal services, surcharge on fees, property rates and other municipal taxes, levies and duties at the customer's previous address have been **paid in full**.

- 6.7 Before any property can be transferred from one owner to another, **all arrears are payable**, where after the Municipality issues a certificate to that effect. No transfer can take place without such a certificate.
- 6.8 New applications for services will be subject to prescribed credit information and outstanding amounts may be transferred to the new account.
- 6.9 Council may provide reduced levels of service to manage the debt growth where alternatives are available.
- 6.10 Debtors may be referred to 3rd party debt collection agencies and may be placed on the National Credit Rating list.
- 6.11 All recoverable costs incurred by Council relating to the collection process shall be recovered from the debtor.
- 6.12 Interest charges on overdue accounts will be levied from the due date if not paid by the following due date and will be calculated for a full month(s) irrespective of when payment is made.
- 6.13 Full and Final settlement payments
- a) Any part payment of an account in full and final settlement can only be tendered to the Accounting Officer.
 - b) Should such a payment not be tendered in accordance with paragraph (a) above and:
 - ♦ such payment being cash or postal orders, the payment will be returned to the payer; or
 - ♦ such payment be in the form of a cheque, the cheque will be returned to the drawer; or
 - ♦ such payment be in the form of a cheque, credit card or electronic payment and deposited, the amount of such payment will be returned to the drawer thereof.
 - c) Should such a payment not be tendered in accordance with paragraph (a) above, the account will be adjusted accordingly and debt management actions in terms of this policy will commence or continue as if no payment had been tendered.
- 6.14 Employer deductions
- a) The Council may enter in to an agreement with employers whose employees are in arrears with their municipal accounts to deduct an agreed amount from their employees' weekly or monthly wages or salary to pay towards the arrears.
 - b) The relevant employees must consent to the deduction in writing and that there is no existing legislation precluding same.

7 Credit Control

- 7.1 All new applications to provide a service must be subject to the payment of a deposit based on the applicant's municipal payment history with a minimum deposit as per the tariff.
- 7.2 The applicant shall be interviewed by an official who must carry out a full credit check and all municipal debt owed by the applicant should be determined. This will require the provision of an Identify Document, binding lease agreement, title deed and other supporting document as required by Council from time to time.
- 7.3 Applicants should give consent to being subjected to credit vetting and/or credit bureau listing.
- 7.4 Application for services for businesses should be approved subject to the provisions of paragraph (a) above. The application must include the submission of a resolution delegating authority to the applicant and furnishing the business entity's registration number or IT number. The names, addresses and all relevant contact particulars of all the entity's directors or members or trustees or proprietors or partners must be submitted with the resolution.

8 Debt Management

8.1 Discretion: Negotiable amounts

- a) Discretion in terms of negotiable amounts as per this policy is delegated to the Accounting Officer.
- b) Discretion will only be used so as to apply the principles embodied within this policy and to ensure that some form of payment acceptable to Council is forthcoming from negotiations with the debtor.

8.2 Rates

8.2.1 Annual rates

- a) Interest will be charged on all overdue accounts at 1% above the prime overdraft rate of the Municipality's bankers.
- b) If the 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 the account is not settled or there is no response from the debtor to make acceptable arrangements to repay the debt, summons shall be issued and the legal process followed.

8.2.2 Monthly Rates

- a) Interest will be charged on all overdue accounts at 1% above the prime overdraft rate of the Municipality's bankers.
- b) Debtors can make application to the Council to pay current and future rates monthly, the approval of which is at the sole discretion of the Accounting Officer.
- c) 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.
- d) Should the debtors' rates arrears equal the amount of any three monthly instalments or more, the full balance of the annual rates will become due and payable and the account status will be converted from monthly to annual.

8.3 Services and Electricity

- a) Accounts must be paid by the due date as shown on the account.
- b) Interest will be charged on all overdue accounts at 1% above the prime overdraft rate of the Municipality's bankers.
- c) The debtor must be warned on the monthly account of possible disconnection if payment is not received by the due date.
- d) If payment is not received by the due date, a hand-delivered Notice shall be delivered to the physical supply address warning of an impending disconnection after 7 days from the date reflected on the Notice.
- e) If payment is not received by the due date as shown on the Notice, the supply will be disconnected.
- f) A notice shall be left at the property advising that the supply has been disconnected with a warning that all electric points should be considered live and that all water outlets should be closed.
- g) The above notice must also advise that the supply will only be reconnected after the total balance of the amount specified on the notice, including the reconnection fee, has been paid or an arrangement acceptable to Council has been made.
- h) The said notices must also warn of the consequences of unauthorised reconnection.
- i) Debtors should be required to pay all penalties and arrears in full before the supply is restored.
- j) Disconnected services will be restored within a reasonable period of time after the debtor produces proof of payment of the required amount.
- k) The onus shall always be on the debtor to request reconnection and to provide that the full amount on the disconnection notice was paid or that an arrangement was entered into.

8.4 Right of Access

- a) An authorised representative of, or service provider to Council, must at all reasonable hours be given unrestricted access to the debtor'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.
- b) Any person who contravenes paragraph (a) above will be deemed to have contravened the provisions of Section 101 of the Municipal Systems Act, No. 32 of 2000, as amended, and will be charged with an offence and attract the penalties referred to in Section 119 of the said Act.

8.5 Other debt

8.5.1 Dishonoured payments

- a) Rates and general services

If the drawer of the cheque, or the customer who received value from the depositing of the cheque, 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 refuse to accept further cheques from the drawer or beneficiary, to place the matter on the National Adverse credit listing and also institute legal action which may include criminal charges against the offender.

- b) Miscellaneous services

- ♦ If the drawer of the cheque is not an existing debtor of Council, then a sundry debtor account is created and the debit and penalty is raised. Once the account is submitted and the debtor fails to honour the cheque and pay the penalty within 14 days of receipt, a final demand is submitted. If there is still no response, the matter shall be handed over for placement on the National Adverse credit listing and/or institute legal action that may include criminal charges against the offender.
- ♦ If the drawer of the cheque, or the customer who received value from the depositing of the cheque, 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.

- c) Motor Vehicle Licensing and payment of fines

Unpaid cheques shall be forwarded to the Community Service Department for further action.

- d) Property management leases

The responsible person at the Technical Service Department would pursue the debit in accordance with the terms of the specific lease contract, until all avenues are exhausted.

8.5.2 Employee debt

- a) Definition

Employee debts include any debt owed to the Municipality by *an official or former official* which originated while the debtor was/is in the employ of the Municipality, and any other debt classified as such by the Chief Financial Officer.

- b) Service charges

A staff member of a municipality may not be in arrears to the municipality for rates and service charges for a period longer than 3 months, and a municipality may deduct any outstanding amounts from a staff member's salary after this period.

- c) Management of employee debt

- ◆ A debt account must be opened on the approved financial system when a debt has not been settled within 30 days of notification of such debt to the debtor.
- ◆ It is the responsibility of officials entrusted with the collection of debt to take all possible steps to recover the debt by:
 - i) Notifying the debtor of the amount payable;
 - ii) Sending of monthly statements; and
 - iii) Sending of reminders for payments outstanding/overdue.
- ◆ If no response is received the following steps must be taken:
 - i) A reminder must be sent per registered mail and the registered mail number must be noted on the file copy of the letter;
 - ii) if no response is received on the reminder sent by registered mail legal steps must be taken to recover the debt; and

- ◆ Should registered mail be returned undelivered the institutions referred to in paragraph (d) must be approached to obtain the debtor's current address.
- d) Tracing of employee debtors
 - ◆ The following institutions/persons, although not the only, can be approached in an endeavour to obtain a debtor's current address.
 - i) Other Municipalities
 - ii) Post Offices
 - iii) The Department of Home Affairs
 - iv) Relatives
 - ◆ If enquiries to at least 2 or more of the above-mentioned institutions are unsuccessful such debt may be referred to 3rd party debt collectors for recovery.

8.6 Arrangements

8.6.1 Principles for Residential Debtors

- a) Certain categories of debt may be subject to category specific repayment parameters.
- b) Current charges must be paid in full and is not negotiable.
- c) The debtor may be required to prove levels of income and must agree to a monthly payment towards arrears based on his/her ability to pay or based on his/her total liquidity.
- d) All negotiations with the debtor should strive to result in an agreement that is sustainable and is most beneficial to Council.
- e) Interest will be charged on all overdue accounts at 1% above the prime overdraft rate of the Municipality's bankers.
- f) Interest on arrears in respect of all services and rates may be frozen whilst the debtor adheres to the conditions of the arrangement.
- g) Debtors who default on three occasions in respect of arrangements made will be denied the privilege of making further arrangements and the full amount becomes payable. All services may be disconnected and legal action will be taken against such debtors and such debt may be referred to 3rd party debt collectors for recovery.

8.6.2 Arrangement criteria for Residential Debtors

- a) All debtors who are in arrears and apply to make arrangements to reschedule their debt will be subject to the following payment requirements at the time of making the arrangement:

- ♦ Current account +
- ♦ An agreed payment towards arrears
- b) Each following month the debtor will be required to pay:
 - ♦ Current account +
 - ♦ An instalment as agreed upon
- c) Should the debtor not honour the above arrangements, payments will be as follows:
 - ♦ First default : Current account + the monthly payment as determined increased by 50% of that payment
 - ♦ Second default : Current account + double the monthly payment as determined
 - ♦ Third default : Current account + full arrears

Failure to respond to notices will result in normal credit control procedures and/or legal processes being followed.

8.6.3 Principles 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 Accounting Officer.

8.6.4 Arrangement criteria for Non-residential Debtors

- a) If any non-residential debtor wishes to make an arrangement for a period of not longer than six months, and will pay the first instalment immediately, interest on the arrangement amount may be suspended as long as the terms of the arrangement are maintained.

8.7 Dispute

8.7.1 Procedure to be followed

The following procedures must be followed in terms of a dispute:

Debtor	Council
<ol style="list-style-type: none">1. The debtor must render the dispute in writing to Council.2. The dispute must actually be received by Council.3. No dispute will be registered verbally.4. The debtor must furnish his/her full personal particulars (including his/her account number and direct contact details).5. The full nature of the dispute must be described in the above correspondence.6. The onus will be on the debtor to ensure that he/she receives a written acknowledgement of the dispute.	<p>On receipt of the dispute, the following action are to be taken:</p> <ol style="list-style-type: none">1. All Administrations must keep a register in which all disputes received are to be entered.2. The following information should be reflected in the register:<ul style="list-style-type: none">♦ Debtor's account number♦ Debtor's name♦ Debtor's address♦ Full particulars of the dispute♦ Name of the official to whom the dispute is given to investigate and resolve♦ Actions that have/were taken to resolve the dispute♦ Signature of the controlling official3. An authorised controlling official will keep custody of the register and conduct a weekly check and follow-up on unresolved disputes.4. A written acknowledgement of receipt of the dispute must be provided to the debtor.5. All appeals regarding disputed amounts must be unilaterally concluded by Council's authorised officials within 14 calendar days from receipt thereof.

- a) Council's authorised official's decision is final and will result in the immediate implementation of any debt collection and credit control measures provided for in this policy after the debtor has been notified of the outcome of the appeal.
- b) The same dispute will not be considered and will not again be defined as a dispute.
- c) If the debtor is not satisfied with the outcome of the appeal, he/she may under protect pay the amount in dispute and redress his/her action to a court of law.

8.8 Irrecoverable debt

- a) Debt will be regarded as irrecoverable if:
- ◆ All reasonable steps have been taken to recover a specific outstanding amount; or
 - ◆ if the amount to be recovered is too small to warrant further endeavours to collect it; or
 - ◆ the cost to recover the debt does not warrant further action; or
 - ◆ the amount outstanding is the residue after payment of a dividend in the rand from an insolvent estate; or
 - ◆ a deceased estate has no liquid assets to cover the outstanding amount; or
 - ◆ it has been proven that the debt has prescribed; or
 - ◆ the debtor is untraceable; or
 - ◆ the debtor cannot be identified so as to proceed with further action; or
 - ◆ it is impossible to prove the debt outstanding; or
 - ◆ the outstanding amount is due to an administrative error by the Municipality.
- b) Authorisation
- ◆ All requests to write-off debt in respect of rates must be presented as individual items to the authorising entity.
 - ◆ Schedules indicating the following must be compiled:
 - i) Debtor account number
 - ii) Debtor's name
 - iii) Physical address in respect of which the debt was raised
 - iv) Address erven number
 - v) Amount per account category
 - vi) Reason to write off the amount
 - ◆ The above schedules with an item requesting authorisation to write off the indicated debt must be submitted to:
- | Responsibility | Amount |
|-------------------------|---|
| Chief Financial Officer | Debt less than R1 000 per debtor |
| Accounting Officer | Debt over R1 000 but less than R10 000 per debtor |
| Council | Debt over R10 000 per debtor |
- c) Council or its authorised officials will be under no obligation to write off any debt and will always have the sole discretion to do so.

9 Unauthorised connection of water/electricity supply

9.1 Principles

- a) Council is unlawfully and unfairly deprived of its benefits and income due to illegal connections by consumers.
- b) The unauthorised reconnection of, or tampering with, a service supply is considered a criminal offence which may result in legal action being taken.

9.2 Inspection

- d) Council will from time to time send a team of employees to inspect illegal connections.
- e) Council shall issue a notice to the consumer to be available on a day specified by Council.
- f) If the consumer fails to adhere, the water/electricity supply will be effectively disconnected.
- g) Council shall incur no liability for any loss sustained as a result of these processes or termination.
- h) The inspection will and is not limited to or confined to Council trading hours or working days.
- i) Council shall have an unlimited right of access to premises in which such services are rendered.

9.3 Fine / penalty

Council shall within 7 working days of removal or disconnections issue a fine.

The following punishment will be handed down:

- b) First time illegal connectors:
Meter will be removed and a fine of R2 205,00 be payable.
- c) Second time illegal connectors:
Meter will be removed and a fine of R4 410,00 be payable.
- d) Third time illegal connectors:
Meter will be removed and a fine of R8 400,00 be payable and a criminal charge be laid. The full outstanding arrears must be paid before reconnection of any service.

10 Roles and Responsibilities

10.1 Mayor

A municipality's mayor must—

- a) oversee and monitor—
 - (i) the implementation and enforcement of the municipality's credit control and debt collection policy and any by-laws enacted; and
 - (ii) the performance of the Accounting Officer in implementing the policy and any by-laws;
- b) when necessary, evaluate or review the policy and any by-laws, or the implementation of the policy and any such by-laws, in order to improve efficiency of its credit control and debt collection mechanisms, processes and procedures; and
- c) at such intervals as may be determined by the council report to a meeting of the council, except when the council itself performs the duties mentioned in paragraphs (a) and (b).

10.2 Accounting Officer

The Accounting Officer must—

- a) implement and enforce the municipality's credit control and debt collection policy and any by-laws enacted;
- b) in accordance with the credit control and debt collection policy and any such by-laws, establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality; and
- c) at such intervals as may be determined by the council report the prescribed particulars to a meeting of the supervisory authority.

The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

The accounting officer must take all reasonable steps to ensure-

- a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;
- b) that revenue due to the municipality is calculated on a monthly basis;
- c) that accounts for municipal tax and charges for municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;
- d) that all money received is promptly deposited in accordance with the Municipal Finance Management Act into the municipality's primary and other bank accounts;
- e) **that the municipality has and maintains a management, accounting and information system which-**
 - (i) recognises revenue when it is earned;
 - (ii) accounts for debtors; and

- (iii) accounts for receipts of revenue;
- f) that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;
- g) that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework: and
- h) that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

The accounting officer must immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments are regularly in arrears for periods of more than 30 days.

10.3 Senior managers

Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that all revenue due to the municipality is collected.

11 Monitoring, Evaluation and Reporting

The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the actual revenue, per revenue source following particulars for that month and for the financial year up to the end of that month.

The accounting officer should furthermore include an explanation of:

- a) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;
- b) any material variances from the service delivery and budget implementation plan; and
- c) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.

The above statement must include a projection of the relevant municipality's revenue and expenditure for the rest of the financial year.

12 Implementation

The Debt Management and Credit Control Policy will be implemented and adopted after approval thereof by the Council.

PLAN AND MANAGE DEBTS

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1. DEBT MANAGEMENT PROCEDURES AND PROCESS MAPS

1.1 DEBT MANAGEMENT

1.1.1 Introduction

The purpose of this manual is to provide an overview of the procedure for the infrastructural process of Planning and Managing Debts.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of debts.

1.2 Procedure Description

Step	Process
1 Services and electricity	<ul style="list-style-type: none">l) Accounts must be sent out timeously to allow customers sufficient time to pay accounts and make arrangements.m) Accounts must be paid by the due date as shown on the account.n) The debtor must be warned on the monthly account of possible disconnection if payment is not received by the due date.o) If payment is not received by the due date, a hand-delivered Notice shall be delivered to the physical supply address warning of an impending disconnection after 7 days from the date reflected on the Notice.
2 Disconnection	<ul style="list-style-type: none">a) If payment is not received by the due date as shown on the Notice, the supply will be disconnected.b) A notice shall be left at the property advising that the supply has been disconnected with a warning that all electric points should be considered live and that all water outlets should be closed.
3 Collection	<ul style="list-style-type: none">c) Debtors may be referred to 3rd party debt collection agencies and may be placed on the National Credit Rating list.b) All recoverable costs incurred by Council relating to the collection process shall be recovered from the debtor.c) Interest charges on overdue accounts will be levied from the due date if not paid by the following due date and will be calculated for a full month(s) irrespective of when payment is made.
4 Submission: Write-off	<ul style="list-style-type: none">a) All requests to write-off debt in respect of rates must be presented as individual items to the authorising entity.d) Schedules indicating the following must be compiled:<ul style="list-style-type: none">i) Debtor account numberii) Debtor's name

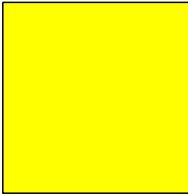
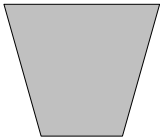
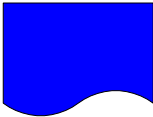
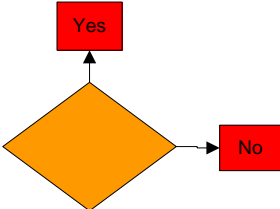
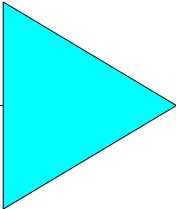
	iii) Physical address in respect of which the debt was raised iv) Address erf number v) Amount per account category vi) Reason to write off the amount
5 Write-off	The Finance Department must note all debts approved for writing off and include the relevant information in the annual financial statements

1.3 Policy

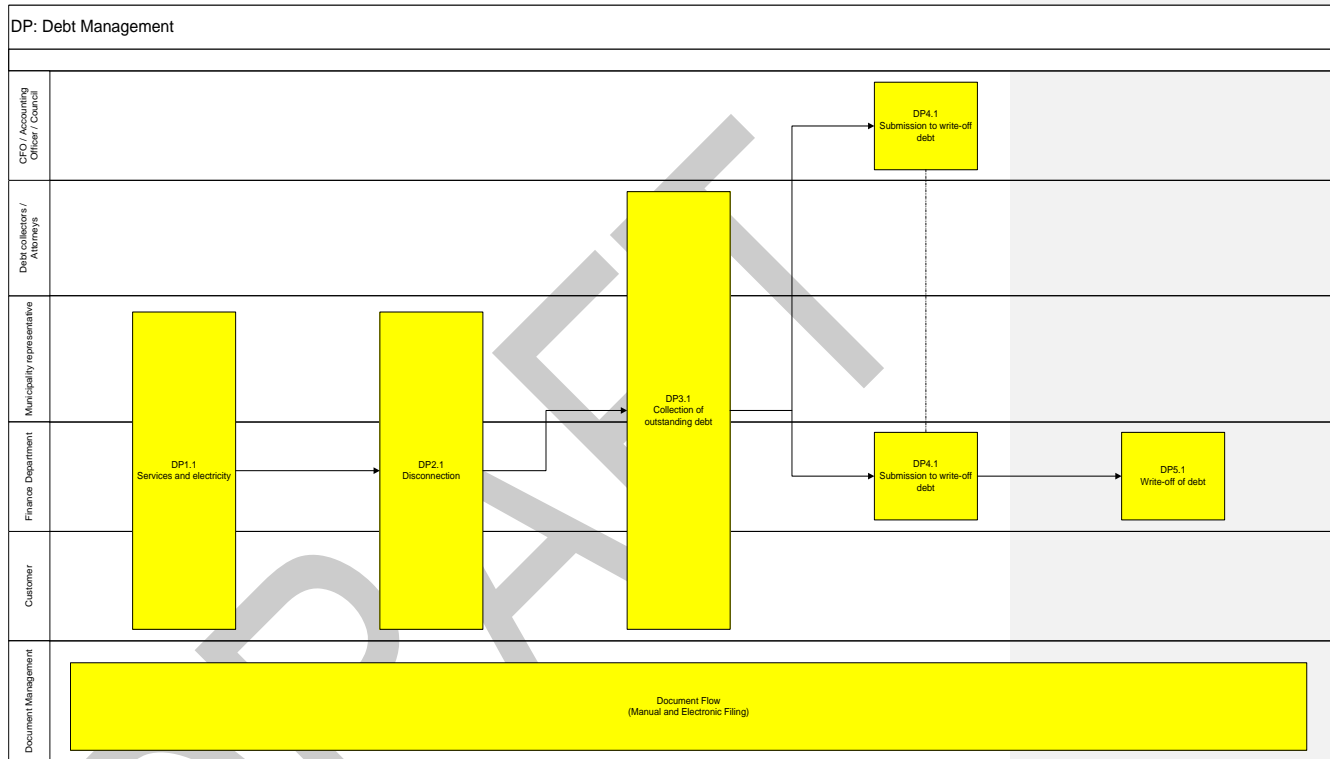
Procedure number	Policy reference
Step 1: DP1.1	Paragraph 8.3
Step 2: DP2.1	Paragraph 8.3
Step 3: DP3.1	Paragraph 6.9, 6.10 and 6.11
Step 4: DP4.1	Paragraph 8.9
Step 5: DP5.1	-

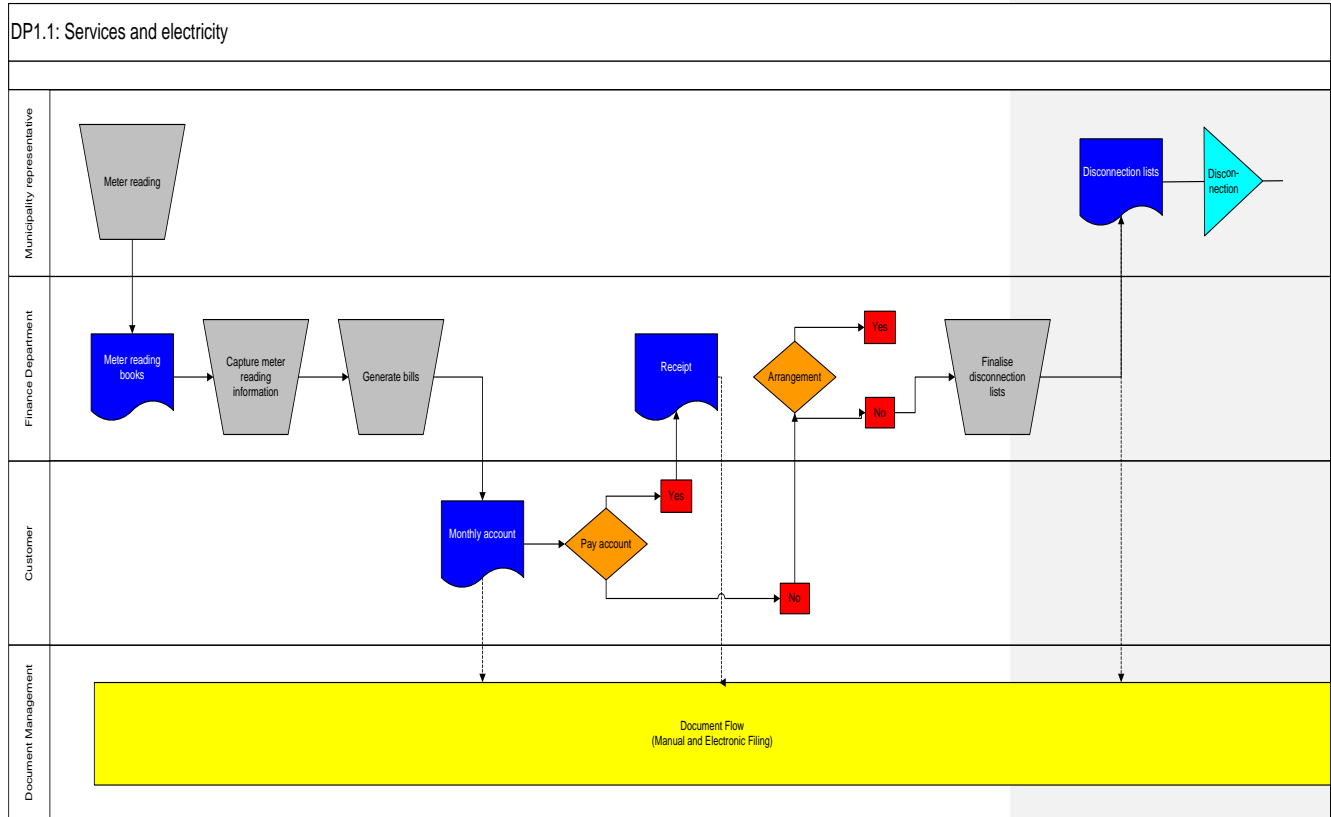
2 PROCESS KEY

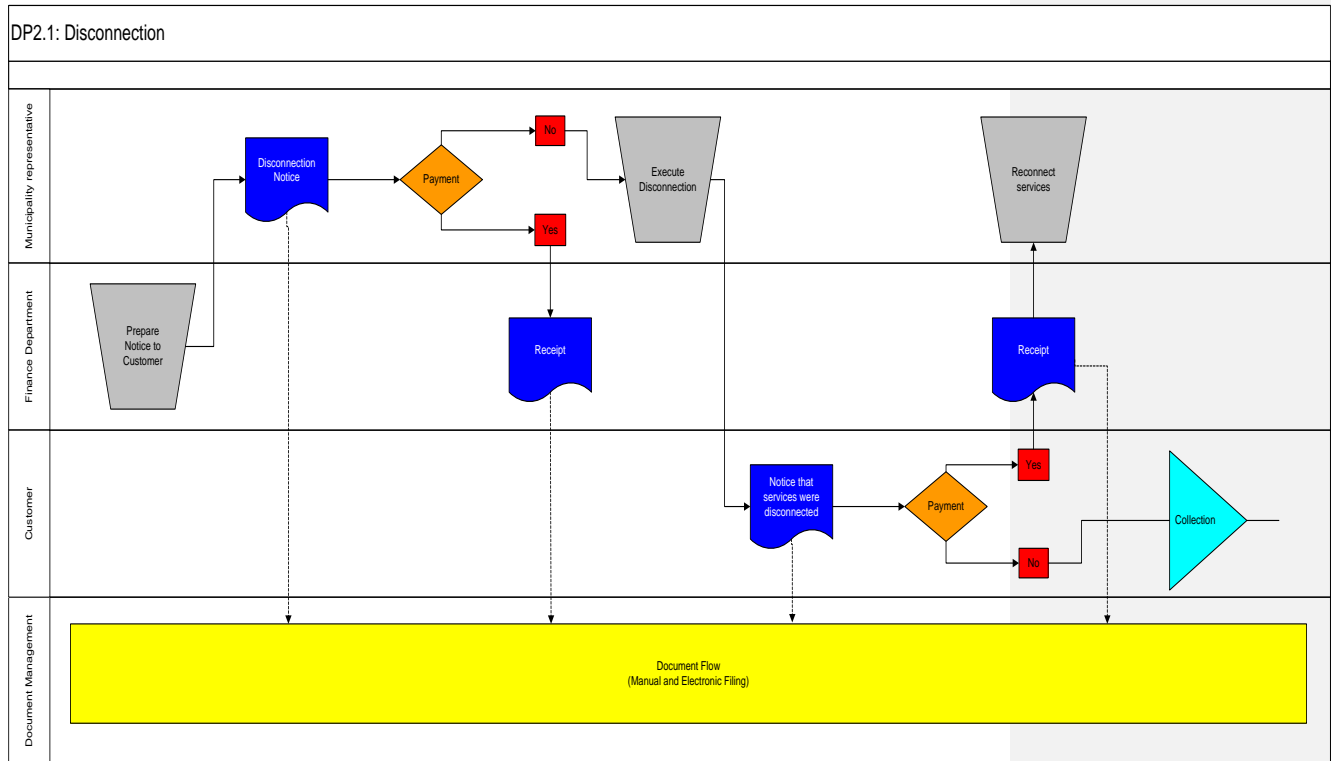
The shapes and colours used in the process maps should be interpreted as follows:

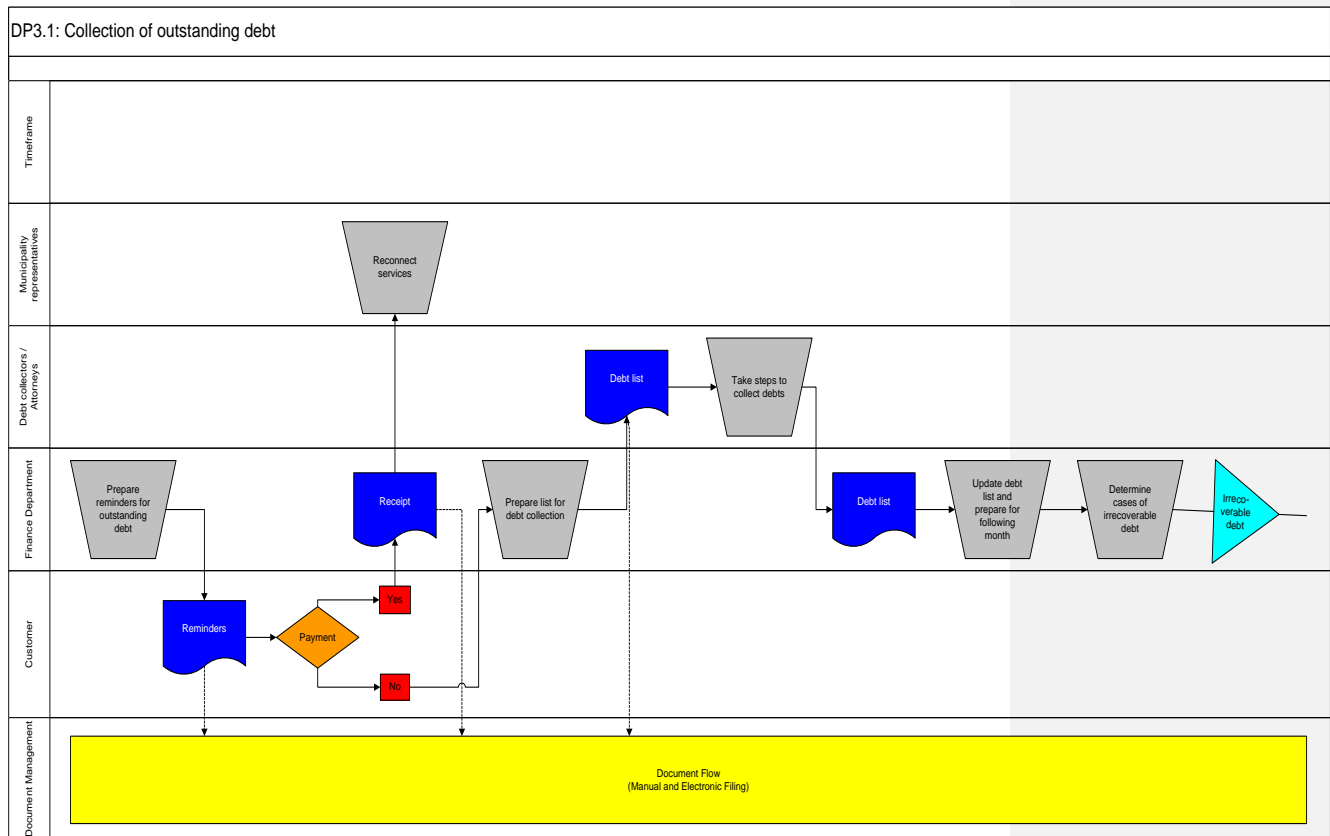
Symbol	Description
	This is used for a process, i.e. <u>group of activities</u> (activity is defined as a collection of tasks). Usually this symbol is a high-level description of a collection of the other symbols (described below). These other symbols are then usually depicted on a separate page.
	This is used for a <u>group of tasks</u> (tasks are usually described in the policy & procedures manual and are the lowest level of actions).
	This represents a document, report, regulations, plans or a deliverable. This symbol would usually be the result of a process.
	This represents a decision to be made.
	This symbol represents a connection point to another process, which is usually depicted on another process map (done by someone else).

3 PROCESS MAP

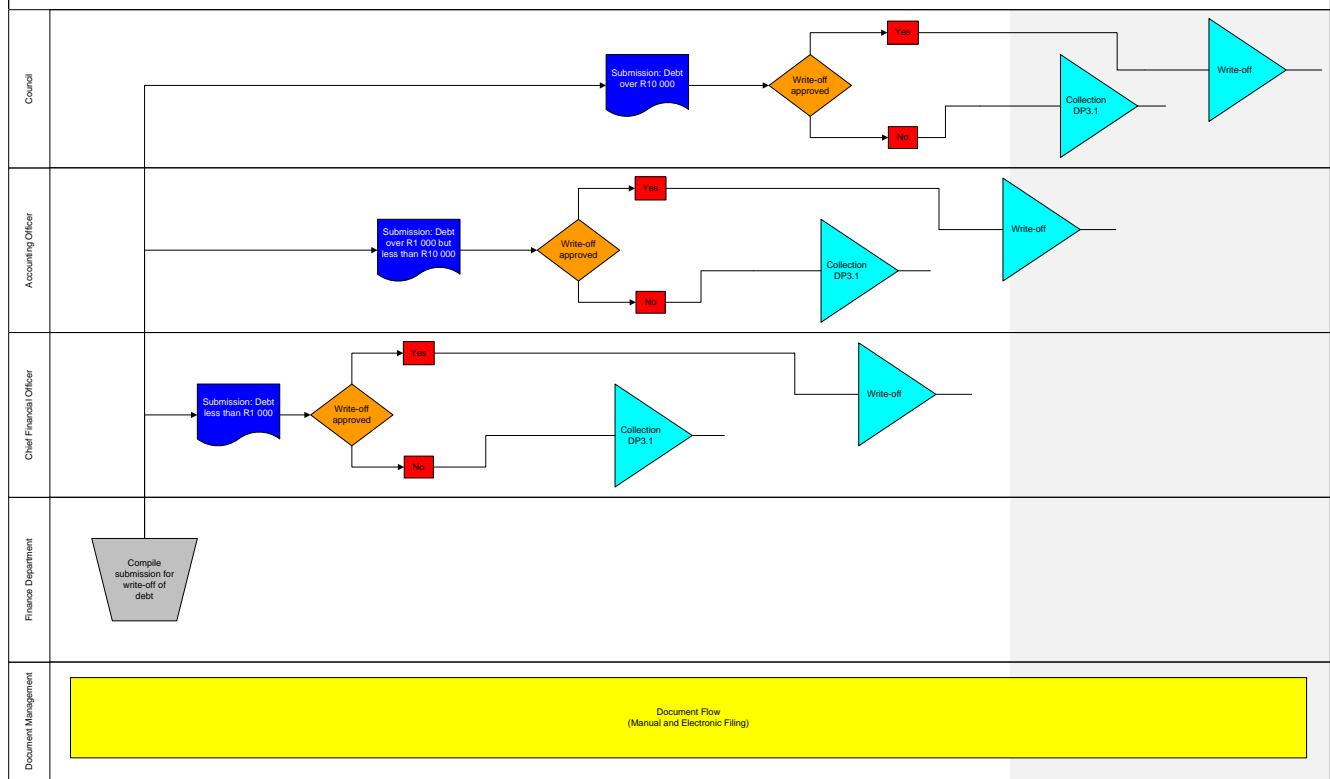


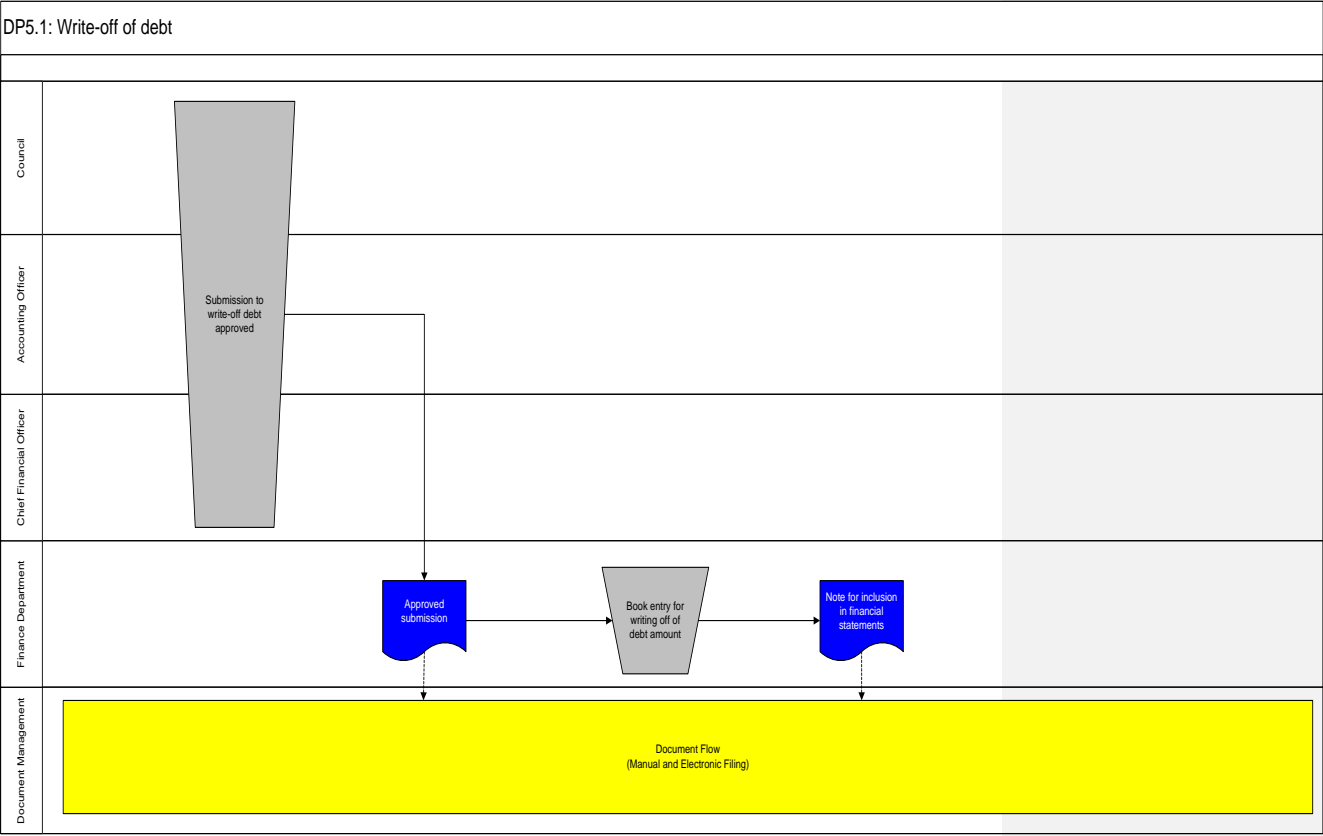






DP4.1: Submission to write-off debts





EMAKHAZENI MUNICIPALITY



SUPPLY CHAIN MANAGEMENT POLICY

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13 Introduction

13.1 Vision and value statement

It is the vision of Council to “create a secure environmental and sustainable development to promote service excellence and unity” Council is committed to its mission creating conducive institutional environment within which communities can thrive economically and socially.

The Values of the Council are:

Transparency
High Quality Service Delivery
Accountability
Serving Communities with Integrity
Efficiency
Professionalism

13.2 Vision

To strive for the transformation of the Emakhazeni Local Municipality into an efficient and cost-efficient institution that renders quality, affordable and sustainable services to the community.

13.3 Mission

To develop, promote and sustain systems and structures of effective governance as well as service delivery for the community of the Emakhazeni Local Municipality.

14 Definitions and abbreviations

Definitions:

“accounting officer” means the municipal manager appointed in terms of Section 60 of the Act

“chief financial officer” means a person designated in terms of section 80(2)(a) of the Municipal Finance Management Act

“competitive bidding process” means a competitive bidding process referred to in paragraph 11.3.2 (a) (iv) of this policy;

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

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

“formal written price quotation” means quotations referred to in paragraph 11.3.2 (a) (iii) of this policy;

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

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

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

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

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

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

“Regulation” means the Local Government: Municipal Supply Chain Management Regulations;

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

“the municipality” means Emakhazeni Municipality

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

“written quotations” means quotations referred to in paragraph 11.3.2(a)(ii) of this policy.

15 Purpose of the Guidelines

The purpose of this manual is to prescribe the policies and procedures relating to Supply Chain Management of the Emakhazeni Municipality. **This policy is based on the Model Supply Chain Management Policy issued by National Treasury.**

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of receipts.

16 Scope of Application

Accounting Officer

Chief Financial Officer

All heads of departments (Senior Managers and Managers)

Any other officials designated by the accounting officer

17 Legislative Framework

The Municipality operations are governed by an array of different acts and this manual should be understood within that context.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Public Finance Management Act, 1999 (Act 1 of 1999)
- ◆ Municipal Finance Management Act, 2003 (Act 56 of 2003)
- ◆ Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)

Thus not only is Emakhazeni Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

18 Supply Chain Management Policy

- 6.1 The Municipality resolves in terms of section 111 of the Act 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 –
 - (i) the regulatory framework prescribed in Chapter 2 of the Regulations; and
 - (ii) any minimum norms and standards that may be prescribed in terms of section 168 of the Act;
 - (d) is consistent with other applicable legislation;
 - (e) does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres; and
 - (f) is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.
- 6.2 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) in the case of a municipality, 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.

- 6.3 Subparagraphs 6.1 and 6.2 of this policy do not apply in the circumstances described in section 110 (2) of the Act except where specifically provided otherwise in this policy.

19 Adoption and amendment of the Policy

19.1 Review and amendment

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.

19.2 Model policy issued by National Treasury

If the accounting officer submits a draft policy to the council that differs from the model policy, the accounting officer must ensure that such draft policy complies with the Regulations. The accounting officer must report any deviation from the model policy to the National Treasury and the relevant provincial treasury.

19.3 Amendment of policy

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.

19.4 Implementing the policy

The accounting officer of a municipality must in terms of section 62(1)(f)(iv) of the Act, take all reasonable steps to ensure that the municipality has and implements this supply chain management policy.

20 Delegation

- 8.1 The council hereby delegates such additional powers and duties to the accounting officer so as to enable the accounting officer –
- (a) to discharge the supply chain management responsibilities conferred on accounting officers in terms of –
 - (i) Chapter 8 or 10 of the Act; and

- (ii) the supply chain management policy;
 - (b) to maximise administrative and operational efficiency in the implementation of the supply chain management policy;
 - (c) to enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of the supply chain management policy; and
 - (d) to comply with his or her responsibilities in terms of section 115 and other applicable provisions of the Act.
- 8.2 Sections 79 and 106 of the Act apply to the subdelegation of powers and duties delegated to an accounting officer in terms of subparagraph 8.1 of this policy.
- 8.3 The council or accounting officer may not delegate or subdelegate any supply chain management powers or duties to a person who is not an official of the municipality or to a committee which is not exclusively composed of officials of the municipality.
- 8.4 In terms of section 117 of the Act and the Regulations, no councillor of any municipality may be a member of a municipal bid committee or any other committee evaluating or approving tenders, quotations, contracts or other bids, nor attend any such meeting as an observer.
- 8.5 This paragraph may not be read as permitting an official to whom the power to make final awards has been delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 11.3.16 of this policy.

21 Subdelegations

- 9.1 The accounting officer may in terms of section 79 or 106 of the Act subdelegate any supply chain management powers and duties, including those delegated to the accounting officer in terms of this policy, but any such subdelegation must be consistent with subparagraph 9.2 and paragraph 8 of this policy.
- 9.2 The power to make a final award –
- (a) above R500 000 (VAT included) may not be subdelegated by the accounting officer;
 - (b) above R120 000 (VAT included), but not exceeding R500 000 (VAT included), may be subdelegated but only to –
 - (i) the chief financial officer;
 - (ii) a senior manager; or
 - (iii) a bid adjudication committee of which the chief financial officer or a senior manager is a member; or
 - (c) not exceeding R120 000 (VAT included) may be subdelegated but only to –
 - (i) the chief financial officer;
 - (ii) a senior manager;
 - (iii) a manager directly accountable to the chief financial officer or a senior manager; or

(iv) a bid adjudication committee.

- 9.3 An official or bid adjudication committee to which the power to make final awards has been subdelegated in accordance with subparagraph 9.2 of this policy must within five days of the end of each month submit to the official referred to in subparagraph 9.4 of this policy 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.
- 9.4 A written report referred to in subparagraph 9.3 of this policy must be submitted –
- (a) to the accounting officer, in the case of an award by –
 - (i) the chief financial officer;
 - (ii) a senior manager; or
 - (iii) a bid adjudication committee of which the chief financial officer or a senior manager is a member; or
 - (b) to the chief financial officer or the senior manager responsible for the relevant bid, in the case of an award by –
 - (i) a manager referred to in subparagraph 9.2 (c)(iii) of this policy; or
 - (ii) a bid adjudication committee of which the chief financial officer or a senior manager is not a member.
- 9.5 Subparagraphs 9.3 and 9.4 of this policy do not apply to procurements out of petty cash.
- 9.6 This paragraph may not be interpreted as permitting an official to whom the power to make final awards has been subdelegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 11.3.16 of this policy.
- 9.7 No supply chain management decision-making powers may be delegated to an advisor or consultant.

22 Supply Chain Management Unit

22.1 Establishment

The accounting officer must establish a supply chain management unit to implement this supply chain management policy.

A parent municipality and a municipal entity under its sole or shared control may establish a joint supply chain management unit to implement their respective supply chain management policies.

The supply chain management unit must, where possible, operate under the direct supervision of the chief financial officer or an official to whom this duty has been delegated in terms of section 82 of the Act.

22.2 Training

The training of officials involved in implementing the supply chain management policy should be in accordance with any Treasury guidelines on supply chain management training.

23 Framework

23.1 Format of supply chain management

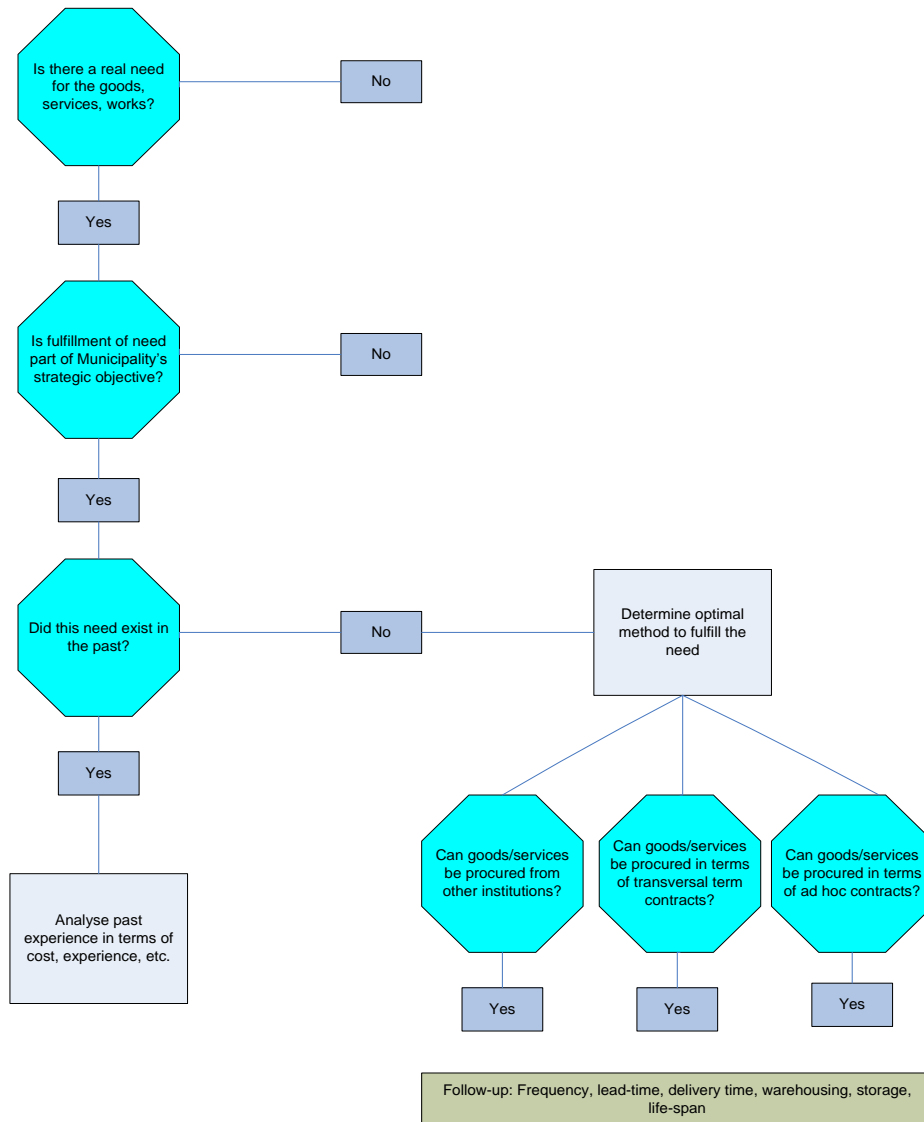
This supply chain management policy provides systems for –

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

23.2 Demand management

The accounting officer must establish, through operational procedures, an effective system of demand management in order to ensure that the resources required to support the strategic and operational commitments are delivered at the correct time, at the right price and at the right location, and that the quantity and quality satisfy the needs.

Demand Management Process flowchart in terms of decisions to be made by Senior Management of the Municipality:



23.3 Acquisition management

23.3.1 System of acquisition management

- a) The accounting officer must establish, through operational procedures, an effective system of acquisition management in order to ensure –

- (i) that goods and services are procured by the municipality or municipal entity in accordance with authorised processes only;
 - (ii) that expenditure on goods and services is incurred in terms of an approved budget in terms of section 15 of the Act;
 - (iii) that the threshold values for the different procurement processes are complied with;
 - (iv) that bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with any applicable legislation; and
 - (v) that any Treasury guidelines on acquisition management are properly taken into account.
- b) This supply chain management policy, except where provided otherwise in the policy, 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.
- c) The following information must be made public wherever goods or services contemplated in section 110(2) of the Act are procured other than through the supply chain management system -
- (i) the kind of goods or services;
 - (ii) the reason for non-compliance; and
 - (iii) the name of the supplier.

23.3.2 Range of procurement processes

- a) The procurement of goods and services through this policy is provided by way of –
- (i) petty cash purchases, up to a transaction value of R200 (VAT included);
 - (ii) at least two written quotations for procurements of a transaction value over R200 up to R1 500 (VAT included);
 - (iii) at least three written quotations for procurements of a transaction value over R1 500 up to R30 000 (VAT included);
 - (iv) at least three formal written price quotations for procurements of a transaction value over R30 000 up to R120 000 (VAT included); and
 - (v) a competitive bidding process for–
 - (1) procurements above a transaction value of R120 000 (VAT included); and
 - (2) the procurement of long term contracts.
- b) The accounting officer may, in writing; -
- (i) lower, but not increase, the different threshold values specified; or
 - (ii) direct that –
 - (1) formal written price quotations be obtained for any specific procurement of a transaction value lower than R30 000; or

- (3) a competitive bidding process be followed for any specific procurement of a transaction value lower than R120 000.
- c) 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.

23.3.3 General preconditions for consideration of written quotations or bids

A formal 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 submitted, with the quotation or bid, the original tax clearance from the South African Revenue Services that the provider's tax matters are in order; and**
- (c) has indicated –**
 - (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;**
 - (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or**
 - (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.**

23.3.4 Lists of accredited prospective providers

The accounting officer must –

- (a) keep a list of accredited prospective providers of goods and services that must be used for the procurement requirements of the written quotations and formal written price quotations; and
- (b) at least once a year through newspapers commonly circulating locally, the website and any other appropriate ways, invite prospective providers of goods or services to apply for evaluation and listing as accredited prospective providers;
- (c) specify the listing criteria for accredited prospective providers; and
- (d) disallow the listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector.

The list must be updated at least quarterly to include any additional prospective providers and any new commodities or types of services.

Prospective providers must be allowed to submit applications for listing at any time.

The list must be compiled per commodity and per type of service.

23.3.5 Petty cash purchases

The accounting officer must establish the conditions for the procurement of goods by means of petty cash purchases referred to in paragraph 11.3.2 (a) (i) of this policy, which must include conditions –

- (a) determining the terms on which a manager may delegate responsibility for petty cash to an official reporting to the manager;
- (b) limiting the number of petty cash purchases or the maximum amounts per month for each manager;
- (c) excluding any types of expenditure from petty cash purchases, where this is considered necessary; and
- (d) requiring monthly reconciliation reports from each manager 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.

Purchases must, as far as possible, be consolidated to ensure that the Municipality receives a discount from suppliers.

23.3.6 Written quotations

The accounting officer must establish the conditions for the procurement of goods or services through written quotations, which must include conditions stating –

- (a) that quotations must be obtained from at least two different providers (depending on the applicable amount) preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality or municipal entity, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria in the supply chain management policy required by 11.3.4 (b) and (c) of this policy;
- (b) that if it is not possible to obtain at least two quotations, the reasons must be recorded and reported quarterly to the accounting officer or another official designated by the accounting officer;
- (c) that the accounting officer must record the names of the potential providers requested to provide such quotations with their quoted prices.

23.3.7 Formal written price quotations

- (1) The accounting officer must establish the conditions for the procurement of goods or services through formal written price quotations, which must include conditions stating –
 - (a) that 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 or municipal entity;
 - (b) that quotations may be obtained from providers who are not listed, provided that such providers meet the listing criteria in the supply chain management policy required by paragraph 11.3.4 (b) and (c);
 - (c) that 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) that the accounting officer must record the names of the potential providers and their written quotations.
- (2) A designated official referred to in subparagraph (1)(c) must within three days of the end of each month report to the chief financial officer on any approvals given during that month by that official in terms of that subparagraph.

23.3.8 Procedures for procuring goods or services through written quotations and formal written price quotations

The accounting officer must determine the operational procedure for the procurement of goods or services through written quotations or formal written price quotations, which must stipulate –

- (a) that all requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of paragraph 11.3.7, be advertised for at least seven days on the website and an official notice board of the municipality or municipal entity;
- (b) that when using the list of accredited prospective providers the accounting officer must promote ongoing competition amongst providers, including by inviting providers to submit quotations on a rotation basis;
- (c) that the accounting officer must take all reasonable steps to ensure that the procurement of goods and services through written quotations or formal written price quotations is not abused;
- (d) that the accounting officer or chief financial officer must on a monthly basis be notified in writing of all written quotations and formal written price quotations accepted by an official acting in terms of a subdelegation, and;
- (e) requirements for proper record keeping.

23.3.9 Competitive bidding process

- (a) Goods or services above a transaction value of R120 000 (VAT included) and long term contracts may only be procured through a competitive bidding process, subject to paragraph 11.3.1 (b) of this policy; and
- (b) No requirement for goods or services above an estimated transaction value of R120 000 (VAT included), may deliberately be split into parts or items of lesser value merely for the sake of procuring the goods or services otherwise than through a competitive bidding process.**

23.3.10 Process for competitive bidding

The accounting officer must establish procedures for a competitive bidding process for each of the following stages:

- (a) the compilation of bidding documentation;
- (b) the public invitation of bids;
- (c) site meetings or briefing sessions, if applicable;
- (d) the handling of bids submitted in response to public invitation;
- (e) the evaluation of bids;
- (f) the award of contracts;
- (g) the administration of contracts; and
- (h) proper record keeping.

23.3.11 Bid documentation for competitive bids

The accounting officer must establish the criteria to which bid documentation for a competitive bidding process must comply, which in addition to paragraph 11.3.3 of this policy, the bid documentation must –

- (a) take into account –
 - (i) the general conditions of contract;
 - (ii) any Treasury guidelines on bid documentation; and
 - (iii) the requirements of the Construction Industry Development Board, in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure;
- (b) include evaluation and adjudication criteria, including any criteria required by other applicable legislation;
- (c) compel bidders to declare any conflict of interest they may have in the transaction for which the bid is submitted;
- (d) if the value of the transaction is expected to exceed R2 million (VAT included), require bidders to furnish–
 - (i) if the bidder is required by law to prepare annual financial statements for auditing, their audited annual financial statements –
 - (aa) for the past three years; or
 - (bb) since their establishment if established during the past three years;
 - (ii) a certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 days;
 - (iii) particulars of any contracts awarded to the bidder by an organ of state during the past five years, including particulars of any material non-compliance or dispute concerning the execution of such contract;
 - (iv) a statement indicating whether any portion of the goods or services are expected to be sourced from outside the Republic, and, if so, what portion and whether any portion of payment from the municipality or municipal entity is expected to be transferred out of the Republic; and
- (e) stipulate that disputes must be settled by means of mutual consultation, mediation (with or without legal representation), or, when unsuccessful, in a South African court of law.

23.3.12 Public invitation for competitive bids

The accounting officer must determine the procedure for the invitation of competitive bids, which must stipulate that:

- (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 municipal entity 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 R2 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to subparagraph (b) of this policy; and

- (ii) a statement that bids may only be submitted on the bid documentation provided by the municipality or municipal entity.
- (b) 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.
- (c) Bids submitted must be sealed.
- (d) Where bids are requested in electronic format, such bids must be supplemented by sealed hard copies.

23.3.13 Procedure for handling, opening and recording of bids

The accounting officer must determine the procedures for the handling, opening and recording of bids, which must stipulate that:

- (a) Bids–
 - (i) may be opened only in public; and
 - (ii) must be opened at the same time and as soon as possible after the period for the submission of bids has expired;
- (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 (this must be stipulated in the tender specifications to make potential tenderers aware of possible requests in this regard); and
- (c) The accounting officer must –
 - (i) record in a register all bids received in time;
 - (ii) make the register available for public inspection; and
 - (iii) publish the entries in the register and the bid results on the website.

23.3.14 Negotiations with preferred bidders

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

23.3.15 Two-stage bidding process

- (a) A two-stage bidding process is allowed for –
 - (i) large complex projects;
 - (ii) projects where it may be undesirable to prepare complete detailed technical specifications; or
 - (iii) long term projects with a duration period exceeding three years.

- (b) 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.
- (c) In the second stage final technical proposals and priced bids should be invited.

23.3.16 Committee system for competitive bids

- (a) The accounting officer is required to –
 - (i) establish a committee system for competitive bids consisting of at least –
 - (1) a bid specification committee;
 - (2) a bid evaluation committee; and
 - (3) a bid adjudication committee;
 - (ii) appoint the members of each committee, taking into account section 117 of the Act; and
 - (iii) provide for an attendance or oversight process by a neutral or independent observer, appointed by the accounting officer, when this is appropriate for ensuring fairness and promoting transparency.
- (b) The committee system must be consistent with –
 - (i) paragraph 11.3.17, 11.3.18 and 11.3.18 of this policy; and
 - (ii) any other applicable legislation.
- (c) The accounting officer may apply the committee system to formal written price quotations.

23.3.17 Bid specification committees

- (a) The bid specification committee must compile the specifications for each procurement of goods or services by the municipality or municipal entity.
- (b) Specifications –
 - (i) must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services;
 - (ii) must take account of any accepted standards such as those issued by Standards South Africa, the International Standards Organisation, or an authority accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply;
 - (iii) where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design;
 - (iv) may not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labeling of conformity certification;
 - (v) 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 words “equivalent”;

- (vi) must indicate each specific goal for which points may be awarded in terms of the points system set out in the Preferential Procurement Regulations 2001; and
- (vii) must be approved by the accounting officer prior to publication of the invitation for bids in terms of paragraph 11.3.12 of this policy.
- (c) The bid specification committee must be composed of one or more officials of the municipality or municipal entity, preferably the manager responsible for the function involved, and may, when appropriate, include external specialist advisors.
- (d) 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.

23.3.18 Bid evaluation committees

- (a) The bid evaluation committee must –
 - (i) evaluate bids in accordance with –
 - (1) the specifications for a specific procurement; and
 - (2) the points system set out in terms of paragraph 11.3.17(b)(vi).
 - (ii) evaluate each bidder's ability to execute the contract;
 - (iii) check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears, and;
 - (iv) submit to the adjudication committee a report and recommendations regarding the award of the bid or any other related matter.
- (b) The bid evaluation committee must as far as possible be composed of –
 - (i) officials from departments requiring the goods or services; and
 - (ii) at least one supply chain management practitioner of the municipality.

23.3.19 Bid adjudication committees

- (a) The bid adjudication committee must –
 - (i) consider the report and recommendations of the bid evaluation committee; and
 - (ii) either –
 - (1) depending on its delegations, make a final award or a recommendation to the accounting officer to make the final award; or
 - (2) make another recommendation to the accounting officer how to proceed with the relevant procurement.
- (b) The bid adjudication committee must consist of at least four senior managers of the municipality or municipal entity which must include –
 - (i) 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
 - (ii) at least one senior supply chain management practitioner who is an official of the municipality and
 - (iii) a technical expert in the relevant field who is an official, if such an expert exists.
- (c) 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.
- (d) 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.
- (e)
 - (i) 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 –
 - (1) check in respect of the preferred bidder whether that bidder's municipal rates and taxes and municipal service charges are not in arrears, and;
 - (2) notify the accounting officer.
 - (ii) The accounting officer may –
 - (1) after due consideration of the reasons for the deviation, ratify or reject the decision of the bid adjudication committee referred to in paragraph (i); and
 - (2) if the decision of the bid adjudication committee is rejected, refer the decision of the adjudication committee back to that committee for reconsideration.
- (f) 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.
- (g) The accounting officer must comply with section 114 of the Act within 10 working days

23.3.20 Procurement of banking services

- (a) Banking services –
 - (i) must be procured through competitive bids;
 - (ii) must be consistent with section 7 or 85 of the Act; and
 - (iii) may not be for a period of more than five years at a time.
- (b) The process for procuring a contract for banking services must commence at least **nine months before** the end of an existing contract.
- (c) The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in a newspaper in terms of paragraph 11.3.12(a). Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990).

23.3.21 Procurement of IT related goods or services

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

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

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

23.3.23 Procurement of goods necessitating special safety arrangements

- (a) The acquisition and storage of goods in bulk (other than water) which necessitate special safety arrangements, including gasses and fuel, should be avoided where ever possible.
- (b) 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.

23.3.24 Proudly SA Campaign

The accounting officer must determine internal operating procedures supporting the Proudly SA Campaign to the extent that, all things being equal, preference is given to procuring local goods and services from:

- Firstly – suppliers and businesses within the municipality;
- Secondly – suppliers and businesses within the district;
- Thirdly – suppliers and businesses within the relevant province;
- Fourthly – suppliers and businesses within the Republic of South Africa

23.3.25 Appointment of consultants

- (a) The accounting officer may procure consulting services provided that any Treasury guidelines in respect of consulting services are taken into account when such procurements are made.
- (b) Consultancy services must be procured through competitive bids if –
 - (i) the value of the contract exceeds R120 000 (VAT included); or
 - (ii) the duration period of the contract exceeds one year.
- (c) In addition to any requirements prescribed by this policy for competitive bids, bidders must furnish particulars of –
 - (i) all consultancy services provided to an organ of state in the last five years; and
 - (ii) any similar consultancy services provided to an organ of state in the last five years.
- (d) 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.

23.3.26 Deviation from, and ratification of minor breaches of, procurement processes

- (a) The accounting officer may –
 - (i) 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 –
 - (1) in an emergency;

- (2) if such goods or services are produced or available from a single provider only;
 - (3) for the acquisition of special works of art or historical objects where specifications are difficult to compile;
 - (4) acquisition of animals for zoos and/or nature and game reserves; or
 - (5) in any other exceptional case where it is impractical or impossible to follow the official procurement processes; and
- (ii) 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.
- (b) The accounting officer must record the reasons for any deviations in terms of subparagraphs (a)(i) and (ii) of this policy and report them to the next meeting of the council and include as a note to the annual financial statements.
- (c) Subparagraph (b) does not apply to the procurement of goods and services contemplated in paragraph 11.3.1 of this policy.

23.3.27 Unsolicited bids

- (a) In accordance with section 113 of the Act there is no obligation to consider unsolicited bids received outside a normal bidding process.
- (b) The accounting officer may decide in terms of section 113(2) of the Act to consider an unsolicited bid, only if –
 - (i) the product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
 - (ii) the product or service will be exceptionally beneficial to, or have exceptional cost advantages;
 - (iii) the person who made the bid is the sole provider of the product or service; and
 - (iv) the reasons for not going through the normal bidding processes are found to be sound by the accounting officer.
- (c) If the accounting officer decides to consider an unsolicited bid that complies with subparagraph (b) of this policy, the decision must be made public in accordance with section 21A of the Municipal Systems Act, together with –
 - (i) reasons as to why the bid should not be open to other competitors;
 - (ii) an explanation of the potential benefits if the unsolicited bid were accepted; and
 - (iii) an invitation to the public or other potential suppliers to submit their comments within 30 days of the notice.
- (d) All written comments received pursuant to subparagraph (c), including any responses from the unsolicited bidder, must be submitted to the National Treasury and the relevant provincial treasury for comment.
- (e) 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.
- (f) A meeting of the adjudication committee to consider an unsolicited bid must be open to the public.
- (g) When considering the matter, the adjudication committee must take into account–

- (i) any comments submitted by the public; and
 - (ii) any written comments and recommendations of the National Treasury or the relevant provincial treasury.
- (h) If any recommendations of the National Treasury or provincial treasury are rejected or not followed, the accounting officer must submit to the Auditor General, the relevant provincial treasury and the National Treasury the reasons for rejecting or not following those recommendations.
- (i) 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.

23.3.28 Combating of abuse of supply chain management system

The accounting officer must establish measures for the combating of abuse of the supply chain management system, which must stipulate the following:

- (a) The accounting officer must–
 - (i) take all reasonable steps to prevent abuse of the supply chain management system;
 - (ii) investigate any allegations against an official or other role player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with this supply chain management policy, and when justified–
 - (1) take appropriate steps against such official or other role player; or
 - (2) report any alleged criminal conduct to the South African Police Service;
 - (iii) 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;
 - (iv) reject any bid from a bidder–
 - (1) if any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the municipality, or to any other municipality or municipal entity, are in arrears for more than three months; or
 - (2) 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;
 - (v) 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;
 - (vi) cancel a contract awarded to a person if –
 - (1) the person committed any corrupt or fraudulent act during the bidding process or the execution of the contract; or
 - (2) 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
 - (vii) reject the bid of any bidder if that bidder or any of its directors –

- (1) has abused the supply chain management system of the municipality or has committed any improper conduct in relation to such system;
 - (2) has been convicted for fraud or corruption during the past five years;
 - (3) has willfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years; or
 - (4) has been listed in the Register for Tender Defaulters In terms section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004).
- (b) The accounting officer must inform the National Treasury and relevant provincial treasury in writing of any actions taken in terms of subparagraphs (a)(ii)(2), (v) or (vi) of this policy.

23.4 Logistics management

The accounting officer must establish an effective system of logistics management in order to provide for the setting of inventory levels, placing of orders, receiving and distribution of goods, stores and warehouse management, expediting orders, transport management, vendor performance, maintenance and contract administration.

23.5 Disposal management

- (1) The accounting officer must establish an effective system of disposal management for the disposal or letting of assets, including unserviceable, redundant or obsolete assets, subject to sections 14 and 90 of the Act, which must stipulate the following:
- (2) The disposal of assets must–
 - (a) be by one of the following methods –
 - (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;
 - (b) provided that –
 - (i) immovable property may be sold only at market related prices except when the public interest or the plight of the poor demands otherwise;
 - (ii) movable assets may be sold either by way of written price quotations, a competitive bidding process, auction or at market related prices, whichever is the most advantageous;
 - (iii) in the case of the free disposal of computer equipment, the provincial department of education must first be approached to indicate within 30 days whether any of the local schools are interested in the equipment; and

- (iv) in the case of the disposal of firearms, the National Conventional Arms Control Committee has approved any sale or donation of firearms to any person or institution within or outside the Republic;
- (c) furthermore ensure that –
 - (i) immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise; and
 - (ii) all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed; and
- (d) ensure that where assets are traded in for other assets, the highest possible trade-in price is negotiated.

23.6 Risk management

- (1) The accounting officer must establish an effective system of risk management for the identification, consideration and avoidance of potential risks in the supply chain management system.
- (2) Risk management must include –
 - (a) the identification of risks on a case-by-case basis;
 - (b) the allocation of risks to the party best suited to manage such risks;
 - (c) acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it;
 - (d) the management of risks in a pro-active manner and the provision of adequate cover for residual risks; and
 - (e) the assignment of relative risks to the contracting parties through clear and unambiguous contract documentation.

23.7 Performance management

The accounting officer must establish an effective 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 desired objectives were achieved.

23.8 Other matters

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

- (a) The accounting officer must ensure that, irrespective of the procurement process followed, no award above R15 000 is given to a person whose tax matters have not been declared by the South African Revenue Service to be in order.

- (b) Before making an award to a person the accounting person must first check whether the tax clearance certificate has been submitted with the quotation or tender.

23.8.2 Prohibition on awards to persons in the service of the state

The accounting officer must ensure that irrespective of the procurement process followed, no award may be given to a person –

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

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

The notes to the annual financial statements must disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including –

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

23.8.4 Ethical standards

- (a) A code of ethical standards is hereby established, in accordance with subparagraph (b), for officials and other role players in the supply chain management system in order to promote –
 - (i) mutual trust and respect; and
 - (ii) an environment where business can be conducted with integrity and in a fair and reasonable manner.
- (b) An official or other role player involved in the implementation of the supply chain management policy –
 - (i) must treat all providers and potential providers equitably;
 - (ii) may not use his or her position for private gain or to improperly benefit another person;
 - (iii) 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;
 - (iv) notwithstanding subparagraph (b)(iii), 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;
 - (v) 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
 - (vi) 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;
 - (vii) must be scrupulous in his or her use of property belonging to the municipality;
 - (viii) must assist the accounting officer in combating fraud, corruption, favouritism and unfair and irregular practices in the supply chain management system; and
 - (ix) must report to the accounting officer any alleged irregular conduct in the supply chain management system which that person may become aware of, including –
 - (1) any alleged fraud, corruption, favouritism or unfair conduct;
 - (2) any alleged contravention of paragraph 11.8.5 (a) of this policy;or

- (3) any alleged breach of this code of ethical standards.
- (c) Declarations in terms of subparagraphs (b)(iv) and (v) -
 - (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.
- (d) The Municipality's code of conduct for SCM (Addendum A), must also be taken into account by supply chain management practitioners and other role players involved in supply chain management.
- (e) The above code of conduct must be adopted by council and when adopted, such code of conduct becomes binding on all officials and other role players involved in the implementation of the supply chain management policy of the municipality..
- (f) A breach of the code of conduct adopted by the municipality must be dealt with in accordance with schedule 2 of the Systems Act.

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

- (a) 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—
 - (i) any inducement or reward to the municipality for or in connection with the award of a contract; or
 - (ii) any reward, gift, favour or hospitality to –
 - (1) any official; or
 - (2) any other role player involved in the implementation of the supply chain management policy.
- (b) The accounting officer must promptly report any alleged contravention of subparagraph (a) 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.
- (c) Subparagraph (a) does not apply to gifts less than R350 in value.

23.8.6 Sponsorships

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

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

23.8.7 Objections and complaints

- (a) 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 in terms of paragraph 11.8.8.

23.8.8 Resolution of disputes, objections, complaints and queries

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

23.8.9 Contracts providing for compensation based on turnover

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

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

24 Roles and Responsibilities

24.1 Oversight role of Council

The council must maintain oversight over the implementation of this supply chain management policy.

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 the supply chain management policy of the municipality and of any municipal entity under its sole or shared control, to the council of the municipality,
- (b) whenever there are serious and material problems in the implementation of the supply chain management policy, immediately submit a report to the council

25 Monitoring, Evaluation and Reporting

The accounting officer must establish an effective 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 desired objectives were achieved.

26 Implementation

The Supply Chain Management Policy will be implemented and adopted after approval thereof by the Council.

27 Addendum

A : Code of Conduct

PLAN AND MANAGE SUPPLY CHAIN MANAGEMENT

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1. SUPPLY CHAIN MANAGEMENT PROCEDURES AND PROCESS MAPS

1.1 SUPPLY CHAIN MANAGEMENT

1.1.1 Introduction

The purpose of this manual is to provide an overview of the procedure for the revision and advertisement of tariffs.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of valuation rolls.

1.3 Procedure Description

Step	Process
1 Quotation procedure and acquisition	The procurement of goods and services through this policy is provided by way of – <ul style="list-style-type: none"> (i) petty cash purchases, up to a transaction value of R100 (VAT included); (ii) at least three written quotations for procurements of a transaction value over R100 up to R30 000 (VAT included); (iii) at least three formal written price quotations for procurements of a transaction value over R30 000 up to R120 000 (VAT included).
2 Tender procedure	The procurement of goods and services through this policy is provided by way of – <ul style="list-style-type: none"> (i) a competitive bidding process for– <ul style="list-style-type: none"> (1) procurements above a transaction value of R120 000 (VAT included); and (2) the procurement of long term contracts.
3 Approval and acquisition	The power to make a final award – <ul style="list-style-type: none"> (a) above R500 000 (VAT included) may not be subdelegated by the accounting officer; (b) above R120 000 (VAT included), but not exceeding R500 000 (VAT included), may be subdelegated but only to – <ul style="list-style-type: none"> (i) the chief financial officer; (ii) a senior manager; or (iii) a bid adjudication committee of which the chief financial officer or a senior manager is a member; or (c) not exceeding R120 000 (VAT included) may be subdelegated but only to – <ul style="list-style-type: none"> (i) the chief financial officer;

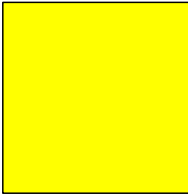
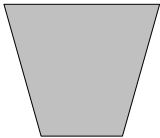
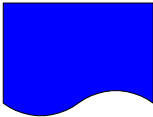
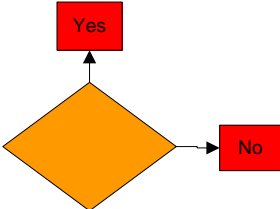
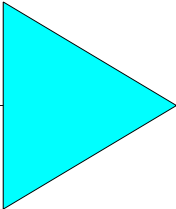
	(ii) a senior manager; (iii) a manager directly accountable to the chief financial officer or a senior manager; or (iv) a bid adjudication committee.
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1.3 Policy

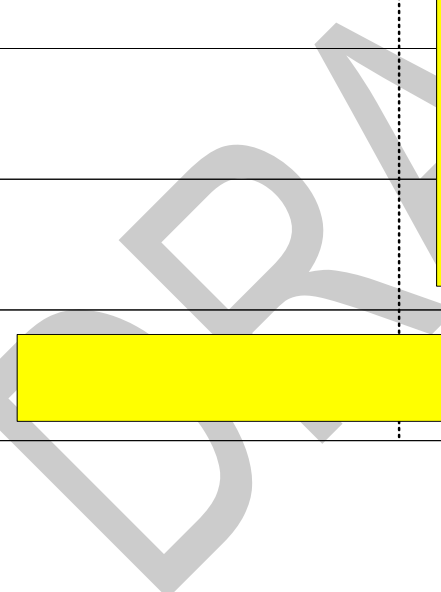
Procedure number	Policy reference
Step 1: SCMP1.1	Paragraph 11.3.2
Step 2: SCMP1.2	Paragraph 11.3.2
Step 3: SCMP1.3	Paragraph 9.2

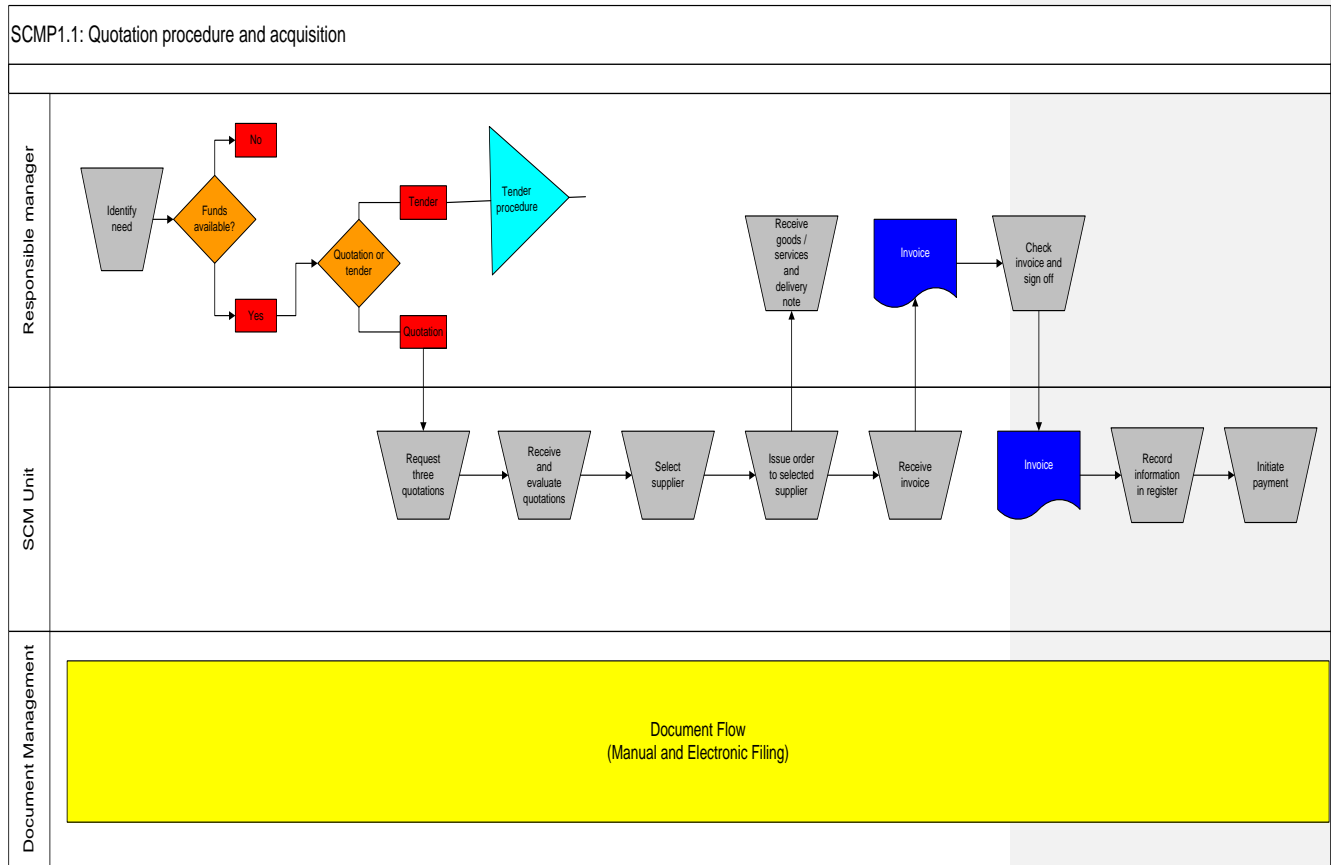
4 PROCESS KEY

The shapes and colours used in the process maps should be interpreted as follows:

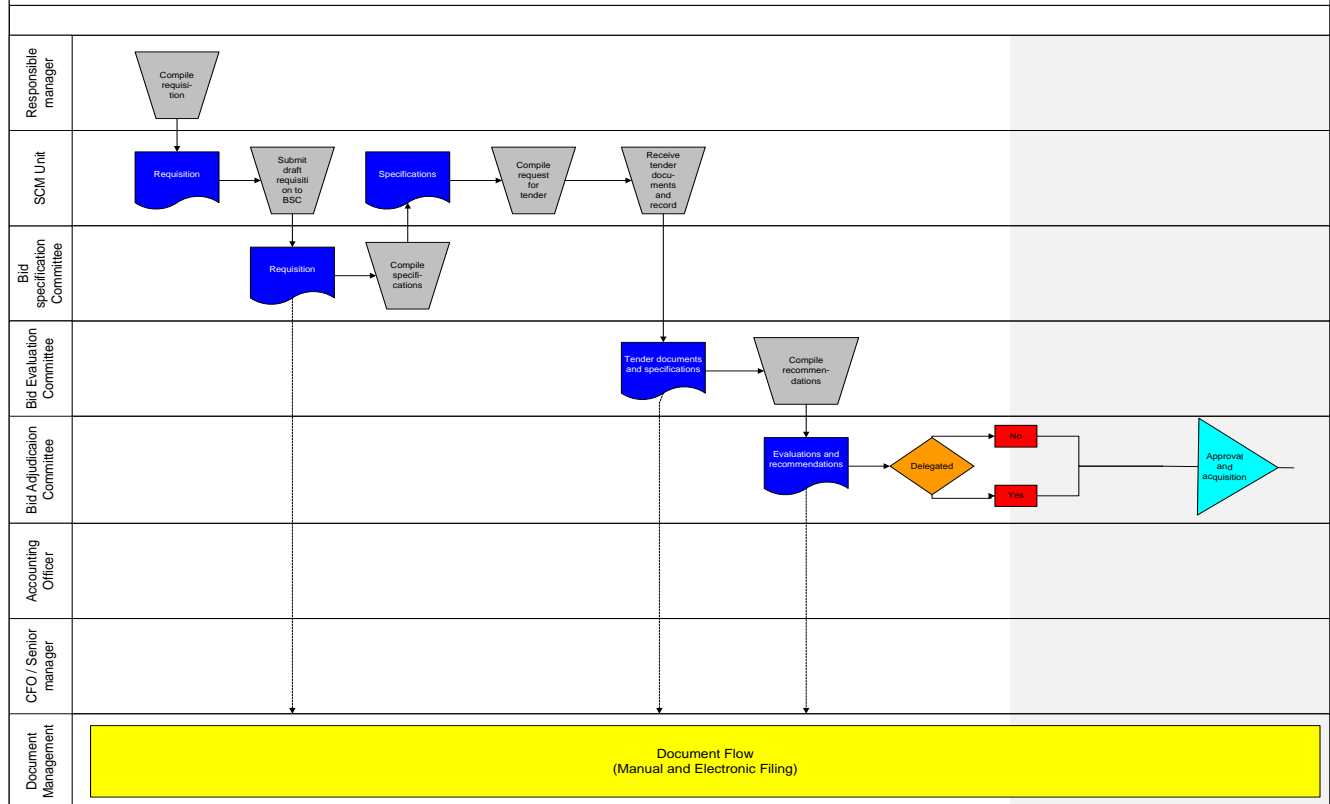
Symbol	Description
	This is used for a process, i.e. <u>group of activities</u> (activity is defined as a collection of tasks). Usually this symbol is a high-level description of a collection of the other symbols (described below). These other symbols are then usually depicted on a separate page.
	This is used for a <u>group of tasks</u> (tasks are usually described in the policy & procedures manual and are the lowest level of actions).
	This represents a document, report, regulations, plans or a deliverable. This symbol would usually be the result of a process.
	This represents a decision to be made.
	This symbol represents a connection point to another process, which is usually depicted on another process map (done by someone else).

5 PROCESS MAP

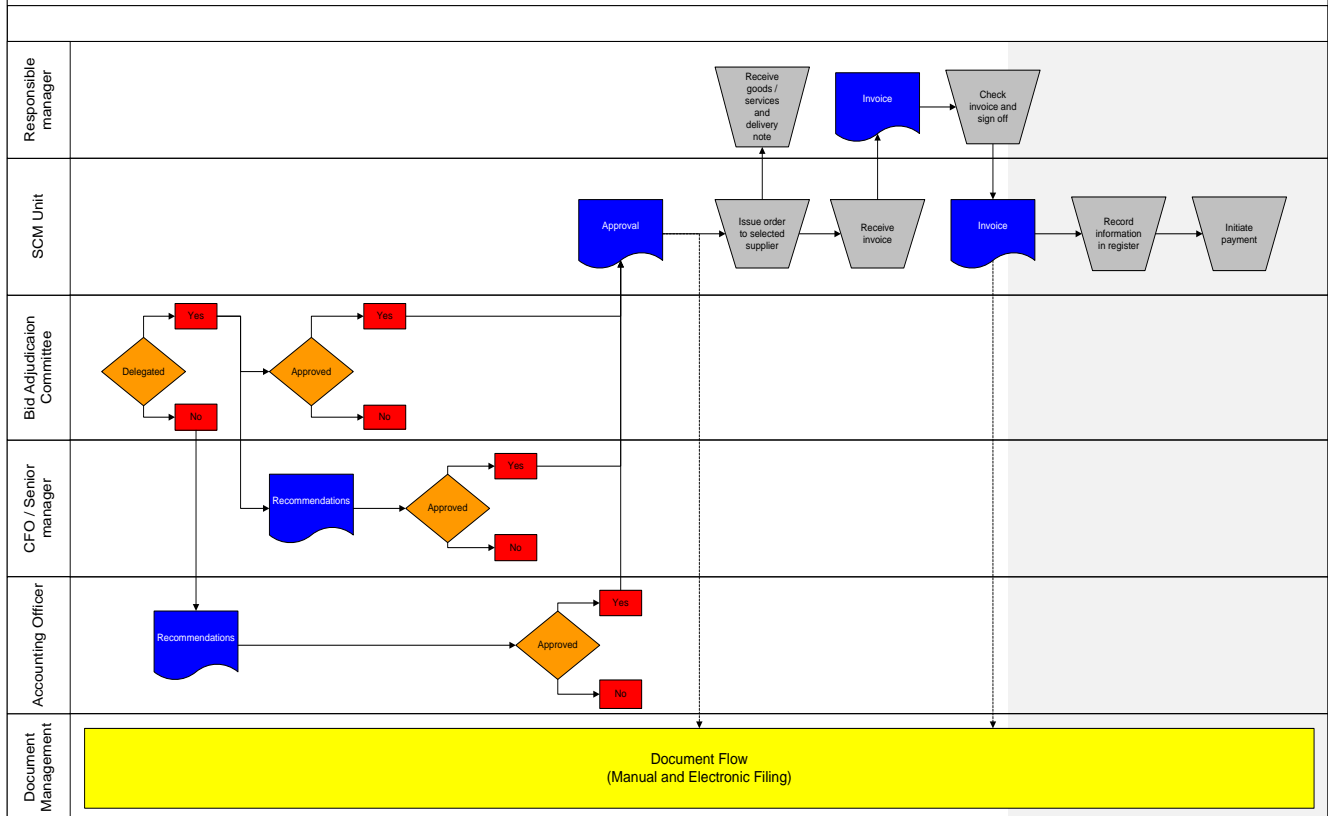




SCMP1.2: Tender procedure



SCMP1.3: Approval and acquisition



EMAKHAZENI MUNICIPALITY



PLAN AND MANAGE THE BUDGET

POLICY & PROCEDURE MANUAL

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28 Introduction

28.1 Vision and value statement

It is the vision of Council to “create a secure environmental and sustainable development to promote service excellence and unity” Council is committed to its mission creating conducive institutional environment within which communities can thrive economically and socially.

The Values of the Council are:

Transparency
High Quality Service Delivery
Accountability
Serving Communities with Integrity
Efficiency
Professionalism

28.2 Vision

To strive for the transformation of the Emakhazeni Local Municipality into an efficient and cost-efficient institution that renders quality, affordable and sustainable services to the community.

28.3 Mission

To develop, promote and sustain systems and structures of effective governance as well as service delivery for the community of the Emkahazeni Local Municipality.

29 Definitions and abbreviations

Definitions:

“accounting officer” means the municipal manager appointed in terms of Section 60 of the Act

“Act” means Municipal Finance Management Act, 2003 (Act No. 56, 2003)

“allocation”, in relation to a municipality, means-

- a) a municipality's share of the local government's equitable share referred to in section 214(1)(a) of the Constitution;
- b) an allocation of money to a municipality in terms of section 214(1)(a) 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;

“budget controllers” are all heads of departments (Senior Managers and Managers) and the Chief Financial Officer.

“chief financial officer” means a person designated in terms of section 80(2)(a) of the Act

“financial year” means the financial year ending 30 June

“mayor”, in relation to

- a) a municipality with an executive mayor, means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act; or
- b) a municipality with an executive committee, means the councillor elected as the mayor of the municipality in terms of section 48 of that Act

“the municipality” means Emakhazeni Municipality

“municipal manager” means a person appointed in terms of section 82(1)(a) or (b) of the Municipal Structures Act

“virement” means a regulated transfer or re-allocation of funds from one function or vote to another

“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.

Abbreviations:

DME	:	Department of Minerals and Energy
DWAF	:	Department of Water Affairs and Forestry
IDP	:	Integrated Development Plan
MFMA	:	Municipal Finance Management Act, 2003 (Act No. 56, 2003)
MIG	:	Municipal Infrastructure Grant
MSA	:	Municipal Systems Act, 2000 (Act 32 of 2000)
SDBIP	:	Service Delivery and Budget Implementation Plan

30 Purpose of the Guidelines

The purpose of this manual is to provide an overview of the procedure for the infrastructural process of Planning and Managing the Budget.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of budgets.

Briefly, the procedures include the development of budgets, including the preparation of the budget, revision, approval, monitoring and evaluation of budgetary performance for a financial year.

31 Scope of Application

Accounting Officer

Chief Financial Officer

All heads of departments (Senior Managers and Managers)

Any other senior officials designated by the accounting officer

32 Legislative Framework

The Municipality operations are governed by an array of different acts and this manual should be understood within that context.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Public Finance Management Act, 1999 (Act 1 of 1999)
- ◆ Organised Local Government Act, 1997 (Act 52 of 1997)
- ◆ Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
- ◆ Municipal Structures Act, 1998 (Act 117 of 1998)
- ◆ Municipal Finance Management Act, 2003 (Act 56 of 2003)
- ◆ National Treasury guidelines and prescripts

Thus not only is Emakhazeni Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

33 Principles

- 6.1 Except in so far as capital projects represent a contractual commitment to the municipality extending over more than one financial year, the annual capital budget shall be prepared from a **zero base**.
- 6.2 The capital budget component of the annual or adjustments budget shall only be approved by the council if it has been **properly balanced**, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.
- 6.3 Any **surplus** from previous financial years not appropriated, even if fully cash-backed, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or for other operational purposes, to the Municipality's asset financing reserve.
- 6.4 An impending operating **deficit** shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year, and shall not be offset against any unappropriated surplus carried forward from preceding financial years.

6.5 Provisions:

6.5.1 *Accrued leave*

The Municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

6.5.2 *Provision for bad debts*

The Municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

6.5.3 *Obsolete and deteriorated stock*

The municipality shall establish and maintain a provision for the obsolescence and deterioration of stock in accordance with its stores management policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

- 6.6 All expenses, including depreciation expenses, shall be **cash-funded**. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings.
- 6.7 **Finance charges** payable by the Municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets in the municipality.
- 6.8 Depreciation and finance charges together shall not exceed **20%** of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.
- 6.9 The allocation of **interest earned** on the Municipality's investments shall be budgeted for in terms of the banking and investment policy.
- 6.10 The Municipality shall adequately provide in each annual and adjustments budget for the maintenance of its **fixed assets** in accordance with its fixed asset management and accounting policy. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.
- 6.11 The budget for **salaries, allowances and salaries-related benefits** shall be separately prepared, and shall not exceed 30% 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 be excluded from this limit.

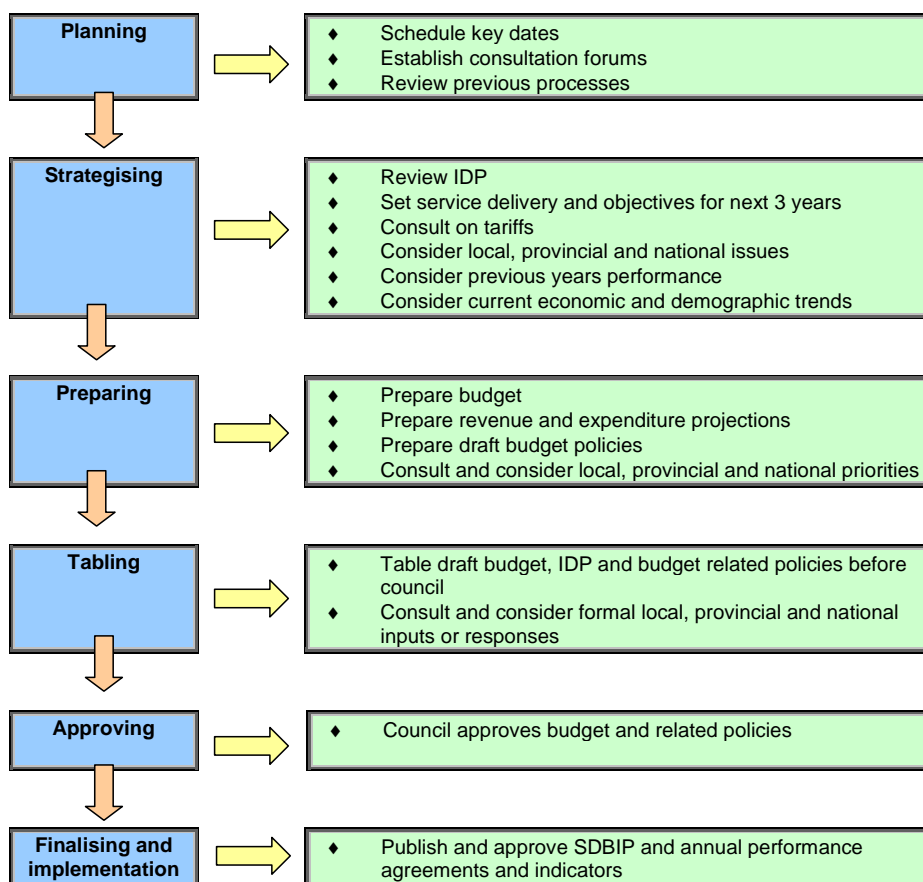
- 6.12 In preparing its **revenue budget**, the municipality shall strive to maintain the aggregate revenues from property rates at not less than 25% of the aggregate revenues budgeted for.

34 Budget Management Guidelines *

34.1 Budget process

The IDP and budget process must be one process. It is considered that a well-run budget process that incorporates the IDP review will facilitate community input, encourage discussion, promote a better understanding of community needs, provide an opportunity for feedback and improve accountability and responsiveness to the needs of the local communities. It also positions the municipality to represent the needs of the community and to provide useful inputs to the relevant provincial and national department strategies and budgets for the provision of services such as schools, clinics, hospitals and police stations.

34.2 Preparation of the budget



34.3 Step 1: Planning

Coordination of the budget preparation process

Section 21 of the MFMA requires the mayor to coordinate the processes for preparing the annual budget and for reviewing the IDP and budget related policies. The mayor must table in council by 31 August (10 months before the start of the budget year) a schedule of key deadlines for various budget related activities as spelled out in section 21. The accounting officer is tasked by section 68 of the MFMA with assisting the mayor in developing and implementing the budgetary process. The process should provide for both internal (within municipality) and external (local community and other stakeholder) consultations.

Budget Time Schedule:

Month	Mayor and Council / Entity Board	Administration - Municipality
July	<p>Mayor begins planning for next three-year budget in accordance with coordination role of budget process</p> <p>MFMA s 53</p> <p>Planning includes review of the previous years budget process and completion of the Budget Evaluation Checklist</p>	<p>Accounting officer and senior officials begin planning for next three-year budget</p> <p>MFMA s 68, 77</p> <p>Accounting officer and senior officials of municipality review options and contracts for service delivery</p>
August	<p>Mayor tables in Council a time schedule outlining key deadlines for: preparing, tabling and approving the budget, reviewing the IDP (as per s 34 of MSA) and budget related policies and consultation processes at least 10 months before the start of the financial year.</p> <p>MFMA s 21, 22, 23</p> <p>MSA s 34</p> <p>Mayor establishes committees and consultation forums for the budget process</p>	
September	<p>Council through the IDP review process determine strategic objectives for service delivery and development for next three-year budgets including review of provincial and national government sector and strategic plans</p>	<p>Budget and Technical office and Task Team of municipality determine revenue projections and proposed rate and service charges and drafts initial allocations to functions and departments for the next financial year after taking into account strategic objectives</p> <p>Engages with provincial and national sector departments on sector specific programmes for alignment with municipality's plans (schools, libraries, clinics, water, electricity, roads, etc.)</p>

Month	Mayor and Council / Entity Board	Administration - Municipality
October		Accounting officer does initial review of national policies and budget plans and potential price increases of bulk resources with function and departmental officials MFMA s 35, 36, 42
November		Accounting officer reviews and drafts initial changes to IDP
December	Council finalises tariff policies (rates and service charges) for next financial year MSA s 74, 75	Accounting officer and senior officials consolidate and prepare proposed budget and plans for next financial year taking into account previous years performance as per audited financial statements
January		Accounting officer reviews proposed national and provincial allocations to municipality for incorporation into the draft budget for tabling (Proposed national and provincial allocations for three years must be available by 20 January) MFMA s 36
February		Accounting officer finalises and submits to Mayor proposed budgets and plans for next three-year budgets taking into account the recent mid-year review and any corrective measures proposed as part of the oversight report for the previous years audited financial statements and annual report Accounting officer to notify relevant municipalities of projected allocations for next three budget years 120 days prior to start of budget year MFMA s 37(2)

Where a specific time frame is shown in the time schedule, it is a deadline requirement of the MFMA and must be complied with. The Municipality should make public a simplified version of the schedule to ensure the community is aware of the timelines, process and opportunities and to have input to the budget and IDP. A simplified version of the schedule should be placed in local newspapers, newsletters and the municipal website alerting the public that more information on the budget process is available on the municipal website and offices, including how the public can make an input into the budget process.

Review of previous budget process – budget evaluation checklist

While the MFMA does not explicitly require a review of the previous budget process, it is strongly recommended that this is undertaken in early August by the mayor and accounting officer before determining the new schedule of key deadlines. Such a review can provide information about what worked well, what didn't, where to improve and issues to address for legislative compliance.

Budget Evaluation Checklist (BEC)

The BEC (Addendum A) will assist the Municipality to evaluate the budget process to facilitate eventual compliance with the MFMA, including previous budget preparation, tabling, approval and implementation.

When completing the checklist if a municipality answers “No” next to one of the items, this will serve as an indication of where more effort is needed to ensure compliance in the future.

34.4 Step 2: Strategising

Review of IDP and budget related policies

The MSA and the MFMA require that a revised IDP be adopted at the time of adopting the budget. Therefore, the process leading to the adoption of the budget and IDP must be incorporated into one process, together with the process for approving taxes, levies, user charges and budget related policies.

Internal consultations within the municipality

The budget process must involve all the senior managers and must be guided by the strategic priorities of the municipality.

The budget process should be preceded by a number of strategic and consultation processes within the municipality, involving the executive committee and councilors.

The internal strategic consultation should commence around September/October, with the mayor convening a meeting of the executive committee and senior managers. The purpose of the meeting is to determine the priorities of the municipality for the coming budget, taking into account the financial and political pressures facing the municipality. It should also consider what revisions should be considered to its current IDP.

The above process ideally would culminate in a major council strategic workshop around the beginning of October involving the entire council (or if the council is too large, at least the chairpersons of all council committees). The purpose of the workshop is to gain understanding of budgetary pressures and to win the support of councilors to the budget priorities proposed by the mayor. It should be noted that at this stage the mayor and executive committee determine the budget priorities. The actual priorities will be approved by the council when it approves the budget and revisions to the IDP at the end of the process.

The budget priorities are tentative at this stage and offer a basis for consulting with the community and stakeholders. It may be necessary for the mayor to revise the priorities following the consultation process.

External consultations with the community and other stakeholders

There are two external consultation processes envisaged in the MFMA and Municipal Systems Act. The **first** external consultation process is informal, and open-ended, which begins around October and includes the following:

- a. Public meetings with residents and small businesses in local communities - to identify and prioritise the greatest local needs (e.g. housing, water, electricity, recreation facilities, schools, clinics, streets and street lighting, refuse removal, social services and related issues, crime and functioning of local police stations, etc). To obtain the views of the community the council should consider the use of ward committees to gain an understanding of the issues in each ward;
- b. Meetings with key stakeholders (e.g. residents associations, NGOs, business organisations) - to identify community and business needs and concerns, including the level of municipal tariffs and charges.
- c. Consultations between the municipality and other municipalities, provincial and national departments and entities.

This first phase of informal or open-ended consultations ends when the mayor tables the budget and revisions to the IDP around the end of March.

The **second** external consultation process is more formal and takes place after the tabling of the draft budget, when the council convenes hearings on the draft budget and revisions to the IDP. The municipality must invite the public and stakeholder organisations to submit comments and submissions in response to the draft budget and revised IDP.

The IDP is a coordinating tool that includes the needs of the community with respect to local services provided by all three spheres of government. It follows that the IDP of a municipality should differentiate between two sections – one part related to municipal functions and responsibilities and a second part relating to national and provincial responsibilities. The budget of the municipality can only fund the first part of the IDP related to municipal functions and services. The second part of the IDP requires the accounting officer to co-ordinate with national and provincial departments advocating on behalf of the local community.

34.5 Step 3: Preparing

The preparation of the budget starts in August at the time the mayor tables the schedule of key deadlines and concludes in June or early July when the mayor approves the SDBIP and annual performance agreements with senior managers. In practice the budget preparation process is an ongoing function where processes and budget years will overlap. There are generally three different budget processes operating in parallel all the time - reporting on the past year (e.g. annual reports and audited financial statements), current year implementation, and preparations for the coming budget year.

Budget preparation includes the following processes:

- ◆ Winning support for the priorities that will shape the way budget allocations will be determined
- ◆ Integration of strategic objectives with budget allocations
- ◆ Appropriate planning and improved project management
- ◆ Assessing affordability of rates and service charges, and identifying poor households unable to afford such rates and charges;
- ◆ Accuracy in the estimation of revenue and expenditure projections
- ◆ Consultation and review of national, provincial and local priorities
- ◆ Assessment of previous year performance and corrective action to be incorporated in the next budget

Whilst the technical preparation of the Budget is undertaken by the accounting officer, senior managers and chief financial officer, it is important that the mayor meet with the accounting officer and CFO on a monthly basis after the priorities are set, particularly during November, January, February and March. Such political oversight is necessary to guide officials and to assist in making the hard trade-offs necessary to determine the budget.

A key step in the budget process occurs at the end of January, when the mayor is required to table the annual report for the past year and the mid-year report on the current financial year.

In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote, and the head of the department, service or function concerned shall have the right to allocate the total budgeted amount to the line-items within such vote, except in so far as the line-item provisions relate to matters determined by the chief financial officer in terms of the municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, contribution to the COID, RSC levies payable, skills development levies payable).

The head of the department, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote to the portfolio committee responsible for the department, service or function concerned. In motivating the allocations made to and within the vote, the head of department, service or function concerned shall provide the relevant portfolio committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the municipal manager and the mayor.

Previous performance

Throughout the budget process, and specifically at key times, consideration should be given to the effect that previous performance will have on the medium term plan and the current and forthcoming budgets. This should include past year and current year information.

Municipal Infrastructure Grant

The Municipality should produce a 3 year capital plan when tabling the draft budget.

This is required to be disaggregated by municipal ward and reflect the MIG sector priorities to enable national and provincial transfers to flow directly to municipalities. The sector priorities in MIG refer to functions of water, sanitation, refuse, electricity, roads, public amenities, etc.

This will allow for sector departments like, DWAF, DME and others to monitor progress in addressing backlogs, as reflected in the Division of Revenue framework for MIG. Moreover, it is a requirement that consultations on these capital plans be undertaken for water and sanitation, electricity with national sector departments about early November, and similarly for roads with provincial departments of transport.

The Division of Revenue Gazette must be consulted for information regarding the MIG framework.

34.6 Step 4: Tabling

The draft budget and revised IDP must be tabled together in council no later than 1 April (90 days before the start of the budget year), together with the draft resolutions and budget related policies. The accounting officer must immediately (on the same day) post the budget, revised IDP and all related documents onto the municipal website so that the budget is accessible to the public. The accounting officer must also immediately make available to the public hard copies of the budget and all other related documents and send (hard and electronic) copies to the

National and provincial treasuries and other relevant organs of state (e.g. water affairs, mineral and energy, water boards and all other municipalities within the same district).

Once the budget is tabled the local community must be invited to make written submissions to the council on the budget and to make representation at the council hearings. Key stakeholders like national and provincial departments (e.g. treasuries, local government, water, environment, health) should also be invited to submit written comments to the hearings. The Council may also wish to host special sessions with community organisations, business organisations and public sector institutions prior to convening the hearings on the budget.

When considering the draft annual budget, the council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts. Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the council shall ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index.

Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget. In addition, the council shall consider the likely impact of such operation expenses – net of any revenues expected to be generated by such item – on future property rates and service tariffs.

The council is required to have hearings on the budget before it considers the budget for adoption. Such hearings can take the form of various committee hearings and should be convened soon after tabling the budget. The hearings may need to extend over a number of weeks, after which a full council meeting should be convened to consider and make recommendations arising out of the hearings process. The council must consider all the submissions and representations received during its hearings process. The mayor must be given an opportunity to respond to the recommendations (at that or a subsequent council meeting), and where necessary, to make revisions and amend the tabled budget.

The diagramme below illustrates the sequence of events to table the proposed budget and amendments to the IDP.

Tabling the budget – suggested timing

March				April				May			
Wk1	Wk2	Wk3	Wk4	Wk1	Wk2	Wk3	Wk4	Wk1	Wk2	Wk3	Wk4
Table municipal and entity budgets, resolutions, SDBIP, IDP revisions and budget related policies				Call for public submissions , council to have meetings with key stakeholders				Council hearings and Council meeting to consider submissions		Council meeting - mayor to submit amended budget	

Contents of budgets and supporting documents

The annual budget of the municipality must be a schedule in the prescribed format-

- (1) setting out realistically anticipated revenue for the budget year from each revenue source;
- (2) appropriating expenditure for the budget year under the different votes of the municipality;
- (3) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
- (4) setting out-
 - (i) estimated revenue and expenditure by vote for the current year; and
 - (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and
 - (iii) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed

An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.

When an annual budget is tabled it must be accompanied by the following documents:

- (a) Draft resolutions -
 - (i) approving the budget of the municipality;
 - (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
 - (iii) approving any other matter that may be prescribed;
- (b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;

- (c) a projection of cash flow for the budget year by revenue source broken down per month;
- (d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;
- (e) any proposed amendments to the budget-related policies of the municipality;
- (f) particulars of the municipality's investments;
- (g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;
- (h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;
- (i) particulars of any proposed service delivery agreements including material amendments to existing service delivery agreements;
- (j) particulars of any proposed allocations or grants by the municipality to-
 - (i) other municipalities;
 - (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
 - (iii) any other organs of state;
 - (iv) any organisations or bodies referred to in section 67(1) of the Act;
- (k) the proposed cost to the municipality for the budget year of the allowances and benefits of-
 - (i) each political office-bearer of the municipality;
 - (ii) councillors of the municipality; and
 - (iii) the accounting officer, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;
- (l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of -
 - (i) each member of the entity's board of directors: and
 - (ii) the chief executive officer and each senior manager of the entity: and
- (m) any other supporting documentation as may be prescribed.

34.7 Step 5: Approving

After the mayor has responded to the recommendations and made amendments to the draft budget, the full council must meet to consider the budget for approval no later than 31 May (30 days before the start of the budget year). Ideally the council should consider approving the budget, and related policies, at the same meeting that the mayor tables any revisions/amendments. If the council is not able to approve the budget, the speaker/mayor must ensure that further council meetings are convened every week thereafter to ensure that the budget is approved before the start of the budget year. Failure to approve the budget before the start of the budget year will have serious operational consequences for the municipality (as no payments can be made without an approved budget) and could result in a section

139 constitutional intervention in terms of sections 25 and 26 of the MFMA. Should the municipality fail to approve the budget before the start of the budget year, the mayor must inform the MEC for Finance that the budget has not been approved.

34.8 Step 6: Finalising plans to implement the budget

This step of the budget process involves the finalisation of plans to implement the budget, through the approval of the SDBIP and the performance agreements for the accounting officer and other senior managers for the coming financial year. While the MFMA requires this to happen within 28 days after the approval of the budget it is recommended that draft SDBIP and performance agreements be tabled with the budget and considered in conjunction with the budget approval, if possible.

The recommended approach to prepare the SDBIP is to develop implementation plans for each vote in the budget. The vote implementation plans would show:

- ◆ monthly projections of revenue by source and expenditure by vote;
- ◆ quarterly projections of measurable performance indicators; and service delivery targets.

The SDBIP approved with the budget or shortly after would be a summary of these plans.

A delegations policy of spending authority on budget votes is critical for successful budget implementation and subsequent monitoring and evaluation. It is important that delegations required to give effect to sections 79, 82 and 106 of the MFMA are addressed.

35 BUDGET VIREMENT

The aim of this policy is to give managers greater flexibility in managing their budgets through providing clear guidance how shifting of funds may take place between items, projects, programmes and votes. Proposed virements must at all times facilitate sound risk and financial management.

- 1) Budget transfers shall be recommended by managers in accordance with authority and limits set in the delegations framework and the MFMA and shall be approved by the Accounting Officer.
- 2) Virements are subject to the completion of the budget amendment form or internal memorandum motivating for the virement.
- 3) All virement completed proposals must be forwarded to the Budget office for checking and implementation.
- 4) Virements within the same vote can be handled administratively, whereas virements between votes must be included in an adjustment budget unless unforeseen and unavoidable circumstances prevail and subject to the approval of the Accounting Officer.

- 5) The approval of a virement will not provide the required authority for expenditure all expenditure is subject to the stipulations of the Supply Chain Management Policy of Council.
- 6) Virements are only allowed within the same main votes, but may be between different sub-votes.
- 7) Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustment budget to the Council with altered outputs and measurements for approval.
- 8) Virements on capital projects are only allowed if sufficient proof can be provided that a saving realised on the completion of the project, from which funds are to be moved.

The following limitations shall apply:

- 1) Virements may not create new policy and / or significantly vary current policy, or alter approved outcomes contained in the IDP.
- 2) Virements between operating and capital budgets are not permissible.
- 3) No virement may be effected where it would result in the overexpenditure of a vote.
- 4) No virements may be made between revenue and expenditure and vice versa.
- 5) Virements of conditional grant funds for purposes, which fall outside what is specified in the relevant conditional grant framework, are not permissible.
- 6) No virements are allowed on revenue items.
- 7) No budget transfers or virements shall be made to increase a salary vote without the prior comments of the CFO on the financial implication.
- 8) Should a saving realise on a salary vote, such saving may be transferred to another operating vote, but only if the over-expenditure or foreseen over-expenditure of other salary, related votes have fully been addressed and subject to prior financial comments by the CFO.
- 9) Any budgetary virements of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered during an adjustments budget
- 10) No virements are permitted in the first three months of the financial year except under extraordinary circumstances and are subject to the approval by the Accounting Officer.
- 11) No virements will be permitted to and from the following expenditure categories, unless such amendments are effected in the last month of the financial year:
 - Bad Debts
 - Indigent Relief
 - Revenue Forgone
 - Grants-in-aid (only permitted where activity/ action/ business plans has been changed and must it must be within the same grant funding and not change the budget of that particular grant)

36 BUDGET ADJUSTMENT

- 1) Council may revise its Annual Budget by means of an Adjustment Budget only in accordance with the MFMA together with the Municipal Budget and Reporting Regulations.
- 2) The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.
- 3) The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council.
- 4) The Council shall in such Adjustment Budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.
- 5) The Council should also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the Annual Budget was approved by the Council.
- 6) Only the Executive Mayor shall table an Adjustment Budget. Adjustment Budget shall be done when necessary in accordance with the prescribed framework and be submitted to Council as follows:
 - January - February – to take into account recommendations from the Mid-Year Budget and Performance Review tabled to Council in January, that affects the Annual Budget
- 7) An Adjustment Budget complies with all prescriptions of the Municipal Budget and Reporting Regulations.
- 8) Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget.
- 9) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.
- 10) Unforeseen and unavoidable expenditure may only be treated as per the Municipal Budget and Reporting Regulations.

37 Roles and Responsibilities

37.1 The mayor

- (1) The mayor of a municipality must-
 - (a) provide general political guidance over the budget process and the priorities that must guide the preparation of a budget;
 - (b) co-ordinate the annual revision of the integrated development plan in terms of section 34 of the Municipal Systems Act and the preparation of the annual budget and determine how the integrated development plan is to be taken into account or revised for the purposes of the budget; and
 - (c) take all reasonable steps to ensure-
 - (i) that the municipality approves its annual budget before the start of the budget year
 - (ii) that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget; and
 - (iii) that the annual performance agreements as required in terms of section 57(1)(b) of the Municipal Systems Act for the accounting officer and all senior managers-
 - (aa) comply with this Act in order to promote sound financial management
 - (bb) are linked to the measurable performance objectives approved with the budget and to the service delivery and budget implementation plan; and
 - (cc) are concluded in accordance with section 57(2) of the Municipal Systems Act.
- (2) The mayor must promptly report to the municipal council and the MEC for finance in the province any delay in the tabling of an annual budget, the approval of the service delivery and budget implementation plan or the signing of the annual performance agreements.
- (3) The mayor must ensure-
 - (a) that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter as set out in the service delivery and budget implementation plan, are made public no later than 14 days after the approval of the service delivery and budget implementation plan; and
 - (b) that the performance agreements of the accounting officer, senior managers and any other categories of officials as may be prescribed are made public no later than 14 days after the approval of the municipality's service delivery and budget implementation plan.

Copies of such performance agreements must be submitted to the council and the MEC for local government in the province.

- (4) The mayor of a municipality must-
 - (a) co-ordinate the processes for preparing the annual budget and for reviewing the municipality's integrated development plan and budget-related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible;
 - (b) at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for-
 - (i) the preparation, tabling and approval of the annual budget;
 - (ii) the annual review of-
 - (aa) the integrated development plan in terms of section 34 of the Municipal Systems Act; and
 - (bb) the budget-related policies;
 - (iii) the tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and
 - (iv) any consultative processes forming part of the processes referred to in subparagraphs (i), (ii) and (iii).
- (5) When preparing the annual budget, the mayor of a municipality must-
 - (a) take into account the municipality's integrated development plan;
 - (b) take all reasonable steps to ensure that the municipality revises the integrated development plan in terms of section 34 of the Municipal Systems Act taking into account realistic revenue and expenditure projections for future years;
 - (c) take into account the national budget, the relevant provincial budget, the national government's fiscal and macro-economic policy, the annual Division of Revenue Act and any agreements reached in the Budget Forum;
 - (d) consult -
 - (i) the relevant district municipality and all other local municipalities within the area of the district municipality, if the municipality is a local municipality;
 - (ii) all local municipalities within its area, if the municipality is a district municipality;
 - (iii) the relevant provincial treasury and when requested. the National Treasury; and
 - (iv) any national or provincial organs of state as may be prescribed; and
 - (e) provide, on request, any information relating to the budget-
 - (i) to the National Treasury; and
 - (ii) subject to any limitations that may be prescribed, to -

- (aa) the national departments responsible for water, sanitation, electricity and any other service as may be prescribed;
- (bb) any other national and provincial organ of states as may be prescribed; and
- (cc) another municipality affected by the budget.

37.2 The accounting officer

- (1) The accounting officer must-
 - (a) assist the mayor in performing the budgetary functions assigned to the mayor
 - (b) provide the mayor with the administrative support, resources and information necessary for the performance of those functions.
- (2) The accounting officer must review proposed national and provincial allocations to municipality for incorporation into the draft budget for tabling.
- (3) In order to enable municipalities to include allocations from other municipalities in their budgets and to plan effectively for the spending of such allocations, the accounting officer of a municipality responsible for the transfer of any allocation to another municipality must, by no later than 120 days before the start of its budget year, notify the receiving municipality of the projected amount of any allocation proposed to be transferred to that municipality during each of the next three financial years.

37.3 Chief Financial Officer

- (1) Without derogating in any way from the legal responsibilities of the accounting officer, the chief financial officer shall be responsible for preparing the draft annual capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the banking and investments policy), and shall be accountable to the accounting officer manager in regard to the performance of these functions.
- (2) The chief financial officer shall draft the budget timetable for the ensuing financial year for the mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget 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, and target dates for the submission of all the budget-related documentation to the mayor, finance committee, executive committee and council.

- (3) Except where the chief financial officer, with the consent of the mayor and accounting officer decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:
 - ◆ depreciation charges
 - ◆ repairs and maintenance expenses
 - ◆ interest payable on external borrowings
 - ◆ other operating expenses.
- (4) In preparing the operating budget, the chief financial officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organisational structure of the Municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of National Treasury.
- (5) The chief financial officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, the estimates of withdrawals from (claims) and contributions to (premiums) the self-insurance reserve, and the contributions to the provisions for bad debts, accrued leave entitlements and obsolescence of stocks.
- (6) The chief financial officer shall further, with the approval of the mayor and the accounting officer, determine the recommended contribution to the asset financing reserve and any special contributions to the self-insurance reserve.
- (7) The chief financial officer shall also, again with the approval of the mayor and the accounting officer, and having regard to the municipality's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.
- (8) The chief financial officer shall provide technical and administrative support to the mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

- (9) The chief financial officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the IDP and the budget-related policies where these are indicated.
- (10) The chief financial officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.
- (11) The chief financial officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.
- (12) The chief financial officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.

37.4 Other senior officials

- (1) The top management of a municipality's administration consists of-
 - (a) the accounting officer;
 - (b) the chief financial officer;
 - (c) all senior managers who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated; and
 - (d) any other senior officials designated by the accounting officer.
- (2) The top management must assist the accounting officer in managing and coordinating the financial administration of the municipality.

38 Monitoring, Evaluation and Reporting

Responsibility	Timeframe	Report to	Report detail
Accounting officer	10 days after the end of each month	<ul style="list-style-type: none"> ◆ Mayor ◆ Provincial treasury 	<p>Statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:</p> <ul style="list-style-type: none"> (a) Actual revenue, per revenue source; (b) actual borrowings; (c) actual expenditure, per vote; (d) actual capital expenditure, per vote; (e) the amount of any allocations received; (f) actual expenditure on those allocations, excluding expenditure on- <ul style="list-style-type: none"> (i) its share of the local government equitable share; and (ii) allocations exempted by the annual Division of Revenue Act (g) when necessary, an explanation of- <ul style="list-style-type: none"> (i) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote; (ii) any material variances from the service delivery and budget implementation plan; and (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget. <p>The statement must include-</p> <ul style="list-style-type: none"> (a) a projection of the relevant municipality's revenue and expenditure for the rest of the financial year, and any revisions from initial projections; and (b) the prescribed information relating to the state of the budget of each municipal entity as provided to the municipality in terms of section 87(10) of the Act. <p>The amounts reflected in the statement must in each case be compared with the corresponding amounts budgeted for in the municipality's approved budget.</p> <p>The statement to the provincial treasury must be in the format of a signed document and in electronic format.</p>
Accounting officer	25 January of each year	<ul style="list-style-type: none"> ◆ Mayor ◆ Provincial Treasury ◆ National Treasury 	<ul style="list-style-type: none"> (a) Assess the performance of the municipality during the first half of the financial year, taking into account- <ul style="list-style-type: none"> (i) the monthly statements for the first half of the financial year; (ii) the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;

Responsibility	Timeframe	Report to	Report detail
			<p>(iii) the past year's annual report, and progress on resolving problems identified in the annual report: and</p> <p>(iv) the performance of every municipal entity under the sole or shared control of the municipality.</p> <p>The accounting officer must, as part of the review -</p> <p>(a) make recommendations as to whether an adjustments budget is necessary; and</p> <p>(b) recommend revised projections for revenue and expenditure to the extent that this may be necessary.</p>

39 Implementation

The Plan and Manage the Budget Policy and Procedure will be implemented and adopted after approval thereof by the Council.

Addenda

A : Budget Evaluation Checklist

A

BUDGET EVALUATION CHECKLIST (PROVIDED BY NATIONAL TREASURY)

Section	Item	Question	Evidenced By	Reference	Answer	Comments
	0100	General				
	0105	Does the municipality have municipal entities or propose to create them in this budget period? (either wholly or partly under the control of the municipality)				
	0200	Budget preparation process (S.21)				
21	0205	Budget process documentation exits setting out time frames and responsibilities	Sight existence of any budget process documentation			
21	0210	Includes key deadlines for: preparation, tabling and approval of the annual budget; and any related consultative processes	Budget process documentation must include proof the documentation was tabled regardless of date			
21	0215	Includes key deadlines for: annual review of IDP; tabling and adoption of any amendments; and any related consultative processes				
21	0220	Includes key deadlines for: annual review of budget related policies; tabling and adoption of any amendments; and any related consultative processes				
21	0225	Includes Key deadlines for any consultative processes forming part of the processes for tabling and adopting the budget				
21	0230	Process documentation was tabled to Council				
21	0235	Process documentation tabled 10 months before the start of the budget year (31 August)	Date tabled to be sighted			
21	0240	A consultative process is detailed in the budget process documentation	Sight existence of any consultative process			
21	0245	Incorporates review of national & provincial budgets - including sector departments, DoRA, Budget Forums	Consultative process must include: For a Local - the district and all other locals in the district. For a District - all locals in the district			
21	0250	Provides for consultation with other municipalities in the region				
21	0255	Provides for consultation with the relevant provincial treasury	Consultative process must include:			
	0300	Budget timing (S.16,24)				
16	0305	Annual budget tabled by 1 April	Sight date of formal agenda item			
24	0310	Approval of the annual budget considered by 31 May	Sight date of the formal agenda item			
16	0315	Annual budget adopted by 30 June	Sight date of formal council resolution on			

EMAKHAZENI MUNICIPALITY



INDIGENT POLICY

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4.40 Introduction

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4.40.1 Vision and value statement

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It is the vision of Council to “create a secure environmental and sustainable development to promote service excellence and unity” Council is committed to its mission creating conducive institutional environment within which communities can thrive economically and socially.

The Values of the Council are:

Transparency
High Quality Service Delivery
Accountability
Serving Communities with Integrity
Efficiency
Professionalism

4.40.2 Vision

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To strive for the transformation of the Emakhazeni Local Municipality into an efficient and cost-efficient institution that renders quality, affordable and sustainable services to the community.

4.03 Mission

To develop, promote and sustain systems and structures of effective governance as well as service delivery for the community of the Emkahazeni Local Municipality.

41 Definitions and abbreviations

Definitions:

“chief financial officer” means a person designated in terms of section 80(2)(a) of the Municipal Finance Management Act

“the municipality” means Emakhazeni Municipality

42 Purpose of the Guidelines

The purpose of this manual is to prescribe the accounting and administrative policies and procedures relating to indigents of the Emakhazeni Municipality.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of indigents.

43 Scope of Application

The Policy applies to all indigents within the defined boundaries of Emakhazeni Municipality.

44 Legislative Framework

The Municipality operations are governed by an array of different acts and this manual should be understood within that context.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Public Finance Management Act, 1999
- ◆ Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
- ◆ Municipal Finance Management Act, 2003

Thus not only is Emakhazeni Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

45 Indigent Guidelines

6.445.1 Principles

- a) All indigent persons should have access to basic services in terms of the South African Constitution.
- b) The level of affordability by Council for the supply of free basic services should be determined.
- c) The escalation of debt on accounts of consumers not in a position to pay should be prevented.
- d) The level of utilisation of consumer services for people who cannot afford to pay should be restricted.
- e) The access of consumers to free basic services should be regulated.

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6.245.2 Criteria

A debtor is considered indigent if the total household income is R1 200,00 or less per month or an amount as determined by Council from time to time.

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6.345.3 Arrears

- a) The indigent debtor who is in arrears will be required to pay a nominal amount to understand that the arrears debt has not been written off.
- b) Until an arrangement to pay arrears debt, interest may be charged on all overdue accounts at an interest rate that shall be determined by Council from time to time.

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6.445.4 Financial implications

Indigent households will be subsidised in accordance with this policy subject to the Council funding available from time to time.

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6.545.5 Registration

- a) Application
 - ◆ A debtor should make application for indigent benefits at the Municipal Office on a prescribed application form.
 - ◆ The application form with the relevant documentation (e.g. copy of ID) must be submitted to the Municipal Office.
 - ◆ Applicants must produce written proof of household income for each member of the household indicating unemployment or low income or reduction in income and/or medical certificates confirming inability to work acceptable to Council. All documentation must be supported by a sworn affidavit and should be current (not more than one month old).

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- ♦ The Municipality must verify the information contained in the application form and interview the applicant and household and conduct a general investigation to confirm the validity of the application.

b) Approval

- ♦ All applications will be submitted to the Chief Financial Officer, who will peruse the applications together with the verified information attached.
- ♦ The Chief Financial Officer will take cognisance of the recommendations made by the Municipality's representatives who held interviews with the applicant and make recommendations to the Accounting Officer.
- ♦ The Accounting Officer has the power to approve/disapprove the applications.

c) Implementation

- ♦ The load limiting circuit breaker at the consumer's property must be changed to a 10 Amp circuit breaker.
- ♦ Finance Department will be informed in order to update the financial system.

6.6.45.6 Service levels and tariffs for registered indigents

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6.6.45.6.1 Electricity

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- a) Unclaimed issues cannot be carried forward to a following month.
- b) Requests for prepaid electricity in excess of the free kWh must be purchased at the applicable lifeline electricity tariff.
- c) The discount will be shown in the Council's income statement as "income foregone" and recovered from the Equitable Share.

45.6.2 Water

- a) The discount will be shown in the Council's income statement as "income foregone" and recovered from the Equitable Share.

45.6.3 Assessment rates

- a) Registered indigents will receive a contribution equip to 60% discount on the payable rebated assessment rates.

45.6.4 Refuse removal

- a) The discount will be shown in the Council's income statement as "income foregone" and recovered from the Equitable Share.
- b) The service standard will be limited to one refuse collection per week.

45.6.5 Sewerage

- a) The discount will be shown in the Council's income statement as "income foregone" and recovered from the Equitable Share.

46 Roles and Responsibilities

7.146.1 Chief Financial Officer:

The Chief Financial Officer must keep record of:

- a) The detail of all indigents
- b) The monthly amount discounted for indigents
- c) The annual amount to be disclosed in the financial statements

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47 Monitoring, Evaluation and Reporting

- 8.1 Finance Department must compile a register of all approved consumers who receive indigent benefits.
- 8.2 Finance Department must be informed if specific request for the electricity supply to be increased above 10 Amp are received as these applicants must be excluded from any further indigent support.
- 8.3 All indigent households that have been on the register for six months or more are re-evaluated bi-annually by the Communication Officer.

48 Implementation

The Indigent Policy will be implemented and adopted after approval thereof by the Council.

PLAN AND MANAGE INDIGENTS

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1. DEBT MANAGEMENT PROCEDURES AND PROCESS MAPS

1.1 INDIGENT MANAGEMENT

1.1.1 Introduction

The purpose of this manual is to provide an overview of the procedure for the infrastructural process of Indigent Management.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of indigent applications.

1.4 Procedure Description

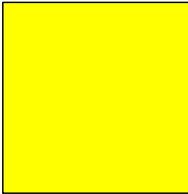
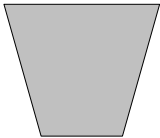
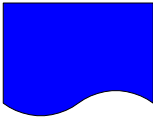
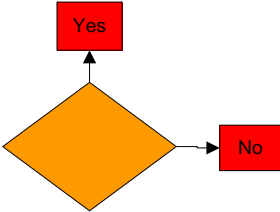
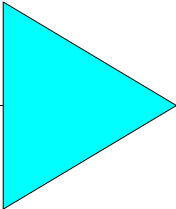
Step	Process
1 Indigent application process	<ul style="list-style-type: none">♦ A debtor applies for indigent benefits at the Municipal Office on a prescribed application form.♦ The application form with the relevant documentation must be submitted to the Municipal Office.♦ Applicants must produce written proof of household income for each member of the household indicating unemployment or low income or reduction in income and/or medical certificates confirming inability to work acceptable to Council. All documentation must be supported by a sworn affidavit and should be current (not more than one month old).♦ The Municipality must verify the information contained in the application form and interview the applicant and household and conduct a general investigation to confirm the validity of the application.♦ All applications will be submitted to the Chief Financial Officer, who will peruse the applications together with the verified information attached.♦ The Chief Financial Officer will take cognisance of the recommendations made by the Municipality's representatives who held interviews with the applicant.♦ The Chief Financial Officer has the power to approve/disapprove the applications.

1.3 Policy

Procedure number	Policy reference
Step 1: IP1.1	Paragraph 6.5

6 PROCESS KEY

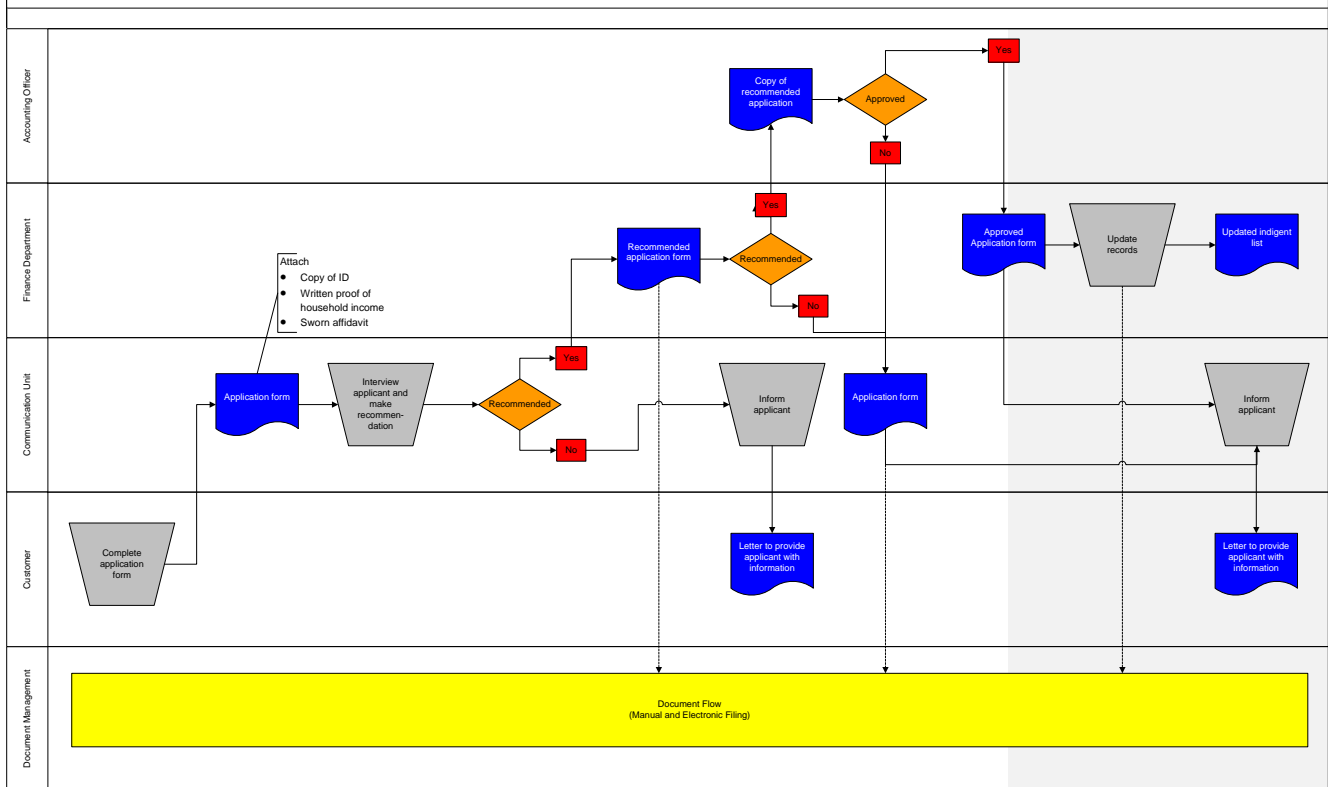
The shapes and colours used in the process maps should be interpreted as follows:

Symbol	Description
	This is used for a process, i.e. <u>group of activities</u> (activity is defined as a collection of tasks). Usually this symbol is a high-level description of a collection of the other symbols (described below). These other symbols are then usually depicted on a separate page.
	This is used for a <u>group of tasks</u> (tasks are usually described in the policy & procedures manual and are the lowest level of actions).
	This represents a document, report, regulations, plans or a deliverable. This symbol would usually be the result of a process.
	This represents a decision to be made.
	This symbol represents a connection point to another process, which is usually depicted on another process map (done by someone else).

7 PROCESS MAP

IP: Indigents	
Accounting Officer	<div>IP1.1 Indigent application process</div>
Finance Department	
Communication Unit	
Customer	
Document Management	<div>Document Flow (Manual and Electronic Filing)</div>

IP1.1: Indigent application process



EMAKHAZENI MUNICIPALITY



TARIFFS POLICY

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449 Introduction

49.1 Vision and value statement

It is the vision of Council to “create a secure environmental and sustainable development to promote service excellence and unity” Council is committed to its mission creating conducive institutional environment within which communities can thrive economically and socially.

The Values of the Council are:

Transparency
High Quality Service Delivery
Accountability
Serving Communities with Integrity
Efficiency
Professionalism

49.2 Vision

To strive for the transformation of the Emakhazeni Local Municipality into an efficient and cost-efficient institution that renders quality, affordable and sustainable services to the community.

49.3 Mission

To develop, promote and sustain systems and structures of effective governance as well as service delivery for the community of the Emkahazeni Local Municipality.

50 Definitions and abbreviations

Definitions:

“accounting officer” means the municipal manager appointed in terms of Section 60 of the Act

“chief financial officer” means a person designated in terms of section 80(2)(a) of the Municipal Finance Management Act

“the municipality” means Emakhazeni Municipality

“tariff” means a tariff for services which the Municipality may set for the provision of a service to the local community and includes a surcharge on such tariff:

51 Purpose of the Guidelines

The purpose of this manual is to prescribe the accounting and administrative policies and procedures relating to tariffs of the Emakhazeni Municipality.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of tariffs.

52 Scope of Application

The Policy applies to all tariffs charged within the defined boundaries of Emakhazeni Municipality.

53 Legislative Framework

The Municipality operations are governed by an array of different acts and this manual should be understood within that context.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Public Finance Management Act, 1999 (Act 1 of 1999)
- ◆ Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
- ◆ Municipal Finance Management Act, 2003 (Act 56 of 2003)

Thus not only is Emakhazeni Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

54 Principles

- 6.1 Service tariffs imposed by the Municipality shall be viewed as usage charges and shall not be viewed as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigency relief measures approved by the municipality from time to time).
- 6.2 The Municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.
- 6.3 Tariffs for the four major services rendered by the municipality, namely:
- ◆ electricity
 - ◆ water
 - ◆ sewerage (waste water)
 - ◆ refuse removal (solid waste),
- 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 standard of service received and the quantity of the particular service used or consumed.
- 6.4 The Municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate an operating surplus each financial year of 10% or such lesser percentage as the council of the Municipality may determine at the time that the annual operating budget is approved. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.

- 6.5 The Municipality shall develop, approve and at least annually review an indigency **support programme** for the municipal area. This programme shall set out clearly the municipality's cost recovery policy in respect of the tariffs which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and consumers in the municipal region.
- 6.6 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.
- 6.7 The Municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be evident to all consumers or users of the service in question.
- 6.8 The Municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users affected by the tariff policy concerned.
- 6.9 The Municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.
- 6.10 In the case of directly measurable services, namely electricity and water, 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 charges levied on consumers shall be proportionate to the quantity of the service which they consume.
- 6.11 In addition, the Municipality shall levy monthly availability charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with the detailed policies set out below. Generally, consumers of water and electricity shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and another directly related to the consumption of the service in question.
- 6.12 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 mean that the services operate at less than full capacity at various periods, and the costs of such surplus capacity must also be covered in the tariffs which are annually levied.

- 6.13 In adopting what is fundamentally a two-part tariff structure, namely a fixed availability charge coupled with a charge based on consumption, the Municipality believes that it is properly attending to the demands which both future expansion and variable demand cycles and other fluctuations will make on service delivery.
- 6.14 It is therefore accepted that part of the Municipality's tariff 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. To this end the municipality shall therefore install demand meters to measure the maximum demand of such consumers during certain periods. 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.

55 Tariff Policy Guidelines

55.1 Calculation of tariffs for major services

In order to determine the tariffs which must be charged for the supply of the four major services, the Municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:

- a) Cost of bulk purchases in the case of water and electricity.
- b) Distribution costs.
- c) Distribution losses in the case of electricity and water.
- d) Depreciation expenses.
- e) Maintenance of infrastructure and other fixed assets.
- f) Administration and service costs, including:
 - ♦ service charges levied by other departments such as finance, human resources and legal services;
 - ♦ reasonable general overheads, such as the costs associated with the office of the accounting officer;
 - ♦ adequate contributions to the provisions for bad debts and obsolescence of stock;
 - ♦ 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 (note: the costs of the democratic process in the municipality – that is, all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenues, and shall not be included in the costing of the major services of the municipality).
- g) The intended surplus to be generated for the financial year, such surplus to be applied:
 - ♦ as an appropriation to capital reserves; and/or

- ♦ generally in relief of rates and general services.

h) The cost of approved indigency relief measures.

The Municipality shall provide the first 30kWh of electricity per month and the first 6 kl of water per month free of charge to all residential consumers. Consumers, who have registered as indigents in terms of the Municipality's indigency relief programme, shall be provided with the first 50kWh of electricity and the first 6 kl of water, including the basic amount, per month free of charge. The Municipality shall further consider relief in respect of the tariffs for sewerage and refuse removal for such registered indigents to the extent that the council deems such relief affordable in terms of each annual budget, but on the understanding that such relief shall not be less than the basic amount on the monthly amount billed for the service concerned.

Because water is a scarce national resource, and the municipality is committed to the prudent conservation of such resources, the tariff levied for domestic consumption of water shall escalate according to the volume of water consumed. The tariff for domestic consumption shall be based on monthly consumption of up to 6 kl, more than 6 kl but not more than 14 kl, more than 14 kl but not more than 24 kl, more than 24 kl but not more than 34 kl, and more than 34 kl. Tariffs for non-domestic consumption shall be based on monthly consumption of 0 kl up to 20 kl, more than 20 kl but not more than 30 kl, more than 30 kl but not more than 40 kl, more than 40 kl but not more than 50 kl, and more than 50 kl.

Tariffs for pre-paid meters shall be the same as the ordinary consumption tariffs levied on the category of consumer concerned, but no availability charge shall be levied on properties where pre-paid meters have been installed. This distinction is made in recognition of the financial advantages which pre-paid metering entails for the services in question.

Comment [J1]: We need to look at this tariff – not the same as other tariffs to make provision for infrastructure

55.2 Electricity

55.2.1 General

The various categories of electricity consumers, as set out below, shall be charged at the applicable tariffs, as approved by the council in each annual budget.

Tariff adjustments shall be effective from 1 July each year or as soon as possible thereafter.

Categories of consumption and charges shall be as follows:

- a) With the single exception of registered indigents, all electricity consumers shall be billed for their electricity consumption at the tariff applicable to the category in which the particular consumer falls.
- b) All domestic electricity consumers of the municipality who are registered as indigents with the municipality shall receive free the first 50kWh (fifty) of electricity consumed per month.
- c) All domestic electricity consumers other than registered indigents and consumers using prepaid meters per month shall additionally be billed a basic charge per meter installed.
- d) All commercial, industrial and other non-domestic properties shall additionally be billed a monthly basic charge per meter installed and, where applicable, a demand charge appropriate to their respective levels of consumption.
- e) The local municipality's departmental electricity consumption shall be charged at cost.

55.2.2 New electricity installations

Per written authorisation of the Technical Services Manager, a new electricity installation shall be installed, or permitted to be installed, in any premises within the area of supply and connected to the Council's supply mains.

Application for such authority shall be lodged with the Technical Service Department, via an application form obtainable from the Cashiers at the Municipality's offices.

The Council shall not be liable for any loss or damage, direct or consequential, due to or arising from any interruption, diminution or discontinuance of the supply of electricity or any temporary increase or surge therein, occasioned by a strike, blackout, war, Act of God, legislative action or embargo or any other cause beyond the Council's control or by any fault occurring in the machinery, supply or service mains or other apparatus of the Council or by the rectification of any such fault.

The consumer is deemed to hold the Council indemnified against any action, claim, expense or demand arising from or in connection with any of the matters aforesaid.

The Technical Service Department may without notice, interrupt the supply of electricity to any premises for the purpose of carrying out emergency repairs to the supply or service mains.

55.2.3 Termination of supply

Unless an application for the continuance of the supply to such premises has been lodged with the Chief Financial Officer, the Engineer shall be entitled to disconnect the supply to the premises.

A consumer who has given notice of termination of supply may claim a refund of the amount deposited by him, or the residual amount after the deduction of any amount owing by him for electricity supplied or services rendered.

The Chief Financial Officer shall make payment of the amount due within 30 days from the date of the receipt of any such claim.

The deposit shall be forfeited to the Council where no claim for a refund of the amount deposited is made:

- ◆ Within 30 days of the date of the termination of the supply, and no interest shall accrue after the expiration of such period; or
- ◆ If a claim is made after the expiration of 30 days from the date of termination of supply, the Chief Financial Officer may in his absolute discretion, refund such amount.

55.2.4 Meter readings

Meters should be read, as far as practical, at intervals as determined by the policy.

Electricity consumed between meter readings will be deemed to be consumed evenly between such meter reading dates.

Final readings: No reduction of or addition to the prescribed monthly fixed or minimum charges will be made, unless the date of reading is at least five days before or after a full period of one month or a multiple thereof, from the previous reading.

Where a meter is read less than or more than one month after the commencement of an account, or where an account is terminated less than or more than one month or a multiple thereof after the preceding reading of the meter, the monthly fixed or minimum charge will be proportioned accordingly. For the purpose of assessing fixed or minimum charges 'one month' shall be regarded as 30 days.

55.2.5 Months in which Meter is not Read

An account for a provisional sum for electricity should be rendered. The provisional sum shall be assessed with due regard, wherever possible, to the average monthly value of fixed or minimum charges and electricity consumed upon the premises served by the meter and to any tariff changes that may have occurred.

Where there has been no previous consumption, the Chief Financial Officer may determine the amount of the said provisional sum by reference to such consumption on other similar premises as he considers would constitute a reasonable guide.

55.2.6 Rendering Accounts

As far as practical, monthly accounts that are to be paid within 10 working days from the date of the account, should be rendered.

Where a consumer fails to pay the account within the specified period, the Engineer or the Chief Financial Officer may cut off the supply according to the Credit Control Policy

A consumer whose supply of electricity has been disconnected in terms of this section shall not be entitled to be reconnected to the Council's supply mains until the conditions as stipulated in the Credit Control Policy have been achieved.

Electricity supplies are disconnected when a consumer's account is in arrears. Thereafter, a final demand is issued. Failure to respond will result in debt collection procedures being followed according to the Credit Control Policy.

55.2.7 Validity of meter reading

The record given by any meter installed on any premises by the Council shall be conclusive proof of the quantity of electricity consumed, subject to following:

Where a meter is tested and found to be more than 2,5% inaccurate, the Chief Financial Officer shall correct the consumer's account to conform to the results of the test and shall refund the consumer any amount paid by him in excess of the amount due. However no such adjustment shall be made in respect of any period prior to the last metered period for which an account is rendered to the consumer, unless the consumer is able to establish to the satisfaction of the Technical Service Department, that the meter was inaccurate during such prior period.

55.2.8 Request to Test Accuracy of Meter

Per the request of any consumer and upon the payment of the fee prescribed, the Technical Service Department shall test the accuracy of any meter installed by the Council.

Where any such test is carried out at the request of the consumer, the fee paid by him shall be refunded if the meter is found to be more than 2.5% inaccurate.

55.3 Water

55.3.1 General

The categories of water consumers as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

Tariff adjustments shall be effective from 1 July each year.

Categories of consumption and charges shall be:

- a) All consumers shall receive free the first 6 kl (six) of water consumed per month while consumers registered as indigents with the municipality shall receive free the first 6 kl (six) of water, including the basic amount.
- b) All domestic consumers shall be charged for actual water consumption at a stepped tariff per kl as determined by the council from time to time.
- ~~e) The tariff applicable to domestic consumption of water shall not exceed 75% per kl of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers, shall pay the stepped tariff per kl as determined by the council from time to time.~~
- ~~d) c)~~ A basic charge per water meter, as determined by the council from time to time, shall be charged on all water consumers, except registered indigents and consumers using prepaid meters.
- ~~e) d)~~ The local municipality's departmental water consumption shall be charged at cost.

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55.3.2 Application for a Supply of Water

An application for the supply of water must be made to the Council on a prescribed form together with a copy of the applicant's identity document. Until the application has been granted, no persons shall have access to water from the water supply system.

The prescribed form mentioned above may contain such conditions as the Council deems fit.

An application granted by the Council shall constitute an agreement between the Council and the applicant. Such agreement shall take effect on the date referred to or stipulated therein.

A consumer shall be liable for all the conditions prescribed in the application form, in respect of the supply of water granted to him until the agreement has been terminated.

55.3.3 Special Agreement for Supply of Water

The Council may enter into a special agreement for the supply of water to:

- a) An applicant in its area of jurisdiction;
- b) The supply necessitates the imposition of conditions not contained in the prescribed form; or
- c) An applicant outside its area of jurisdiction.

55.3.4 Termination of Agreement for Supply of Water

A consumer may terminate the agreement by giving the Council, not less than 5 working days notice in writing, of his intention to do so.

The Chief Financial Officer may by notice in writing of not less than 5 working days, advise a consumer of the Council's intention to terminate his agreement for the supply of water, if:

- a) He has not consumed any water in the preceding 6 months and has not made satisfactory arrangements with the Council, for the continuation of his agreement;
- b) He has committed a breach of the bylaws of the Council and has failed to rectify such a breach;
- c) The Council cannot continue to supply him with water; and
- d) In terms of an arrangement with another local water supplier, such authority shall supply water to the consumer.

The Council may without notice, terminate an agreement for supply if a consumer has vacated the premises to which such agreement relates.

55.3.5 Payment of Deposit

The Chief Financial Officer may require an applicant to deposit with him a sum of money for water. Alternatively the Chief Financial Officer may on written application by a consumer, accept from him a guarantee to his satisfaction in lieu of the sum of money.

The deposit paid or the guarantee provided by the consumer shall not be regarded as payment of a current account due for the supply of water.

Upon termination of an agreement, if there is any amount outstanding in respect of supply to the consumer, the Chief Financial Officer may:

- a) Apply the deposit in payment or part payment of the amount and refund any balance to the consumer; or
- b) Recover the amount in terms of the guarantee.

An agreement referred to above may contain a condition that upon termination of the agreement, a deposit will be forfeited to the Council if it is not claimed within 30 days of the termination.

55.3.6 Provisions of Communication / Connection Pipe

Once an application for a supply of water in respect of a premise has been granted and no communication pipe exists in respect of the premises, the owner shall make an application on the prescribed form and pay the prescribed charge, for the installation of the abovementioned pipe.

If an application is made for a supply of water to premises, which necessitates the extension of the water supply system, the Chief Financial Officer may agree to the extension subject to conditions as he may impose.

55.3.7 Cutting-off or Restricting of Supply

The Council may cut off (business consumers) or restrict (residential consumers) the supply of water, if a consumer has:

- a) Failed to pay a sum due to it in terms of its bylaws subject to the requirements of the Credit Control and Debt Collection Policy;
- b) Committed a breach of its bylaws and has failed to rectify such breach within the period specified in a written notice served on him, requiring him to do so; and
- c) By written notice, inform him of its intention to cut off or restrict his supply on a specified date and it may on or after that date so cut off or restrict such supply.

The consumer shall pay:

- a) The prescribed charge for the cutting off or restricting of his water supply; and
- b) The prescribed charge for restoration of the water supply.

Provided that, in the case of a cutting off or restriction, the prescribed charges required, as mentioned above, must be paid prior to the restoration of the water supply or alternate arrangements have been agreed upon as per the Credit Control Policy conditions.

The Chief Financial Officer may at the written request of a consumer:

- a) Turn off the supply of water to his premises; and
- b) Reinstatement the supply on the dates requested by him. The consumer shall prior to the reinstatement of his water supply; pay the prescribed charge for the turning-off of his water supply and for its reinstatement.

The Technical Service Manager may disconnect a water installation from the communication pipe and remove it if:

- a) The agreement for supply has been terminated, and no further application has been received within a period of 90 days of such termination; or
- b) The building on the premises concerned has been demolished.

55.3.8 Metering of Water Supplied to a Consumer

A meter may not be used in the case of:

- a) An automatic sprinkler installation;
- b) A fire installation in respect of which steps have been taken to detect unauthorised draw-off of water for purposes other than fire fighting; and
- c) A special circumstance at the Chief Financial Officer's discretion.

The meter mentioned above shall be provided and installed by the Council. It shall remain the property of the Council and may be changed by it when deemed necessary.

55.3.9 Quantity of Water Supplied to a Consumer

For the purpose of assessing the quantity of water supplied through a meter to a consumer over a specified period, it shall be deemed, unless the contrary can be proved, that:

- a) Such quantity is represented by the difference between readings of the meter taken at the beginning and end of a period;
- b) The meter was registered correctly during the period; and
- c) The entries in the records of the Council were correctly processed.

Provided that if water is supplied to or taken by, a consumer without passing through a meter, the estimate by the Chief Financial Officer of the quantity of such water, shall be deemed to be correct.

55.3.10 Payment of Water Supplied

All water supplied by the Council shall be paid for by the consumer at the prescribed charge for that particular category of use for which the supply was granted.

A consumer shall pay for all water supplied to him from the date of agreement, until the date of termination thereof.

The Chief Financial Officer may estimate a quantity of water supplied in respect of a period or periods within the interval between actual successive readings of the meter, and may render an account to a consumer for the quantity of water so estimated, to have been supplied to him during each period.

The amount of an account rendered for water supplied to a consumer, shall become due and payable on the due date stipulated in the account.

If a consumer is dissatisfied with an account rendered for water supplied to him by the Council, he may prior to the date stipulated therein, object in writing to the account detailing his reasons for such dissatisfaction.

However the lodging of an objection shall not entitle a consumer to defer payment, except with the written consent of the Chief Financial Officer.

Should a consumer use water for uses other than which it was being supplied for, he shall be liable for the amount due to the Council in respect of:

- a) Quantity of water which in its opinion he has consumed and for which he has not been charged; and
- b) The difference between the cost of the water used by him at the rate at which he has been charged, and the cost of the water at the rate at which he should have been charged.

If amendments to the prescribed charges for water supplied become operative on a date between meter readings it shall be deemed, for the purpose of rendering an

account in respect of the charges that the same quantity of water was supplied in each period of 24 hours during the interval between the meter readings.

A consumer shall not under any circumstances be entitled to a reduction of the amount payable for water supplied to him except for leaks arising from faulty connection to water supply.

55.3.11 Defective Meters

A consumer must make an application on the prescribed form, against payment of the prescribed charge for the meter to be tested if found defective.

The prescribed charge may be refunded if the meter is found to be defective.

The account of a consumer, who has been charged for water supplied through a defective meter, shall be adjusted over the period determined by the Chief Financial Officer.

55.3.12 Recovery of Account

The Municipality:

- a) Shall collect all monies that are due and payable to it, subject to the Local Government Municipal Systems Act and any other applicable legislation; and
- b) For this purpose, shall adopt, maintain and implement a credit control and debt collection policy, which is consistent with its Rates and Tariff Policies and complies with the provisions of the Local Government Municipal Systems Act, 2000.

55.4 Refuse removal

The categories of refuse removal users as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

Tariff adjustments shall be effective from 1 July each year.

A separate fixed monthly refuse removal charge shall apply to each of the following categories of users, based on the costs of the service concerned:

- a) Domestic and other users
- b) Business and other users

Registered indigents shall receive a 100% discount on the basic charge and if the service is more than the basic amount, the full amount exceeding the basic amount, is payable.

A fixed monthly charge shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

55.5 Sewerage

The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by the council in each annual budget.

Tariff adjustments will be effective from 1 July each year.

Categories of usage and charges shall be:

- a) A basic (availability) charge per month shall be charged for undeveloped erven, irrespective of their permitted or intended use.
- b) A fixed monthly charge based on the costs of the service shall be charged for domestic users. Registered indigents shall receive a 100% discount on the basic charge and if the service is more than the basic amount, the full amount exceeding the basic amount, is payable.
- c) A fixed monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and institutional users.
- d) A fixed monthly charge per sewer point/toilet shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

55.6 Minor tariffs

All minor tariffs shall be standardised within the municipal region.

All minor tariffs 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.

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.

The following services shall be considered as subsidised services, and the tariffs levied shall cover 50% or as near as possible to 50% of the annual operating expenses budgeted for the service concerned:

- ◆ burials and cemeteries
- ◆ rentals for the use of municipal sports facilities

The following services shall be considered as community services, and no tariffs shall be levied for their use:

- ◆ municipal museum and art gallery
- ◆ disposal of garden refuse at the municipal tip site for residents
- ◆ municipal parks and open spaces.

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:

- ◆ municipal botanical garden
- ◆ disposal of all refuse at the municipal tip site for non-residents
- ◆ municipal lending library
- ◆ municipal reference library
- ◆ municipal swimming pool
- ◆ maintenance of graves and garden of remembrance (cremations)
- ◆ housing rentals
- ◆ rentals for the use of municipal halls and other premises (subject to the proviso set out below)
- ◆ building plan fees
- ◆ cleaning of stands
- ◆ electricity, water, sewerage: new connection fees
- ◆ sales of plants
- ◆ photostat copies, faxes and printouts
- ◆ clearance certificates.

Comment [J2]: Not currently the case
– look at this

The following charges and tariffs shall be considered as regulatory or punitive, and shall be determined as appropriate in each annual budget:

- ◆ fines for lost or overdue library books
- ◆ advertising sign fees
- ◆ pound fees
- ◆ electricity, water: disconnection and reconnection fees
- ◆ penalty and other charges imposed in terms of the approved policy on credit control and debt collection
- ◆ penalty charges for the submission of dishonoured, stale or otherwise unacceptable cheques.

Market-related rentals shall be levied for the lease of municipal properties.

In the case of rentals for the use of municipal halls and premises, if the accounting officer 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 accounting officer may waive 50% of the applicable rental.

The accounting officer 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's sustaining damages as a result of the use of the facilities concerned.

56 Roles and Responsibilities

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and implements a tariff policy referred to in section 74 of the Municipal Systems Act.

A municipal council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of the Municipal Systems Act and with any other applicable legislation.

57 Monitoring, Evaluation and Reporting

When an annual budget is tabled in terms of section 16(2) of the Municipal Finance Management Act, it must be accompanied by the draft resolutions imposing any municipal tax and setting any municipal tariffs as may be required for the budget year.

Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.

58 Implementation

The tariff Policy will be implemented and adopted after approval thereof by the Council.

PLAN AND MANAGE TARIFFS

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3 PROCESS MAP 138

1. TARIFFS PROCEDURES AND PROCESS MAPS

1.1 TARIFF MANAGEMENT

1.1.1 Introduction

The purpose of this manual is to provide an overview of the procedure for the revision and advertisement of tariffs.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of valuation rolls.

1.5 Procedure Description

Step	Process
1 Revise tariffs	<ul style="list-style-type: none">a) As part of the annual budget process, Technical Services are requested to draft reports and accompanying schedules reflecting any changes (i.e. increases, decreases, deletions etc.) to their previous years tariffs for their service and submit these to the tariff team for perusal.b) These reports and schedules are to be sent to the tariff team for checking prior to submission to the respective portfolio committeesc) The reports and schedules must be submitted to the respective portfolio committee for consideration during the March cycle of meetings.d) The reports, including any amendments proposed by the portfolio committees, are submitted to the next executive committee meeting for consideration.e) The tariff team compiles a tariff book reflecting the previous years approved tariffs and the proposed new years tariffs including any changes recommended by the portfolio and executive committees, for consideration and approval by council.f) The approved tariff book is sent to the billing team in order for them to populate the billing system.
2 Advertise revised tariffs	<ul style="list-style-type: none">a) An advert is prepared by the tariff team in terms of the following legislation: the Municipal Systems Act and the Municipal Finance Management Act, advising the public of changes to the tariffs.b) The advert is send to the Communication office for translation and publication in the local and community newspapers.c) Once the advert has been translated into the official languages, copies of these and the council resolution are e-mailed to the Minister of Finance, Economic Development and Tourism for information.

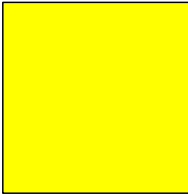
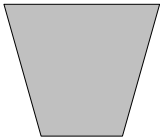
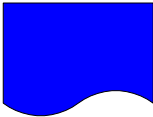
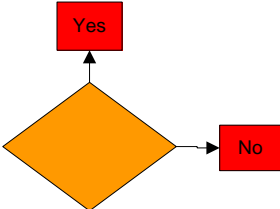
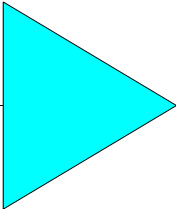
	<p>d) The abovementioned advert and council report/resolution is then distributed to the various administrations, sub council/area managers and libraries for publication, together with a display register for the responsible official to sign, ensuring that the aforementioned documents are available each and every day until the objection period ends.</p> <p>e) The tariff book must be made available on the Internet by the Task Team.</p> <p>f) All affected services are notified to commence with the implementation of their tariffs and to populate the billing system accordingly.</p> <p>g) Confirm with Internal audit to verify implementation of the approved tariffs as from 1 July.</p>
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1.3 Policy

Procedure number	Policy reference
Step 1: TP1.1	Paragraph 7.1
Step 2: TP2.1	Paragraph 7.1

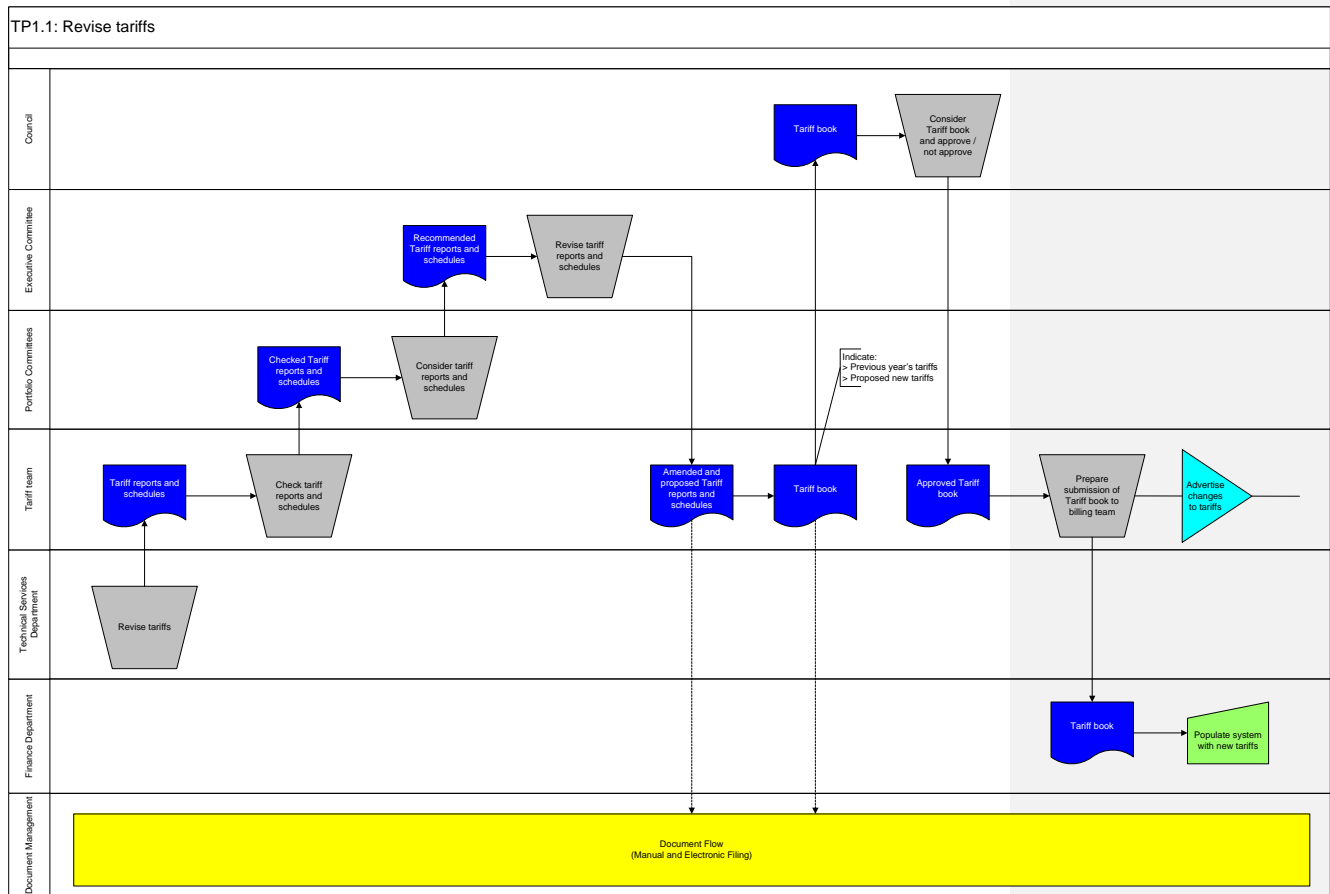
8 PROCESS KEY

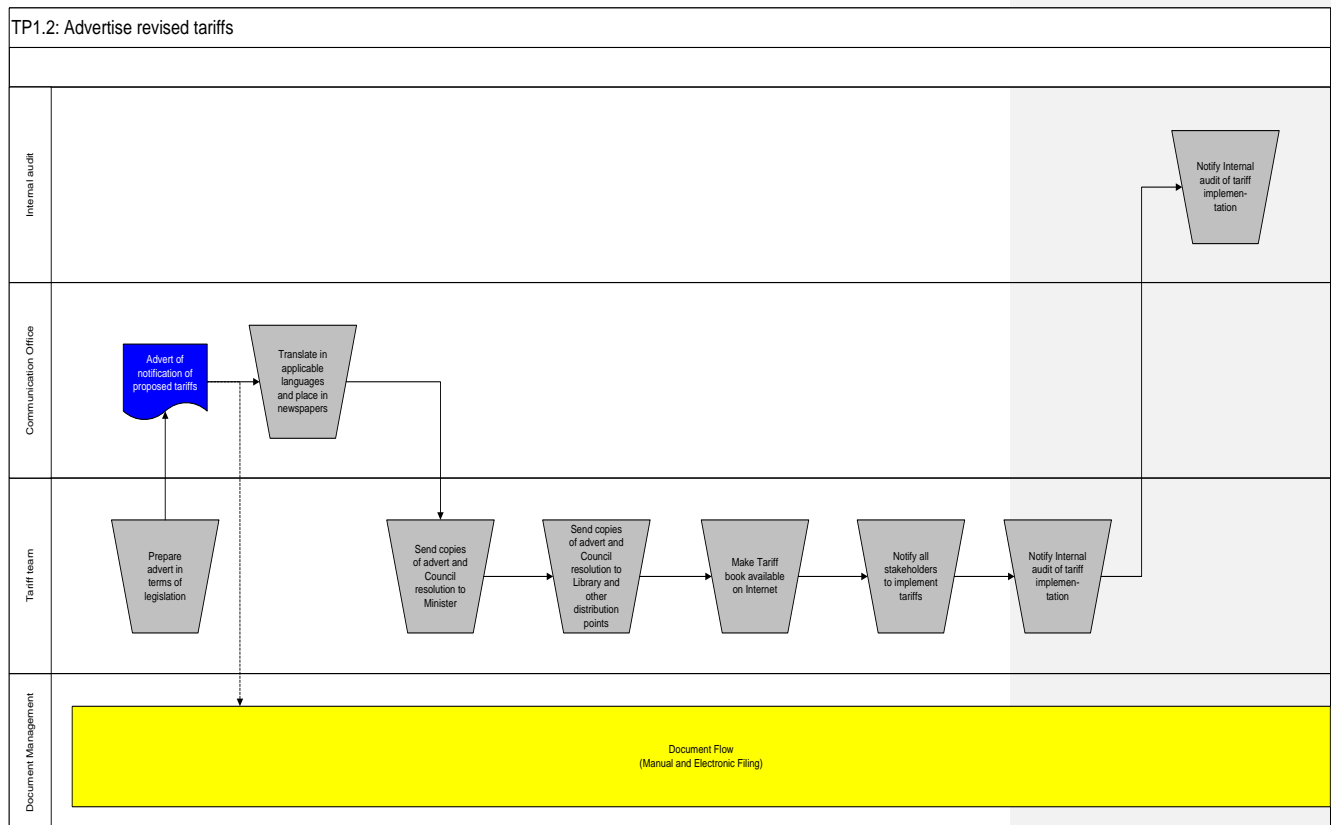
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	This is used for a <u>group of tasks</u> (tasks are usually described in the policy & procedures manual and are the lowest level of actions).
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	This represents a decision to be made.
	This symbol represents a connection point to another process, which is usually depicted on another process map (done by someone else).

9 PROCESS MAP

TP1.1: Revise tariffs	
Internal audit	
Communications Office	
Tariff team	
Council	
Executive Committee	
Portfolio Committee	
Technical Services Department	
Finance Department	
Document Management	





EMAKHAZENI MUNICIPALITY



PROPERTY RATES POLICY

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459 Introduction

59.1 Vision and value statement

It is the vision of Council to “create a secure environmental and sustainable development to promote service excellence and unity” Council is committed to its mission creating conducive institutional environment within which communities can thrive economically and socially.

The Values of the Council are:

Transparency
High Quality Service Delivery
Accountability
Serving Communities with Integrity
Efficiency
Professionalism

59.2 Vision

To strive for the transformation of the Emakhazeni Local Municipality into an efficient and cost-efficient institution that renders quality, affordable and sustainable services to the community.

59.3 Mission

To develop, promote and sustain systems and structures of effective governance as well as service delivery for the community of the Emakhazeni Local Municipality.

60 Definitions and abbreviations

Definitions:

“accounting officer” means the municipal manager appointed in terms of Section 60 of the Municipal Finance Management Act

“owner”—

- (a) in relation to a property referred to in paragraph (a) of the definition of “property”, means a person in whose name ownership of the property is registered;
- (b) in relation to a right referred to in paragraph (b) of the definition of “property”, means a person in whose name the right is registered;
- (c) in relation to a land tenure right referred to in paragraph (c) of the definition of “property”, means a person in whose name the right is registered or to whom it was granted in terms of legislation; or
- (d) in relation to public service infrastructure referred to in paragraph (d) of the definition of “property”, means the organ of state which owns or controls that public service infrastructure as envisaged in the definition of “publicly controlled”, provided that a person mentioned below may for the purposes of this Property Rates Act be regarded by a municipality as the owner of a property in the following cases:
 - (i) A trustee, in the case of a property in a trust excluding state trust land;
 - (ii) an executor or administrator, in the case of a property in a deceased estate;
 - (iii) a trustee or liquidator, in the case of a property in an insolvent estate or in liquidation;
 - (iv) a judicial manager, in the case of a property in the estate of a person under judicial management;
 - (v) a curator, in the case of a property in the estate of a person under curatorship;
 - (vi) a person in whose name a usufruct or other personal servitude is registered, in the case of a property that is subject to a usufruct or other personal servitude;
 - (vii) a lessee, in the case of a property that is registered in the name of a municipality and is leased by it; or
 - (viii) a buyer, in the case of a property that was sold by a municipality and of which possession was given to the buyer pending registration of ownership in the name of the buyer.

“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.

“property rates” are taxes on the ownership of property (land and buildings) based on the market value of the property used to fund various services provided by municipalities and paid by owners of all kinds of real property, including commercial, industrial, residential, agricultural, and governmental property.

“rebate”, in relation to a rate payable on a property, means a discount granted on the amount of the rate payable on the property.

“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.

“the municipality” means Emakhazeni Municipality

61 Purpose of the Guidelines

The purpose of this manual is to prescribe the accounting and administrative policies and procedures relating to rates of the Emakhazeni Municipality.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of rates.

62 Scope of Application

The Policy applies to all property owners within the defined boundaries of Emakhazeni Municipality.

63 Legislative Framework

The Municipality operations are governed by an array of different acts and this manual should be understood within that context.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Public Finance Management Act, 1999 (Act 1 of 1999)
- ◆ Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
- ◆ Municipal Finance Management Act, 2003 (Act 56 of 2003)
- ◆ Local Government Municipal Property Rates Act, 2004 (Act 6 of 2004)

Thus not only is Emakhazeni Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

64 Principles

In developing and adopting this rates policy, the council has sought to give effect to the sentiments expressed in the preamble of the Property Rates Act, namely that:

- the Constitution enjoins local government to be developmental in nature, in addressing the service delivery priorities of our country and promoting the economic and financial viability of our municipalities;
- there is a need to provide local government with access to a sufficient and buoyant source of revenue necessary to fulfill its developmental responsibilities;
- revenues derived from property rates represent a critical source of income for municipalities to achieve their constitutional objectives, especially in areas neglected in the past because of racially discriminatory legislation and practices; and
- it is essential that municipalities exercise their power to impose rates within a statutory framework which enhances certainty, uniformity and simplicity across the nation, and which takes account of historical imbalances and the burden of rates on the poor.

In applying its rates policy, the council shall adhere to all the requirements of the Property Rates Act no. 6 of 2004 including any regulations promulgated in terms of that Act.

65 Rate Policy Guidelines

65.1 Imposition of rates

The council shall as part of each annual operating budget component impose a rate in the rand on the market value of all rateable property as recorded in the municipality's valuation roll and supplementary valuation roll. Rateable property shall include any rights registered against such property, with the exception of a mortgage bond.

The council pledges itself to limit each annual increase as far as practicable to the increase in the consumer price index over the period preceding the financial year to which the increase relates, except when the approved integrated development plan of the municipality provides for a greater increase.

The council shall, in imposing the rate for each financial year, take proper cognisance of the aggregate burden of rates and service charges on representative property owners, in the various categories of property ownership, and of the extent to which this burden is or remains competitive with the comparable burden in other municipalities within the local economic region.

The council shall further, in imposing the rate for each financial year, strive to ensure that the aggregate budgeted revenues from property rates, less revenues forgone and less any contributions to the provision for bad debts, equal at least 25% (twenty five percent) of the municipality's aggregate budgeted net revenues for the financial year concerned. By doing so, the municipality will ensure that its revenue base and the collectability of its revenues remain sound.

65.2 Exemptions, rebates and reductions on rates

In imposing the rate in the rand for each annual operating budget component, the council shall grant the following exemptions, rebates and reductions to the categories of properties and categories of owners indicated below, but the council reserves the right to amend these exemptions, rebates and reductions if the circumstances of a particular annual budget so dictate.

In determining whether a property forms part of a particular category indicated below, the municipality shall have regard to the actual use to which the relevant property is put. In the case of vacant land not specifically included in any of the categories indicated below, the permitted use of the property shall determine into which category it falls.

Property category	Exemption, rebate and reduction on rates
Residential properties or properties of any category used for multiple purposes where the residential component represents on average 90% or more of the property's actual use	40%
Industrial properties	NONE
Business and commercial properties	NONE
Farm properties: residential component	40%
Farm properties: business and commercial component	NONE
Farm properties: agricultural component	50%
Farm properties: used for no purpose	NONE
Smallholdings: residential component	40%
Smallholdings: business and commercial component	NONE
Smallholdings: industrial component	NONE
Smallholdings: agricultural component	50%
State-owned properties: residential	40%
State-owned properties: public service infrastructure	30%
State-owned properties: other	NONE
Municipal properties: residential	40%
Municipal properties: public service infrastructure	30%
Municipal properties: other	NONE
Formal and informal settlements: all properties with a rateable value of up to R30 000	60%
Formal and informal settlements: all properties with a rateable value of R30 000 or more	50%
Communal land	50%
State trust land	50%
Protected areas	100%
Properties on which national monuments are situated, and where no business or commercial activities are conducted in respect of such monuments	100%

Property category	Exemption, rebate and reduction on rates
Properties on which national monuments are situated, but where business or commercial activities are conducted in respect of such monuments	40%
Properties owned by public benefit organisations and used to further the objectives of such organisations	100%
Properties belonging to a land reform beneficiary or his or her heirs for the first 10 years after the registration of the title in the office of the Registrar of Deeds	100%
Property registered in the name of and used primarily as a place of worship by a religious community, including an official residence	100%

NOTE: In addition to the foregoing, the first R15 000 of the market value of all residential properties and of all properties used for multiple purposes, provided one or more components of such properties are used for residential purposes, is exempt from the payment of rates in terms of Section 17(1)(h) of the Property Rates Act.

Municipal properties shall include properties owned by municipal entities.

Properties used for multiple purposes, other than those referred to under residential properties above, shall be rated on the value assigned to each component, and shall receive the rebate applicable to such component. Where one component on average represents 90% or more of the property's actual use, such property shall be rated as though it were used for that use only.

The following categories of owners of residential properties shall additionally receive the following rebates on the rates due in respect of such properties after deducting the rebate applicable to residential properties:

Classification	Rebate
Property owners who are both the permanent occupants and the sole owners of the property concerned and who are registered indigents in terms of the municipality's indigency management policy	100% of the rates based on the rateable value up to R30 000 and 75% of the rates based on the rateable value above R30 000
Property owners who are over 60 years of age, who are both the permanent occupants and the sole owners of the property concerned and whose aggregate household income is proved to the satisfaction of the accounting officer not to exceed R2 500 per month, or such other amount as the council may from time to time determine	100% of the rates based on the rateable value up to R30 000, 50% of the rates based on the rateable value above R30 000 but below R100 000, and 40% of the rates based on the rateable value above R100 000
Owners of properties being developed for approved commercial or industrial usage	80% of the rates based on the rateable value until the development is completed, 60% of the rates based on the rateable value for the municipality's financial year or part thereof immediately following the completion of the development, and 40% of the rates based on the rateable value for each of the two ensuing years

The council grants the above rebates in recognition of the following factors:

- ♦ The inability of residential property owners to pass on the burden of rates, as opposed to the ability of the owners of business, commercial, industrial and certain other properties to recover such rates as part of the expenses associated with the goods or services which they produce.
- ♦ The need to accommodate indigents and less affluent pensioners.
- ♦ The services provided to the community by public service organisations.
- ♦ The value of agricultural activities to the local economy coupled with the limited municipal services extended to such activities, but also taking into account the municipal services provided to municipal residents who are employed in such activities.
- ♦ The need to preserve the cultural heritage of the local community.
- ♦ The need to encourage the expansion of public service infrastructure.
- ♦ The indispensable contribution which property developers (especially in regard to commercial and industrial property development) make towards local economic development, and the continuing need to encourage such development.
- ♦ The requirements of the Property Rates Act no. 6 of 2004.

The accounting officer shall ensure that the revenues forgone in respect of the foregoing rebates are appropriately disclosed in each annual operating budget component and in the annual financial statements and annual report, and that such rebates are also clearly indicated on the rates accounts submitted to each property owner.

65.3 Frequency of valuations

The municipality shall prepare a new valuation roll every 3 (three) years and supplementary valuation rolls every 6 (six) months.

66 Roles and Responsibilities

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and implements a rates policy as may be required in terms of any applicable national legislation.

67 Monitoring, Evaluation and Reporting

The MEC for local government in a province must monitor whether municipalities in the province comply with the provisions of the Property Rates Act. If a municipality fails to comply with a provision of the Property Rates Act, the MEC may take any appropriate steps to ensure compliance, including proposing an intervention by the provincial executive in terms of section 139 of the Constitution.

The Minister may monitor, and from time to time investigate and issue a public report on, the effectiveness, consistency, uniformity and application of municipal valuations for rates purposes. The investigation may include:-

- (a) studies of the ratio of valuations to sale prices; and
- (b) other appropriate statistical measures to establish the accuracy of the valuations, including the relative treatment of higher value and lower value property.

68 Implementation

The Rates Policy will be implemented and adopted after approval thereof by the Council.

Addenda

A : Summary of key issues in terms of the Local Government Municipal Property Rates Act

PLAN AND MANAGE PROPERTY RATES

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1. PROPERTY RATES PROCEDURES AND PROCESS MAPS

1.1 PROPERTY RATES MANAGEMENT

1.1.1 Introduction

The purpose of this manual is to provide an overview of the procedure for the valuation rolls process of Planning and Managing Property Rates.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of valuation rolls.

1.6 Procedure Description

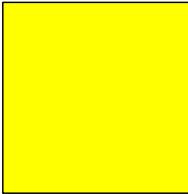
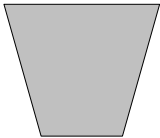
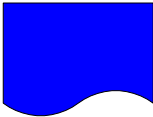
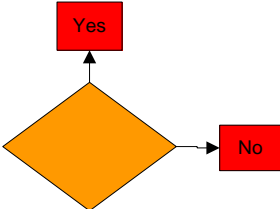
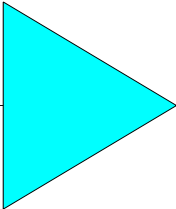
Step	Process
1 Publish Valuation Rolls	<p>The municipal manager must within 21 days of receipt of the valuation roll from the valuer:</p> <ul style="list-style-type: none">a) publish a notice regarding the valuation in the prescribed form in the provincial Gazette, and once a week for two consecutive weeks advertise in the media;b) disseminate the substance of the notice referred to in paragraph (a) to the local community;c) serve on every owner of property listed in the valuation roll a copy of the notice referred to in paragraph (a) together with an extract of the valuation roll pertaining to that owner's property
2 Handling of objections	<p>Any person may:</p> <ul style="list-style-type: none">(a) inspect the roll during office hours;(b) on payment of a reasonable fee, request the municipality during office hours to make extracts from the roll; and(c) lodge an objection with the municipal manager against any matter reflected in, or omitted from, the roll. <p>A municipal manager must submit all objections to the municipal valuer, who must promptly:</p> <ul style="list-style-type: none">(a) consider objections in accordance with a procedure that may be prescribed;(b) decide objections on facts, including the submissions of an objector, and, if the objector is not the owner, of the owner; and(c) adjust or add to the valuation roll in accordance with any decisions taken.
3 Handling of appeals	<p>An appeal to an appeal board against a decision of a municipal valuer may be lodged with the municipal manager</p>

1.3 Policy

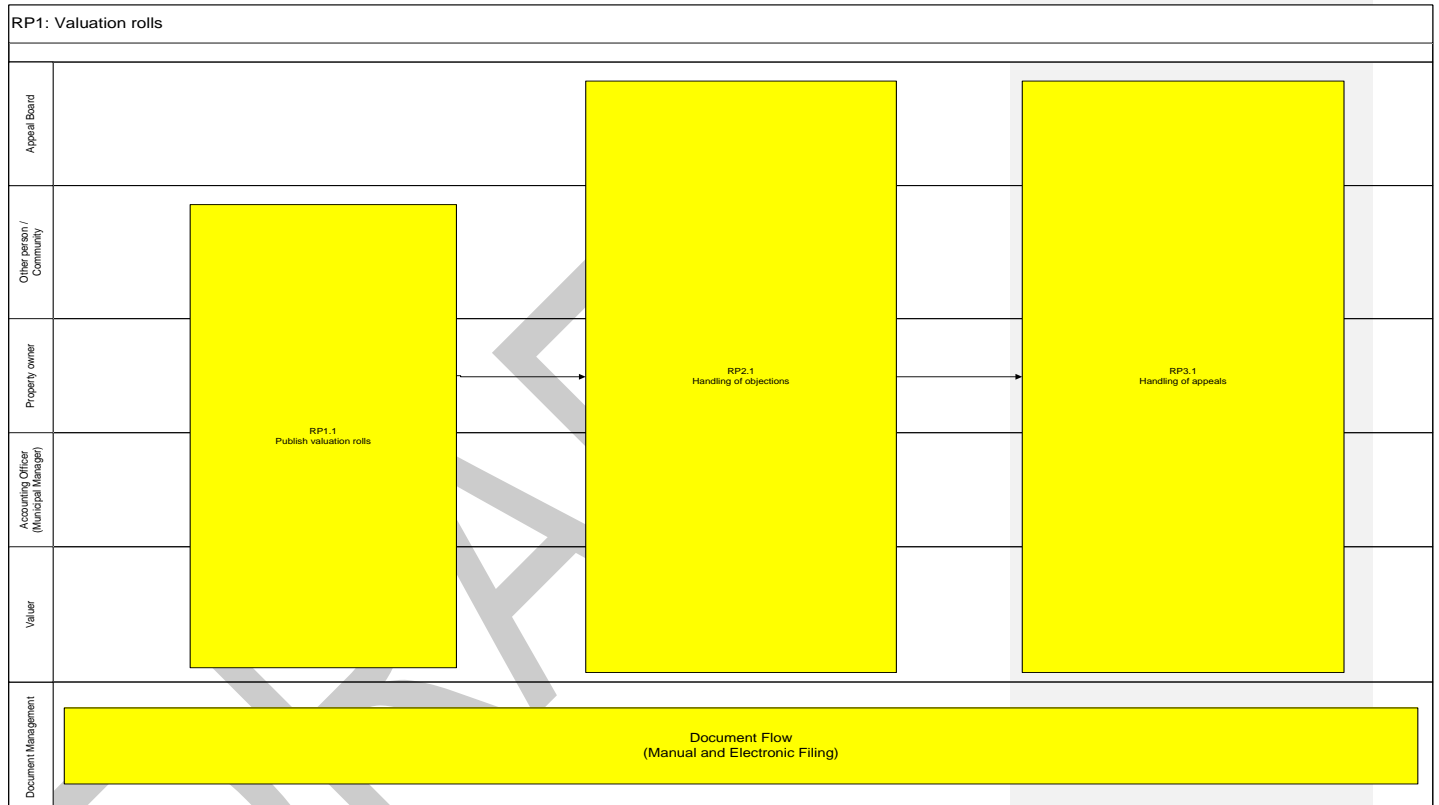
Procedure number	Policy reference
Step 1: RP1.1	Addenda A to Policy
Step 2: BP2.1	Addenda A to Policy
Step 3: BP3.1	Addenda A to Policy

10 PROCESS KEY

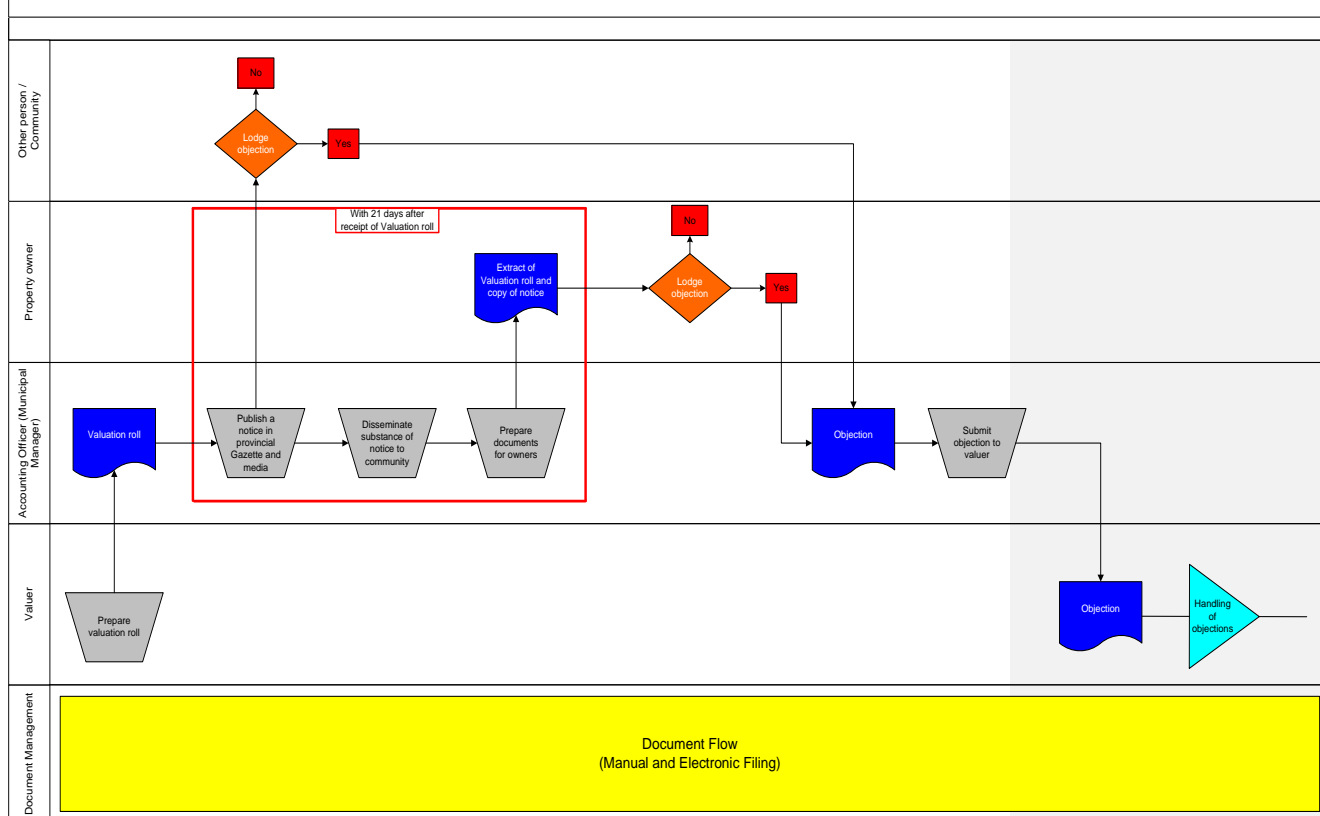
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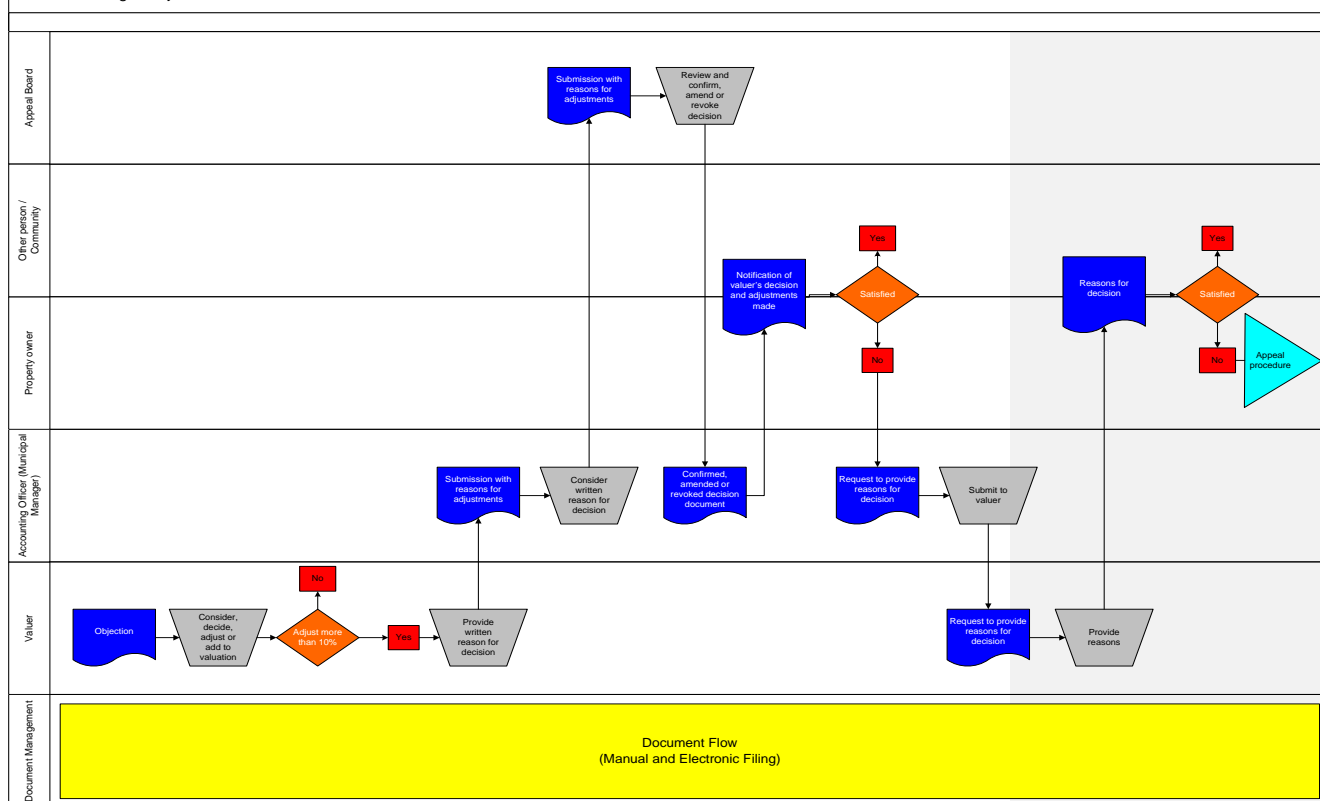
11 PROCESS MAP



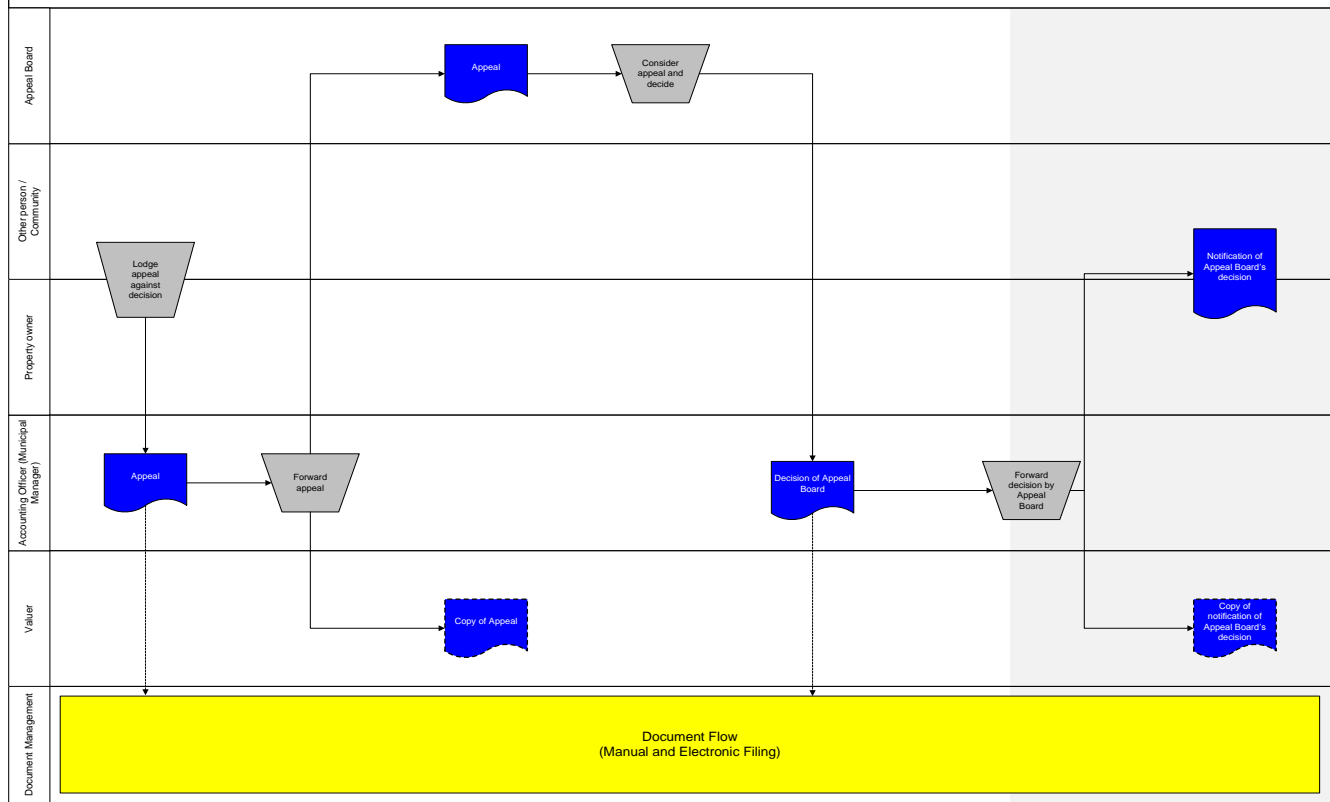
RP1.1: Publish Valuation rolls



RP2.1: Handling of objections



RP3.1: Handling of appeals



EMAKHAZENI MUNICIPALITY



ASSET MANAGEMENT

POLICY & PROCEDURE MANUAL

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69 Introduction

69.1 Vision and value statement

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To strive for the transformation of the Emakhazeni Local Municipality into an efficient and cost-efficient institution that renders quality, affordable and sustainable services to the community.

69.3 Mission

To develop, promote and sustain systems and structures of effective governance as well as service delivery for the community of the Emkahazeni Local Municipality.

70 Definitions and abbreviations

Definitions:

“accounting officer” means the municipal manager appointed in terms of Section 60 of the Act

“Act” means Municipal Finance Management Act, 2003 (Act No. 56, 2003)

“Asset managers” are the senior manager who have the functional accountability for and control of the physical management of a particular set of assets in order to achieve the Municipality’s strategic objectives relevant to their Departments/Units.

“chief financial officer” means a person designated in terms of section 80(2)(a) of the Act

“financial year” means the financial year ending 30 June

“mayor”, in relation to

(a) a municipality with an executive mayor, means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act; or

(b) a municipality with an executive committee, means the councillor elected as the mayor of the municipality in terms of section 48 of that Act

“the municipality” means Emakhazeni Municipality

“municipal manager” means a person appointed in terms of section 82(1)(a) or (b) of the Municipal Structures Act

Abbreviations:

AFR	:	Asset Financing Reserve
CAR	:	Corporate Asset Register
CIR	:	Corporate Asset Inventory Register
DIR	:	Department’s Asset Inventory Register
EFF	:	External Financing Fund
GAMAP	:	Generally Accepted Municipal Accounting Practice
GRAP	:	Generally Recognised Accounting Practice
IDP	:	Integrated Development Plan
MFMA	:	Municipal Finance Management Act, 2003 (Act No. 56, 2003)
PPE	:	Property, Plant and Equipment

71 Purpose of the Guidelines

The purpose of this manual is to prescribe the accounting and administrative policies and procedures relating to assets of the Emakhazeni Municipality.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of assets.

Briefly, the procedures include functional responsibilities, GAMAP accounting policies, the fixed asset register, funding sources and administrative requirements.

72 Scope of Application

Accounting Officer

Chief Financial Officer

All heads of departments (Senior Managers and Managers)

All officials

73 Legislative Framework

The Municipality operations are governed by an array of different acts and this manual should be understood within that context.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Public Finance Management Act, 1999
- ◆ Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
- ◆ Municipal Finance Management Act, 2003
- ◆ Generally Accepted Municipal Accounting Practice
- ◆ Generally Recognised Accounting Practice

Thus not only is Emakhazeni Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

6.1 GAMAP Accounting policies

6.1.1 Asset Capitalisation

a) *Definition of Property, Plant and Equipment (PPE)*

An item is accounted for as an item of PPE and is raised on the CAR as such if it meets the definition of PPE found in GAMAP. The item of PPE is capitalised according to the guidelines set out below:

- Property, plant and equipment are tangible assets that:
 - i) Are held by the Municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
 - ii) are expected to be used during more than one period.

An item of property, plant and equipment shall be recognised as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to the Municipality and the cost or fair value of the asset to the Municipality can be measured reliably.

To be categorised as an asset, the item should also comply with the definition of an asset according to GRAP. The item must be a resource which is controlled by the municipality as a result of a past event from which future economic benefits or service provision can be expected. Major spare parts and stand-by equipment qualify as an asset when the municipality expects to use them during more than one period once issued.

- Assets held under leases

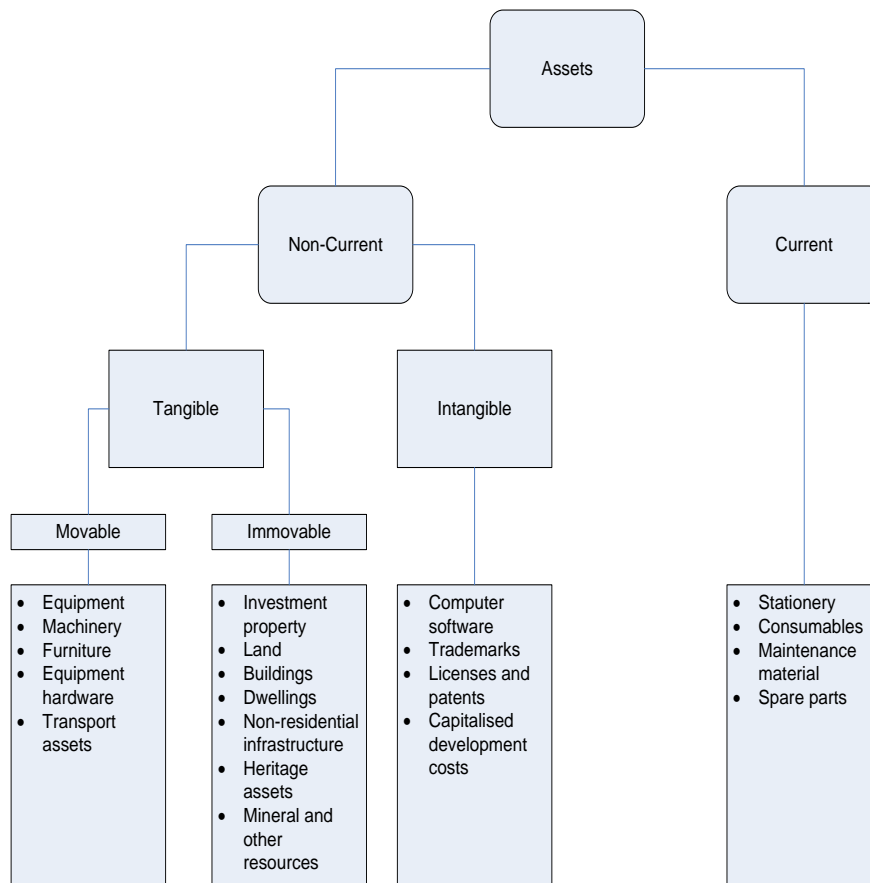
Finance leases are leases which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the Municipality and reflected as such in the FAR. It will be capitalized at its leased value at commencement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

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

b) *Classification of assets*

According to GAMAP 17 PPE should be classified according to the following definitions on the FAR and in the general ledger:

- **Infrastructure assets** are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks. Infrastructure can be considered as a single asset or more usefully as a collection of different assets. Each individual asset shall be measured at its own cost and own lifespan, which will influence the depreciation of such asset.
- **Community assets** are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- **Heritage assets** are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- **Investment properties** are defined as properties that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
- **Other assets** are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.



c) *Asset Capitalisation amount*

The capitalisation amounts for the Municipality are as follows:

- Acquisitions with a value of R1 000,00 or less (DIR)

Purchases per item, with a value of R1 000,00 each or less, inclusive of non claimable VAT, must be purchased against the operating budget and will not be bar coded or recorded in the asset register. These items will normally include equipment such as books, calculators, letter trays, waste bins, brooms, spades, rakes, tools and electric equipment.

The control over these items will be the responsibility of the Department that purchases and utilises these items. These items are recorded in the DIR

- Acquisitions with values of more than R1 000,00 but less than R5 000,00 (CIR)

Asset purchases, with a value of more than R1 000,00 but less than R5 000,00 each, inclusive of non claimable VAT must be purchased against the operating budget, but will be bar coded and recorded in the Corporate Asset Inventory Register.

- Acquisitions exceeding R5 000,00 (CAR)

Asset purchases exceeding an amount of R5 000,00 each, inclusive of non claimable VAT, will be against the capital budget. These items will be capitalized to create asset records in the CAR and bar coded on receipt by the relevant asset officials in the devolved functions.

These purchases provide a lasting benefit to the Municipality and will normally be financed over a period of longer than one financial year.

6.1.2 Calculation of the initial cost price of items of PPE

The initial recording of an item of PPE is dealt with as follows in GAMAP 17:

- a) An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:
 - ◆ The cost of site preparation
 - ◆ Initial delivery and handling costs
 - ◆ Installation costs
 - ◆ Professional fees such as for architects and engineers
- b) The cost of performing feasibility studies is written off when incurred.

6.1.3 Expenditure incurred in respect of existing PPE subsequent to the initial recording of the cost price

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset is enhanced in excess of the originally assessed standard of performance.

All other subsequent expenditure should be recognised as an expense in the period in which it is incurred

6.1.4 Depreciation of property, plant and equipment

The straight-line method of depreciation is the method selected and approved for use in the Municipality. This method is advantageous as:

- ◆ It is simple to calculate.
- ◆ It is the most commonly used.
- ◆ Adopting this method throughout facilitates uniformity across all National Departments and Provinces.

a) GAMAP principles

The accounting treatment relating to the depreciation of property, plant and equipment is outlined in GAMAP 17.

The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life in a manner which reflects the pattern of consumption. Depreciation is an expense and should be recognised as such unless it is to be included in the carrying value of another item of property, plant and equipment.

Although typically disclosed together, land and buildings are separable assets and because land normally has unlimited life it is not depreciated whilst buildings are. Heritage assets such as works of art, historical buildings and statues are also not normally depreciated. The reason is that these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It should therefore be impossible to determine their useful lives.

The Appendix to GAMAP 17 sets out the generally accepted useful lives of all municipal property, plant and equipment. These useful lives must be used unless the exemptions set out below exist:

- ◆ The item is not properly maintained and it is unlikely that the item can be used for its originally expected useful life. The estimated remaining useful life must be used rather than that in the Appendix. It should be noted that this exemption does not permit an extension to the useful lives set out in the Appendix.

- ◆ The item can no longer be used for its intended purpose. In this circumstance, the asset must be written-off. There will no longer be a depreciation charge.
- ◆ If the estimated useful life of an item of property, plant and equipment changes significantly due to technological changes then the depreciation rate should be adjusted for the current and remaining future periods.

An accumulated depreciation account must be created when depreciation is calculated. The accumulated depreciation account is a balance sheet item and reflects the depreciation charge that has been expensed or capitalised since the asset was utilised. The balance on the accumulated depreciation account should never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

6.1.5 Disclosure requirements relating to depreciation

According to GAMAP 17 the following information relating to depreciation should be disclosed in the financial statements:

- a) In the accounting policy notes
The depreciation methods used and the depreciation rates or useful lives.
- b) In the notes to the balance sheet
The gross carrying amount and the accumulated depreciation at the beginning and end of the period in respect of each class of property, plant and equipment.
- c) In the notes to the income statements
The depreciation charged in arriving at the net surplus or deficit disclosed in the income statement.
- d) In Annexure B and C to the financial statements
These Annexures disclose a more detailed analysis of the various classes of assets as well as a detailed analysis on the allocation of assets to the various departments and functions. These Annexures must show a reconciliation of the carrying amount at the beginning and end of the period showing:
 - ◆ Additions
 - ◆ Disposals
 - ◆ Acquisitions through business combinations
 - ◆ Increases or decreases resulting from revaluations
 - ◆ Reductions in carrying amount
 - ◆ Depreciation
 - ◆ Other movements

6.2 Profit or loss on the sale of property, plant and equipment

6.2.1 GAMAP principles

The accounting treatment relating to the profit or loss on the sale of property, plant and equipment is outlined in GAMAP 17.

Profits and losses, which are disclosed in total in the financial statements, are calculated by use of the following formula:

Proceeds	Sales value, trade-in value or proceeds received from insurance if the asset was damaged or stolen
Less: Carrying value	Cost, or if valued, revaluation amount, less accumulated depreciation up to the date of sale or when asset can no longer be used for its intended purpose
Equals Profit, or	If proceeds are greater than carrying value
Equals Loss	If proceeds are less than carrying value

The nature and amount of the profit or loss on the disposal of PPE should be disclosed on the face of the Income Statement.

6.3 Impairment losses

Necessary maintenance to keep the asset in good working condition, which is significant (or 'major') and which is not carried out when required, may reduce the useful life of the asset, lower its disposal value at the end of its life, and or impair its functionality and reduce its output on a long term or permanent basis.

Under these circumstances, on review of such assets where the indication is that the recoverable amount is permanently affected, an impairment loss needs to be recognised.

The recoverable amount is the amount that the Municipality expects to recover from the future use of an asset, including its residual value on disposal.

An impairment loss is the amount by which the recoverable amount of an asset exceeds the total economic benefits or service potential that the entity expects to recover from the continued use and ultimate disposal of the asset.

74.1.1 Procedures to identify, account and budget for impairment losses

The following needs to be done to ensure that impairment losses are identified and budgeted for.

During the operating budget cycle:

- a) Finance Department will issue a request to all Departments/Units with the request to identify all assets that:
 - ◆ Are in a state of damage at the start of the budget cycle
 - ◆ Are technologically obsolete at the start of the budget cycle
 - ◆ Have remained idle for a considerable period of time
 - ◆ Are subject to impairment losses due to the fact that the subsidies to be received in exchange for assets are less than the carrying amounts.
- b) The recoverable amounts of these assets need to be calculated by calculating the Net selling Price per asset.
- c) The impairment loss per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.
- d) The impairment loss needs to be budgeted for.

During the year:

- a) Departments/Units will identify and inform Finance Department Asset Control of assets that:
 - ◆ Are in a state of damage at year end.
 - ◆ Are technologically obsolete at year end.
 - ◆ Have remained idle for a considerable period of time.
 - ◆ Are subject to impairment losses due to the fact that the subsidies to be received in exchange for assets are less than the carrying amounts.
- b) The recoverable amounts of these assets need to be calculated by calculating the Net selling Price per asset.
- c) The impairment loss per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.
- d) The impairment loss needs to be accounted for by identifying the relevant funding source.

74.1.2 Disclosure requirements relating to impairment losses

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

6.4 Revaluation of land and buildings

An item of land and buildings should be carried at a revalued amount, as this would be its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses.

The fair value of land and buildings will be based on their market value as indicated in the valuation roll.

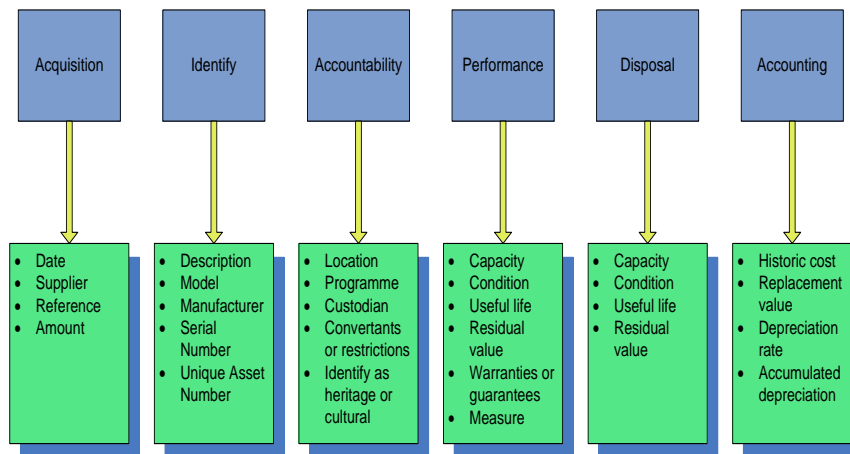
Any increase as a result of a revaluation in the carrying amount will be recognised as revenue to the extent that it reverses a revaluation decrease previously recognised as an expense. Depreciation on the revalued amount will be charged to the income statement.

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

6.5 Asset Registers

The asset register is the asset database that provides the basis for the figures in the financial statements. It includes information on asset purchase prices, asset condition and expected life. It may also include information on current replacement cost. All assets should be recorded in the asset register, regardless of the funding source. The asset register should contain non-financial data on acquisition, identity, accountability, performance and disposal, in addition to the financial data necessary to discharge statutory reporting obligations.

- a) Finance Department is responsible for ensuring that complete records of asset items are kept, verified and balanced regularly.
- b) The minimum data that should be maintained on assets:



6.5.1 Capital Asset Register (CAR)

The CAR will consist of all the asset master records with a value of more than R5 000,00 each inclusive of non claimable VAT, which have been capitalised. These assets must be numbered with the approved barcode labels. Immovable assets on the CAR will not be physically numbered with barcode labels but will have a unique asset master record number.

6.5.2 Corporate Asset Inventory Register (CIR)

The CIR will consist of all the asset master records with a value of more than R1 000,00 but less than R5 000,00 inclusive of non claimable VAT, which will be created by the different business areas and that have not been capitalised. These assets must be bar coded but no financial values will be allocated in the CIR.

6.5.3 Departments Asset Inventory Records (DIR)

The DIR will consist of items acquired via the operational budget with a value less than R1 000,00 each inclusive of non claimable VAT. These items will normally include items such as books, calculators, waste bins, brooms, spades, rakes, tools and some electric equipment. These items must be controlled by the Departments and the inventory records must be available and kept updated at all times.

6.6 Funding sources

Sources of financing

The main sources of finance are utilised to acquire assets, namely:

a) *The Asset Financing Reserve (AFR)*

The Council must annually approve the basis and the amounts for which contributions should be appropriated to the AFR in conjunction with the availability of funds and the requirements of the capital program for that financial year.

The funds in the AFR are accumulated by:

- ◆ An annual contribution from revenue
- ◆ The cash backed profit on the sale/disposal of assets

b) *The External Financing Fund (EFF)*

The EFF constitutes of loans obtained from external sources. The cash should be invested until utilised for the purpose of acquiring fixed assets. Where a loan has a fixed period, the instalments should be calculated to determine the cash that should be set aside in the EFF.

In the event of an annuity loan, the cash required to be paid into the EFF should be based on the actual loan repayments.

c) *Grants, subsidies and Public Contributions*

Unutilised conditional grants are reflected on the Balance Sheet as a Creditor. This creditor has to be backed by cash.

The following provisions are applicable:

- ◆ The cash which backs up the creditor is invested until utilisation.
- ◆ Interest earned on the investment is treated in accordance with grant conditions.
- ◆ Where an asset is purchased out of the unutilised conditional grant an amount equal to the cost price of the asset purchased is transferred from the Unutilised Capital Receipts into the income statement as revenue. An equal amount is then transferred on the statement of changes in equity to a reserve called "Future depreciation Reserve" (FDR). This reserve is equal to the remaining depreciable value of assets purchased out of the Unutilised Capital Receipts. The FDR is used to offset depreciation charged on assets purchased out of the Unutilised Capital Receipts.

d) *Revenue Contributions*

Financing of assets from the Municipality's operating cash flow. The fixed asset is capitalised at cost and the payment is credited against the bank balance.

6.7 Administrative requirements

6.7.1 General

The designated officials in the different Departments/Units within the Municipality must execute the following functions:

- a) Ensure that the bar code number and location number are reflected on the asset movement capture form by the relevant official on receipt of the asset.
- b) Complete the asset movement capture form when transfers occur and forward the completed original form to the Finance Department.
- c) Ensure that a completed asset movement form is submitted when an asset item is retired after the necessary approval has been obtained.
- d) The Finance Department must be notified by the business area within 14 days of any of the following possible movements:
 - ◆ Donations
 - ◆ Additions
 - ◆ Improvements
 - ◆ Departmentally manufactured items
 - ◆ Loss or damage
 - ◆ Transfers
 - ◆ Terminations
 - ◆ Land sales

6.7.2 Procedure in case of loss, theft, destruction, or impairment of fixed assets

Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

6.8 General and Financial Management

6.8.1 Asset Management Plan

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

- a) Alignment with the IDP
- b) Operational guidelines
- c) Performance monitoring
- d) Maintenance programs
- e) Renewal, refurbishment and replacement plans
- f) Disposal and rehabilitation plans
- g) Operational, financial and capital support requirements
- h) Risk mitigation plans including insurance strategies

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

6.8.2 Pre-Acquisition Planning

- a) Before a capital project is included in the budget for approval, the Asset Managers must demonstrate that they have considered the following:
 - ◆ The projected cost over all the financial years until the project is operational
 - ◆ The future operational costs and revenue on the project, including tax and tariff implications
 - ◆ The financial sustainability of the project over its life including revenue generation and subsidisation requirements
 - ◆ The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation
 - ◆ The inclusion of this capital project in the IDP and future budgets
 - ◆ Alternatives to the capital purchase
- b) The Chief Financial Officer is accountable to ensure the Asset Managers receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

6.8.3 Acquisition of Assets

- a) Asset Managers should compile the specifications for the assets to be acquired and obtain approval in terms of the Municipality's delegation framework.
- b) Asset Managers should following the relevant procurement procedure when acquiring assets.

6.8.4 Insurance of fixed assets

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

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

The municipal manager shall recommend to the council of the municipality, after consulting with the chief financial officer, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.

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

6.9 Disposal of assets

- a) The Municipality may not dispose of capital assets that are utilised to provide a minimum level of basic municipal services.
- b) Capital assets other than those utilised to provide a minimum level of basic service may be disposed of subject to Council approval after the Council, in a meeting open to the public:
 - ◆ Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
 - ◆ Has considered the fair market value of the asset and the economic and community value to be received in exchange of the asset.
- c) The accounting officer must in relation to the sale or other disposal of state assets, ensure that –
 - ◆ immovable property is sold at market related prices, unless the relevant treasury determines otherwise;
 - ◆ movable assets are sold either by way of tender process, auction or at market related prices, whichever is the most advantageous to the state;
 - ◆ in the case of the disposal of computer equipment, the relevant department of education must first be approached to indicate whether any educational institutions are interested in the equipment, and, if so, to arrange for the transport of such equipment at its own cost to any such interested educational institutions;
 - ◆ in the case of the disposal of firearms, the National Conventional Arms Control Committee approves of any sale or donation of firearms to any person or institution within or outside the Republic
- c) The Council should appoint a Disposal Committee with the following functions:
 - ◆ Evaluate disposal submissions received from Asset Managers
 - ◆ Evaluate assets identified and assess in terms of materiality
 - ◆ Submit recommendation to Council or Accounting Officer
- d) The authorisation of disposal of assets must be done in terms of the Municipality's delegation framework.
- e) Any items declared obsolete or damaged will be handed in to the Finance Department for safekeeping with a completed asset form and condemnation forms.
- f) It is the responsibility of each Department/Unit to ensure that all obsolete or damaged assets are disposed of in the correct and approved manner.

75 Roles and Responsibilities

Functional area	Responsibility
1 Accounting Officer	The Accounting Officer is responsible to ensure that: <ul style="list-style-type: none">a) The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipalityb) The municipality's assets are valued in accordance with GAMAP

Functional area		Responsibility
		<ul style="list-style-type: none"> c) The Municipality has and maintains a system of internal control of assets, including an asset register d) Senior managers and their teams comply with this policy e) Verify assets in possession of the Council annually, during the course of the financial year. f) Report in writing all asset losses, where applicable, to Council.
2	Chief Financial Officer	<p>The Chief Financial Officer must ensure that:</p> <ul style="list-style-type: none"> a) Appropriate systems of financial management and internal control are established and carried out diligently b) The financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently c) Any unauthorized, irregular or fruitless or wasteful expenditure and losses resulting from criminal or negligent conduct are prevented d) The systems, processes and registers required to substantiate the financial values of the Municipality's assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General e) Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions f) The Accounting Officer is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets g) The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets
3	Asset Managers	<p>The Asset Managers must ensure that:</p> <ul style="list-style-type: none"> a) Appropriate systems of physical management and control are established and carried out for assets in their area of responsibility b) The Municipal resources assigned to them are utilized effectively, efficiently, economically and transparently c) Any unauthorized, irregular or fruitless or wasteful expenditure and losses resulting from criminal or negligent conduct are prevented d) Their asset management systems and controls can provide an accurate, reliable and up to date account of assets under their control e) They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the Municipality's strategic objectives f) Issues that will significantly impede the assets capability to provide the required level of service or economic benefit, are reported to the Accounting Officer
4	Budget Unit	<p>The Budget Unit:</p> <ul style="list-style-type: none"> a) Shall ensure that a project is created for approved budgeted capital expenditure that clearly describes the item to be acquired. A clear description of the funding source is also required. b) Shall release capital funds only after receiving written authority and a clear and concise description of the item to be purchased. c) Shall ensure that any changes in the capital budget, with regards to funds transferred or project description changes are communicated to Corporate Asset Control. d) Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the Departments and provided to the Department Finance in the prescribed format.
5	Expenditure Unit	<p>The Expenditure Unit:</p> <ul style="list-style-type: none"> a) Shall ensure that invoices authorized for payment are matched to the goods received note before processing such payment. b) Shall, if any doubt exists as to whether the invoice is in accordance

Functional area	Responsibility
	with policy, query the payment with the relevant Department and shall not process a payment until the invoice meets the policy criteria.
6 Procurement Unit	<p>The Procurement Unit:</p> <p>a) Shall ensure that the correct material group is allocated to asset acquisitions to enable the creation of the relevant work flow message.</p> <p>b) Shall ensure that items of capital nature acquisitions exceeding R5 000,00 shall not be acquired from the OPEX budget vote.</p>
7 Human Resources Department	<p>The Human Resources Department:</p> <p>a) Shall ensure that no monies are paid out on terminations of service without receiving the relevant asset resignation form signed off by the relevant Department.</p> <p>b) Shall ensure that every asset resignation form is counter signed by the Finance Department: Asset Control before processing the termination of service.</p>
8 All Departments	<p>All Departments:</p> <p>a) Shall ensure that employees in their Departments adhere to the approved Asset Management Policies and Procedures.</p> <p>b) Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in his/her Department. Finance Department Control must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the Asset Manager.</p> <p>c) Shall ensure that assets are properly maintained in accordance with their respective asset maintenance policy.</p> <p>d) Shall ensure that the assets and/or inventory items of the Municipality are not used for private gain.</p> <p>e) Shall ensure that they budget for adequate funds for the purchase of bar coding equipment.</p> <p>f) Shall ensure that all their movable assets as reflected on the CAR and the DIR are bar coded.</p> <p>g) Shall ensure that the Finance Department is notified of any changes in the status of the assets under the Department's control. This must be done on the prescribed form and include the following:</p> <ul style="list-style-type: none"> • Movements which relate to the writing-off of and transfer of assets (inter departmental transfers). • Changes in the estimated useful lives of assets for depreciation purposes. • The identification of impairment losses on assets. <p>h) Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.</p> <p>i) Shall ensure that a complete asset verification of all inventory and asset items is done during the course of every financial year and that the results of the verification are reported to Finance Department.</p> <p>j) Shall ensure that all obsolete and broken inventory and asset items, accompanied by the relevant asset form and attached condemnation forms, are handed in to the Procurement Unit without delay.</p> <p>k) Shall be responsible for maintaining and managing their own Department Asset Inventory Records for items that will not be recorded in the CAR or the DIR. These inventory assets are acquired via the operational budget. The information to be recorded in the DIR must include the description, quantity and location of the items.</p> <p>l) Shall ensure that the correct cost element and description are being used before authorizing any requisitions.</p>

Functional area	Responsibility
	m) The project structures must be categorized and clearly identified according to the GAMAP asset classes when created.

76 Monitoring, Evaluation and Reporting

Public sector entities control assets of various classes and all such entities have a duty of stewardship over assets under their control.

Utilisation of resources and safeguarding and maintenance requirements of the Accounting Officer are set in Section 62 (1) (a) and 63 (1) (a) of the MFMA.

Section 65 (1) and (2) (a) to (i) of the MFMA requires that the Accounting Officer keep full and proper records of the financial affair of the Municipality and places the responsibility for producing annual financial statements on the Accounting Officer.

Sections 15(a), read with 16 (1) and (3) and 28 (1),(2),(5) and (6) and 69(1) and (2) of the MFMA addresses the requirement in terms of the Municipal budget.

Treasury Regulation 10.1 requires of the accounting officer to ensure that processes, manual or electronic, and procedures are in place for the effective, efficient, economical and transparent use of the entity's assets. It further places the full responsibility on the accounting officer for ensuring that control systems are in place to ensure the prevention of theft, losses, wastage and misuse of assets and the keeping of stock levels at an optimum and economical level.

77 Implementation

The Asset Management Policy and Procedure will be implemented and adopted after approval thereof by the Council.

Addenda

A : Useful life of assets (GAMAP 17)

PLAN AND MANAGE ASSETS

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1. ASSET MANAGEMENT PROCEDURES AND PROCESS MAPS

1.1 ASSET MANAGEMENT

1.1.1 Introduction

The purpose of this manual is to provide an overview of the procedure for the infrastructural process of Planning and Managing Assets.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of assets.

1.7 Procedure Description

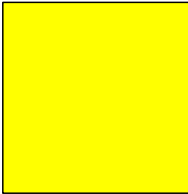
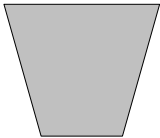
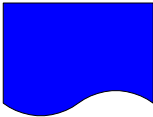
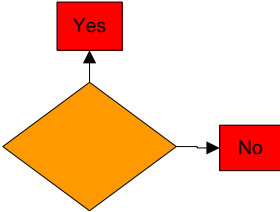
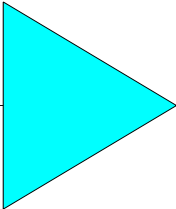
Step	Process
1 Movement of assets	Asset Managers should inform the Finance Department of all movement of assets, including: <ul style="list-style-type: none">◆ Donations◆ Additions◆ Improvements◆ Departmentally manufactured items◆ Loss or damage◆ Transfers◆ Terminations◆ Land sales
2 Acquisition	Asset Managers should determine need for acquisitions and obtain the relevant approval from the Municipal Manager or Council. The relevant procurement process must be followed when approval is obtained.
3 Disposal	Asset Managers should determine assets to be disposed of and submit a detailed submission to the Disposal Committee. The Disposal Committee should obtain the relevant approval from the Municipal Manager or Council.

1.3 Policy

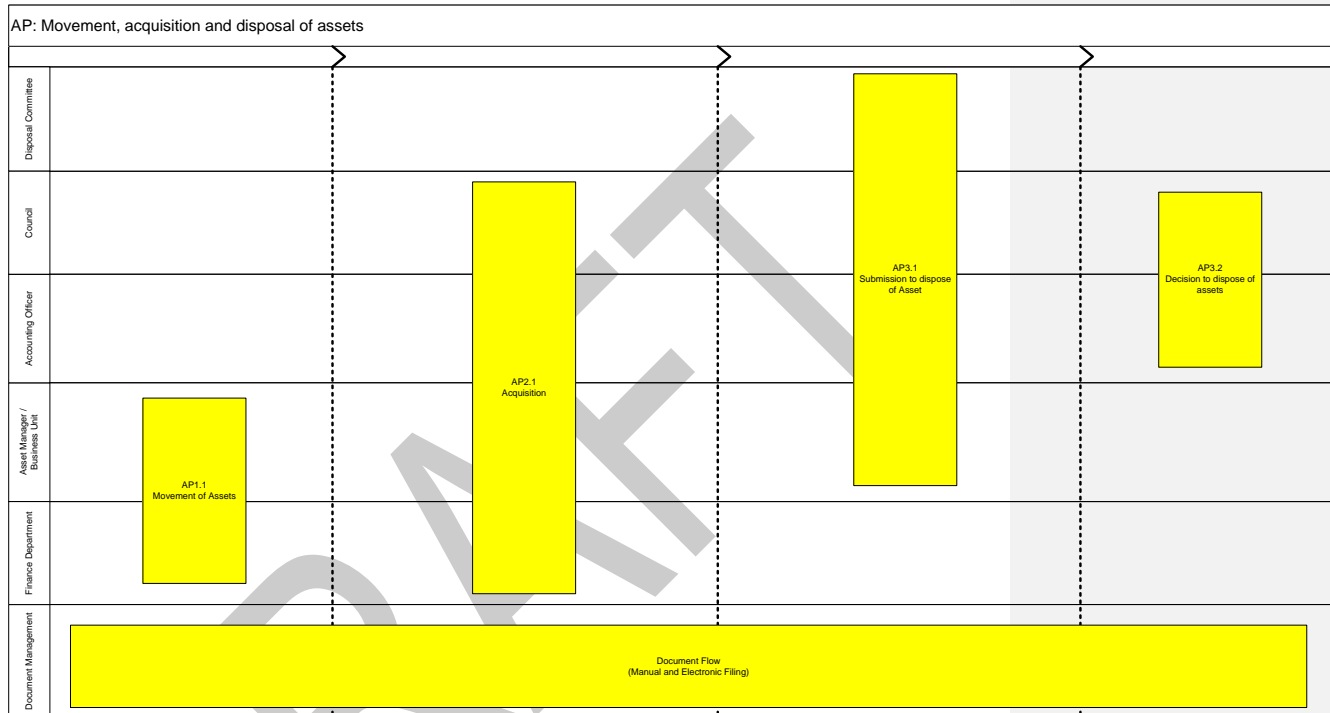
Procedure number	Policy reference
Step 1: AP1.1	Paragraph 6.7.1
Step 2: AP2.1	Paragraph 6.8.3
Step 3: AP3.1 and AP3.2	Paragraph 6.9

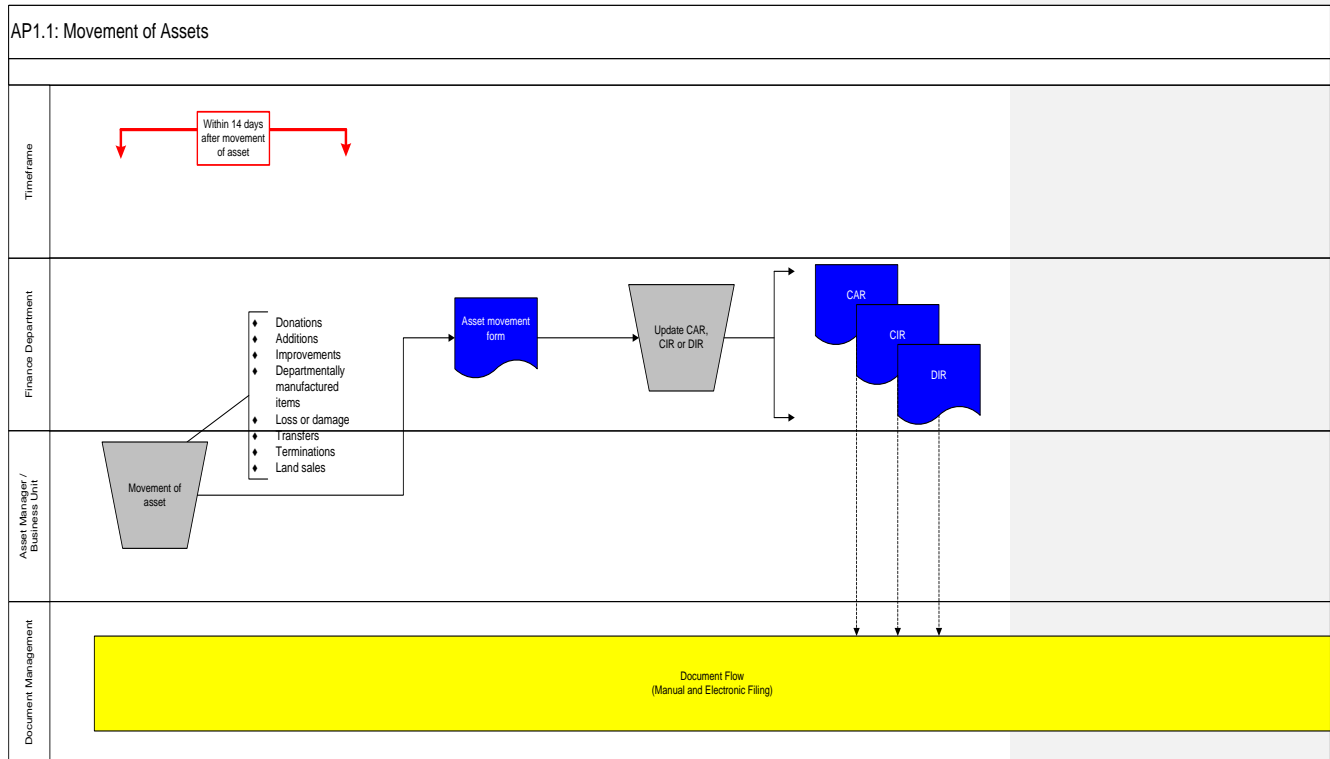
12 PROCESS KEY

The shapes and colours used in the process maps should be interpreted as follows:

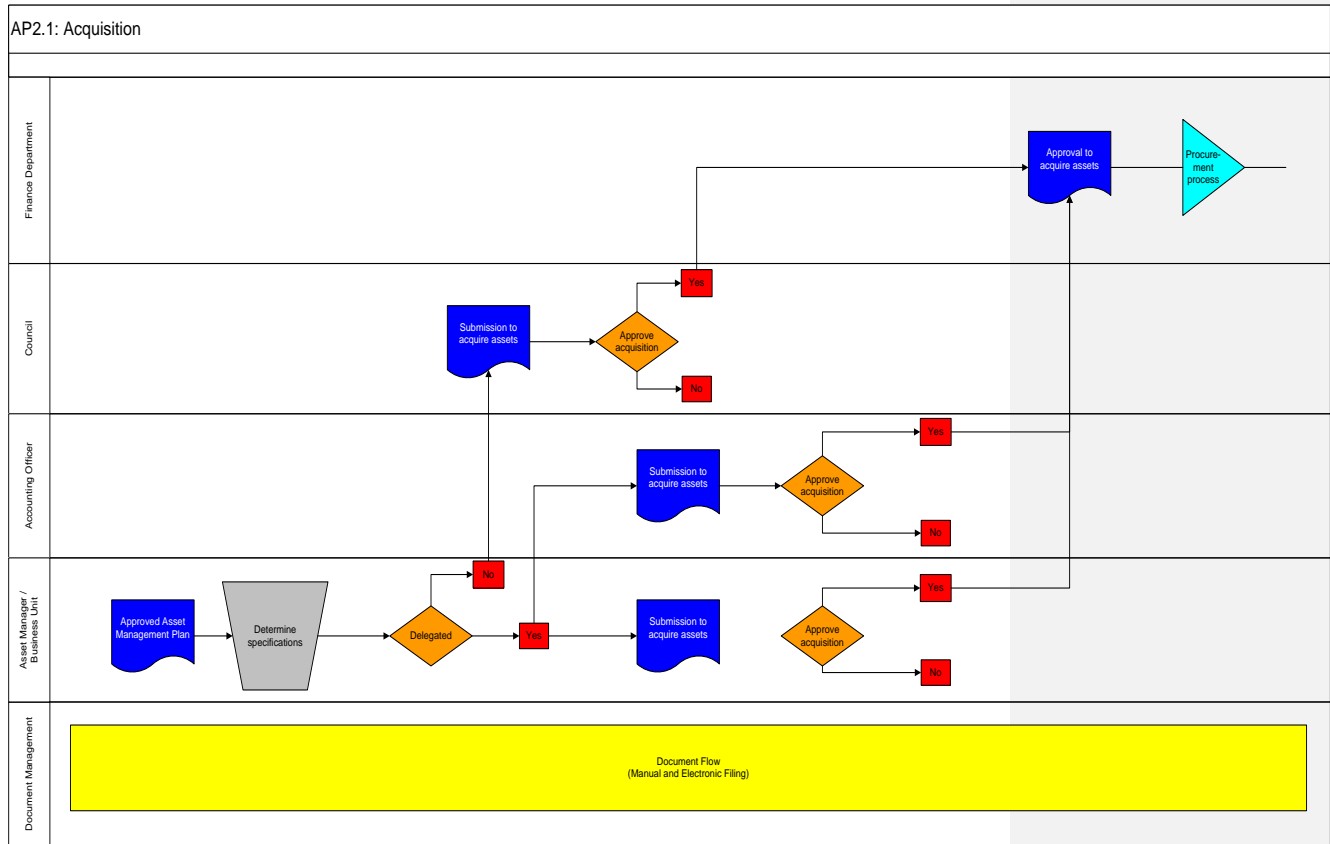
Symbol	Description
	This is used for a process, i.e. <u>group of activities</u> (activity is defined as a collection of tasks). Usually this symbol is a high-level description of a collection of the other symbols (described below). These other symbols are then usually depicted on a separate page.
	This is used for a <u>group of tasks</u> (tasks are usually described in the policy & procedures manual and are the lowest level of actions).
	This represents a document, report, regulations, plans or a deliverable. This symbol would usually be the result of a process.
	This represents a decision to be made.
	This symbol represents a connection point to another process, which is usually depicted on another process map (done by someone else).

13 PROCESS MAP

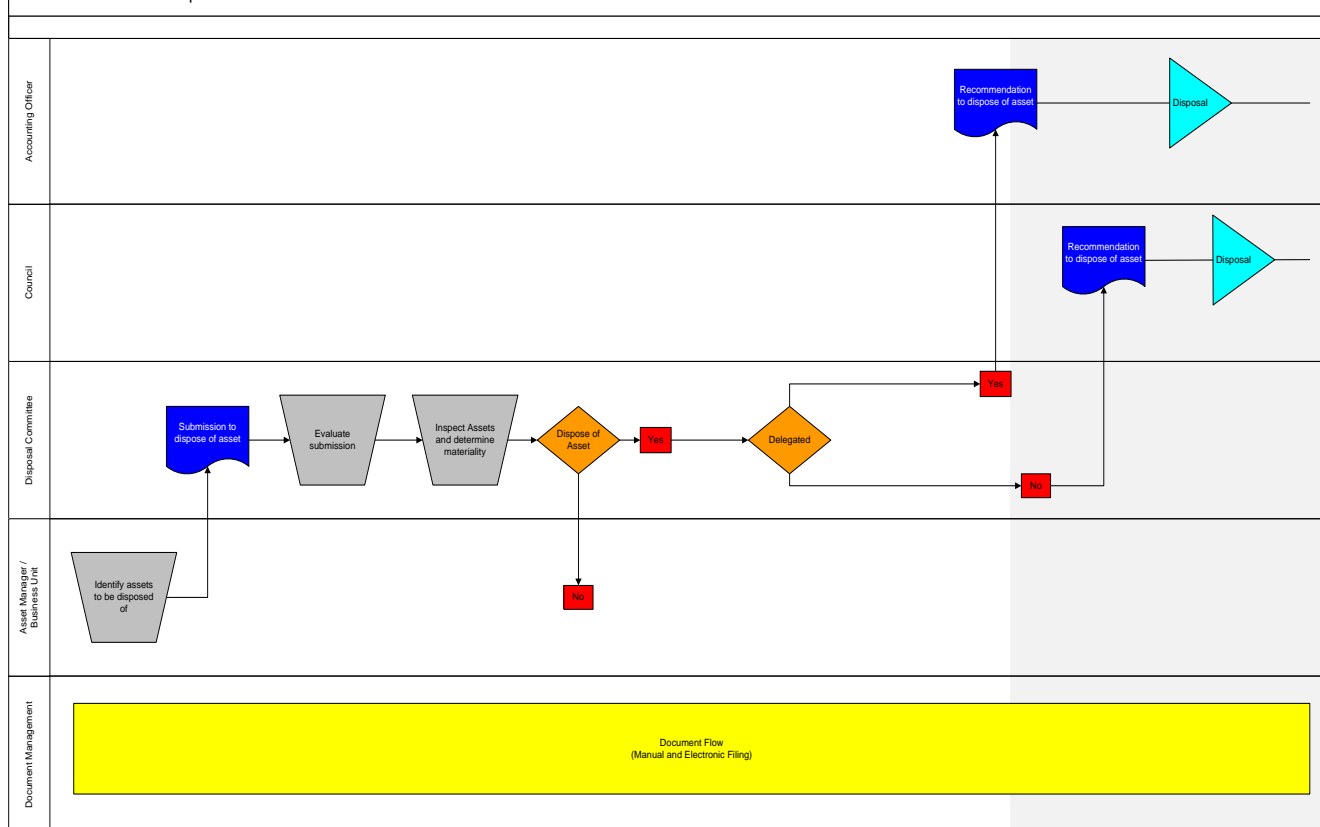


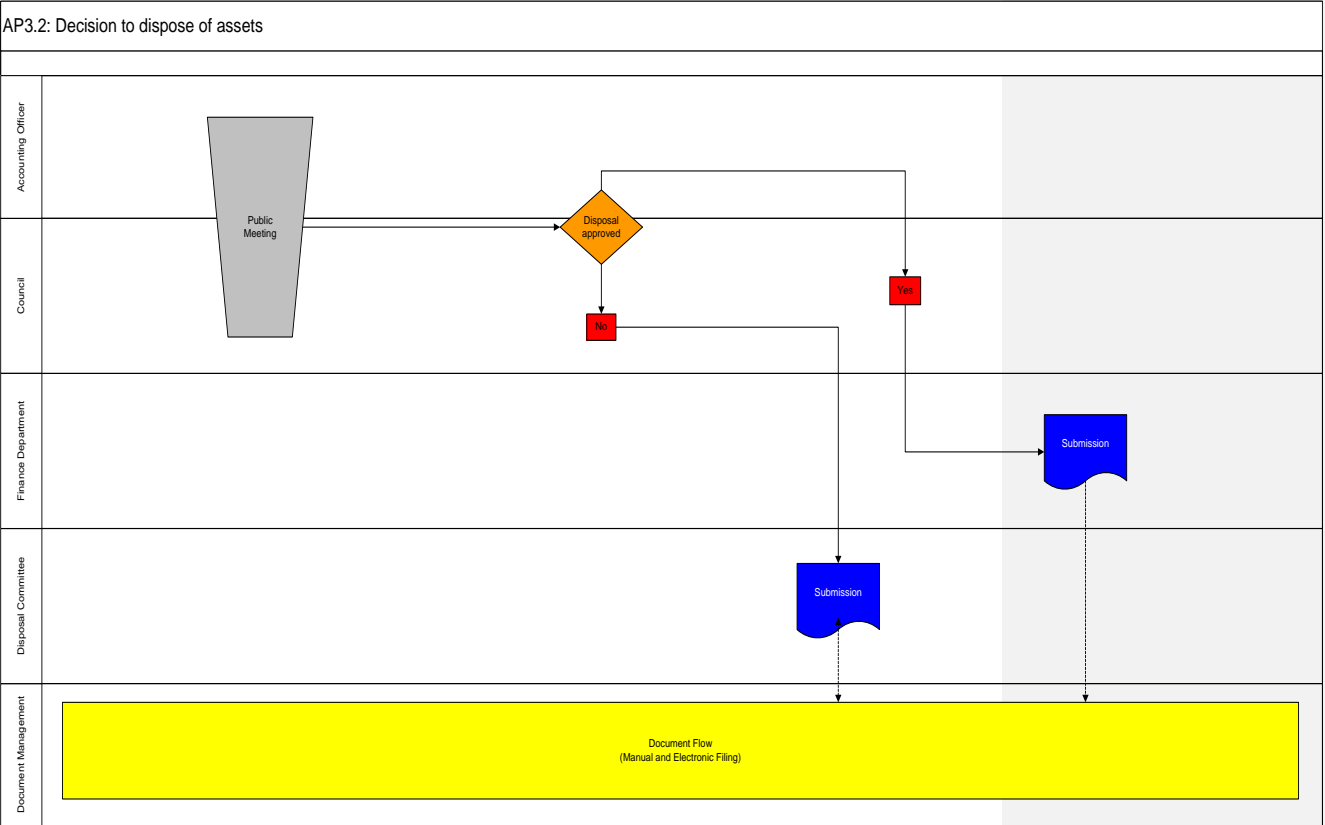


AP2.1: Acquisition



AP3.1: Submission to dispose of Assets





EMAKHAZENI MUNICIPALITY



BANKING AND INVESTMENT POLICY

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1. Introduction

1.1 Vision and value statement

It is the vision of Council to “create a secure environmental and sustainable development to promote service excellence and unity” Council is committed to its mission creating conducive institutional environment within which communities can thrive economically and socially.

The Values of the Council are:

Transparency
High Quality Service Delivery
Accountability
Serving Communities with Integrity
Efficiency
Professionalism

1.2 Vision

To strive for the transformation of the Emakhazeni Local Municipality into an efficient and cost-efficient institution that renders quality, affordable and sustainable services to the community.

1.3 Mission

To develop, promote and sustain systems and structures of effective governance as well as service delivery for the community of the Emkahazeni Local Municipality.

2. Definitions and abbreviations

Definitions:

“accounting officer” means the municipal manager appointed in terms of Section 60 of the Municipal Finance Management Act

“chief financial officer” means a person designated in terms of section 80(2)(a) of the Municipal Finance Management Act

“financial year” means the financial year ending 30 June

“mayor”, in relation to

(a) a municipality with an executive mayor, means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act; or

(b) a municipality with an executive committee, means the councillor elected as the mayor of the municipality in terms of section 48 of that Act

“the municipality” means Emakhazeni Municipality

3. Purpose of the Guidelines

The purpose of this manual is to prescribe the accounting and administrative policies and procedures relating to banking and investments of the Emakhazeni Municipality.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of banking and investments.

4. Scope of Application

Accounting Officer

Chief Financial Officer

All heads of departments (Senior Managers and Managers)

Any other senior officials designated by the accounting officer

5. Legislative Framework

The Municipality operations are governed by an array of different acts and this manual should be understood within that context.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Public Finance Management Act, 1999 (Act 1 of 1999)
- ◆ Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
- ◆ Municipal Finance Management Act, 2003 (Act 56 of 2003)
- ◆ Municipal Investment Regulations issued by National Treasury

Thus not only is Emakhazeni Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

6. Principles

6.1.1 Bank account

- a) The municipality must open and maintain at least one bank account in the name of the municipality and all money received by the municipality must promptly be paid into its bank account or accounts. If the municipality has only one bank account, that account is its primary bank account but if the municipality has more than one bank account, it must designate one of those bank accounts as its primary bank account.
- b) A bank account may not be opened:
 - ◆ abroad;
 - ◆ with an institution not registered as a bank in terms of the Banks Act 1990 (Act No. 94 of 1990); or
 - ◆ otherwise than in the name of the municipality.
- c) The following moneys must be paid into the municipality's primary bank account:
 - ◆ All allocations to the municipality;
 - ◆ all income received by the municipality on its investments;
 - ◆ all income received by the municipality in connection with its interest in any municipal entity, including dividends;
 - ◆ all money collected by a municipal entity or other external mechanism on behalf of the municipality; and

- ♦ any other moneys as may be prescribed.

6.1.2 Investments

- a) The council of the municipality is the trustee of the public revenues, which it collects, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.
- b) The council therefore has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.
- c) The investment policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.

7. Cash management and Banking Policy Guidelines

7.1 Cash Management

7.1.1 Cash collection

All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis. A separate Receipts policy exists to guide and manages the receipt procedures.

The respective responsibilities of the Chief Financial Officer and other heads of departments in this regard is defined in a code of financial practice approved by the Accounting Officer and the Chief Financial Officer, and this code of practice is attached as Annexure A to this policy.

The unremittant support of and commitment to the municipality's credit control policy, both by the council and the municipality's officials, is an integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

7.1.2 Payments to creditors

a) General

The chief financial officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favourable to the municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the municipality. This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the chief financial officer before any payment is made.

In the case of small, micro and medium enterprises, where such a policy may cause financial hardship to the contractor, payment may be effected at the conclusion of the month during which the service is rendered or within fourteen days of the date of such service being rendered, whichever is the later. Any such early payment shall be approved by the chief financial officer before any payment is made.

Notwithstanding the foregoing policy directives, the chief financial officer shall make full use of any extended terms of payment offered by suppliers and not settle any accounts earlier than such extended due date, except if the chief financial officer determines that there are financial incentives for the municipality to do so.

The chief financial officer shall not ordinarily process payments, for accounts received, more than once in each calendar month, such processing to take place on or about the end of the month concerned. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques. The Chief Financial Officer and the Accounting Officer authorize all payments captured on the system to ensure the segregation of duties. The system will only release payment after the 2nd authorization code has been captured.

Special payments to creditors 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 prior to the normal month end processing

b) Control register

A control register shall at all times be kept where all creditors' payment (Invoices) shall be recorded immediately after receipts, before starting with the processing.

The register shall have the following headings and shall be completed in full in respect of each and every payment:

Heading	Purpose
Date of receipt	To record the date on which the order or invoice or general payment voucher is received.
Order number	To record the order number, in case where there is no order to write "GP" for general payment voucher.
Payee	To record the name of the Supplier
Particulars	To specify the service rendered or goods delivered
Invoice Number	To record the invoice number
Invoice amount	To record the amount payable
Surname and initials of capturer	To record the name of the Official who will capture the invoice
Signature of capturer	For the capturer to sign
Date received	To record the date on which the order was received by the capturer
Checked by and date	The register to be checked by the Deputy Manager: Finance at least once a week

c) Capturing

Before capturing a voucher the responsible official shall first make sure that:-

- ◆ The order or general payment voucher is supported by an **original** invoice. In case of a copy of invoice, it must have been certified by the Deputy Manager: Finance as not paid before.
- ◆ The order or general payment voucher must have been approved by an Authorised Officer in terms of the financial delegations.
- ◆ The order or certificate or general payment voucher must have been certified by the Stores Officer or a person with knowledge of the goods or services as received.
- ◆ The amount on the face of the order is equal to the invoice amount.
- ◆ The payee on the invoice/certificate is the same as on the order form or general payment voucher.
- ◆ The date of the invoice shall not precede the date of the order.
- ◆ When capturing the official shall make sure that:-
 - (i) The invoice number is captured in full and no invoices shall be combined or abbreviated (This will help the system to detect possible double payments).
 - (ii) There shall be consistency in the capturing process for the computer to detect possible double payments.

- (iii) One and the same account shall always be used when processing payments to the same Supplier for the same Institution or ordering office.
- (iv) He/She uses official/s own user identity.
- (v) No user identity of a friend or co-worker shall be used.

7.1.3 Petty Cash

A petty cash for purchases not exceeding R100,00 will be managed by the Finance Department. Please refer to the Petty Cash Policy.

7.1.4 Cash management programme

The chief financial officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a weekly basis. The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when – if applicable – either long-term or short-term debt must be incurred. Heads of departments shall in this regard furnish the chief financial officer with all such information as is required, timeously and in the format indicated.

The chief financial officer shall report to the executive mayor, on a monthly basis and to every ordinary council meeting the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flows for the month or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate. The cash flow estimates shall be divided into calendar months, and in reporting the chief financial officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

7.2 Banking arrangements

7.2.1 Bank accounts

The accounting officer is responsible for the management of the municipality's bank accounts, but may delegate this function to the chief financial officer. The accounting officer and chief financial officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts. The accounting officer, in consultation with the chief financial officer, is authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. The list of current signatories shall be reported to the executive mayor, on a monthly basis, as part of the report dealing with the municipality's investments.

In compliance with the requirements of good governance, the accounting officer shall open a bank account for ordinary operating purposes, and shall further maintain a separate account for each of the following:

- a) The administration of the external finance fund; and
- b) The administration of the asset financing reserve (if these accounts are legally permissible).

One or more separate accounts shall also be maintained for the following:

- a) Capital receipts in the form of grants, donations or contributions from whatever source;
- b) trust funds; and
- c) the municipality's self-insurance reserve (if legally permissible).

In determining the number of additional accounts to be maintained, the accounting officer, in consultation with the chief financial officer, shall have regard to the likely number of transactions affecting each of the accounts referred to. Unless there are compelling reasons to do otherwise, and the council expressly so directs, all the municipality's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the municipality.

The accounting officer shall invite tenders for the placing of the municipality's bank accounts within six months after the election of each new council, such new banking arrangements to take effect from the first day of the ensuing financial year. However, such tenders may be invited at any earlier stage, if the accounting officer, in consultation with the chief financial officer, is of the opinion that the services offered by the municipality's current bankers are materially defective, or not cost-effective, and the executive mayor or the executive committee, as the case may be, agrees to the invitation of such tenders.

7.2.2 Withdrawals from bank account

In terms of the Municipal Finance Management Act, only the accounting officer or the chief financial officer of the municipality or any other senior financial official of the municipality acting on the written authority of the accounting officer, may withdraw money or authorise the withdrawal of money from any of the municipality's bank accounts. Such withdrawals may be made only to:

- ♦ defray expenditure appropriated in terms of an approved budget;
- ♦ defray expenditure authorised in terms of Section 26(4) of the Municipal Finance Management Act;
- ♦ defray unforeseeable and unavoidable expenditure authorised in terms of Section 29(1) of the Municipal Finance Management Act;
- ♦ in the case of a bank account opened in terms of Section 12 of the Municipal Finance Management Act, make payments from the account in accordance with Section 12(4) of the said Act;
- ♦ pay over to a person or organ of state money received by the municipality on behalf of such person or organ of state, including money collected by the municipality on behalf of such person or organ of state by agreement, or any insurance or other payments received by the municipality for such person or organ of state;
- ♦ refund money incorrectly paid into a bank account;
- ♦ refund guarantees, sureties and security deposits;
- ♦ make investments for cash management purposes in accordance with Section 13 of the Municipal Finance Management Act;
- ♦ defray increased expenditure in terms of Section 31 of the Municipal Finance Management Act;; or
- ♦ for such other purposes as may be prescribed.

7.2.3 Bank reconciliations

- a) The Chief Financial Officer must establish the following with the Municipality's bankers:
- ♦ Procedures regarding the frequency of printing and receipt of bank statements;
 - ♦ access to on-line banking facilities;
 - ♦ security of information when transacting with the bank through on-line facilities or otherwise;
 - ♦ the basis for calculating bank charges;
 - ♦ the extent of bank overdraft facilities;
 - ♦ the bank overdraft interest rate; and

- ◆ cash management arrangements to automatically transfer surplus funds to a call account.
- b) The Chief Financial Officer should:
- ◆ Allocate the responsibility for the management and accounting for all deposits or credits to the bank statement to his authorised designate, who is normally the designated official;
 - ◆ allocate the responsibility for the management and accounting for all debits to the bank statement cheques, stop orders, transfers and other debits to the designated official;
 - ◆ allocate the responsibility for the preparation of the bank reconciliation to an authorised designate;
 - ◆ allocate the responsibility for retrieving information from the bank to an authorised designate;
 - ◆ check the accuracy of the bank reconciliation on a regular basis;
 - ◆ determine the frequency of performing the bank reconciliation (either weekly or monthly).
- c) The Chief Financial Officer must:
- ◆ Establish daily credits to the Council bank account and follow up to ensure that these deposits or credits are accounted for in the books of the Municipality;
 - ◆ identify full details of each credit timeously to avoid having to account for these credits in the suspense account;
 - ◆ process the daily transfers or deposits into the Council's bank account into the accounting system by:
 - i) Processing the credits through the Council's receipting procedures. In this event, it is desirable to keep these transactions separate to the normal transactions. A daily direct deposit control sheet should be completed as a record of what direct deposits have been processed; or
 - ii) Journal vouchers with a supporting control sheet.
 - ◆ Record all unidentified credits (receipts) in a suitable register to facilitate future claims against the amount and follow up;
 - ◆ balance the unidentified receipts register to the suspense account in the general ledger on a monthly basis.
- d) The Chief Financial Officer must establish a process for managing returned cheques which should include:
- ◆ Maintaining a returned cheque register which should record the following:

- i) The date on which the cheque was debited by the bank;
 - ii) The name of the drawer;
 - iii) The amount of the cheque;
 - iv) The drawer's debtor account number;
 - v) Details of fresh cheque / cash in respect of R/D cheques.
 - ◆ Debiting the amount of the cheque returned to the returned debtors account on a weekly basis, either from the cheque returned register, or a journal voucher made out for the purpose;
 - ◆ debiting the monthly total of returned cheques to the debtors control account or the relevant income account;
 - ◆ recover cost of R/D cheques.
- e) The Chief Financial Officer must:
- ◆ Verify all debits on the Council bank accounts to ensure that these entries are correct and accounted for;
 - ◆ Inspect the bank statements to confirm that the only debits on the account other than Council cheques are:
 - i) Bank charges;
 - ii) Interest on overdraft;
 - iii) R/D cheques;
 - iv) Electronic transfers such as transfers to salaries accounts; and
 - v) Electronic payments to suppliers;
 - ◆ Check the bank charges and interest amounts for reasonableness, and make out a payment voucher for processing to the ledger. This voucher should reflect the bank statement number and total costs per statement;
 - ◆ in the case of R/D cheques, hand the amounts to the billing department for processing;
 - ◆ In the case of transfers to other Municipal bank accounts, verify the transfers back to the authorised transfer voucher that should have been authorised by the originating official.

8. Investment Policy Guidelines

8.1 Ethics

The chief financial officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the executive mayor and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.

In making such investments the chief financial officer, shall at all times have only the best considerations of the municipality in mind, and, except for the outcome of the consultation process with the executive mayor shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.

Neither the chief financial officer nor the executive mayor may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the municipality has made or may potentially make an investment.

8.2 Investments

The municipality may invest funds only in any of the following investment types:

- a) Securities issued by the national government;
- b) Listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;
- c) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);
- e) Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
- f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;
- g) Guaranteed endowment policies with the intention of establishing a sinking fund;
- h) Repurchase agreements with banks registered in terms of the Banks Act, 1990;
- i) Municipal bonds issued by a municipality; and
- j) 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.

8.3 Limiting exposure

Where large sums of money are available for investment the chief financial officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality. The chief financial officer shall further ensure that, as far as it is practically and legally possible, the municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits).

8.4 Risk and return

Although the objective of the chief financial officer in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the

average risk associated with investment institutions. Deposits shall be made only with registered deposit-taking institutions.

8.5 Payment of commission

Every financial institution with which the municipality makes an investment must issue a certificate to the chief financial officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

8.6 Call deposits and fixed deposits

The chief financial officer shall obtain quotations from at least three financial institutions before making any call or fixed deposits.

The chief financial officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth).

Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

Any monies paid over to the investing institution in terms of the agreed investment shall be paid over only to such institution itself and not to any agent or third party. Once the investment has been made, the chief financial officer shall ensure that the municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the municipality.

8.7 Control over investments

The chief financial officer shall ensure that proper records are kept of all investments made by the municipality. Such records shall indicate:

- a) The date on which the investment is made;
- b) the institution with which the monies are invested;
- c) the amount of the investment
- d) the interest rate applicable; and

- e) the maturity date. (If the investment is liquidated at a date other than the maturity date, such date shall be indicated.)

The chief financial officer shall ensure that all interest and capital properly due to the municipality are timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest or capital is not fully or timeously received.

The chief financial officer shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the municipality's bankers or attorneys for audit purposes.

8.8 Interest on investments

The interest accrued on all the municipality's investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made.

The Chief Financial Officer should perform interest calculations on each investment to check whether the correct interest was received depending on when interest fell due or was credited.

When preparing the annual financial statements, the Chief Financial Officer must obtain from each institution with which the Municipality holds an investment, a certificate stating the nature of the investment, the value of the investment, interest paid on the investment, and interest outstanding on the investment.

The Chief Financial Officer should raise any differences, as interest accrued or interest received in advance, in the correct period to which it relates.

9. Roles and Responsibilities

9.1 Accounting Officer

The accounting officer of a municipality must submit to the relevant provincial treasury and the Auditor-General:-

- a) in writing within 90 days after the municipality has opened a new bank account the name of the bank where the account has been opened, and the type and number of the account; and

- (b) annually before the start of a financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account.

The accounting officer of a municipality:-

- a) must administer all the municipality's bank accounts, including a bank account referred to in section 12 or 48(2)(d) of the Municipal Finance Management Act;
- b) is accountable to the municipal council for the municipality's bank accounts; and
- c) must enforce compliance with sections 7, 8 and 11 of the Municipal Finance Management Act.

The accounting officer, must, among other things, take all reasonable steps to ensure that all money received is promptly deposited in accordance with the requirements of the present Act into the municipality's primary and other bank accounts.

The accounting officer must also ensure that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled on at least a weekly basis.

The accounting officer must take all reasonable steps to ensure that any funds collected by the municipality on behalf of another organ of state are transferred to that organ of state at least on a weekly basis or as prescribed, and that such funds are not used for purposes of the municipality.

The accounting officer must take all reasonable steps to ensure, among other things, that payments made by the municipality are made **direct to the person to whom they are due**, unless agreed otherwise for reasons as may be prescribed, and either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit.

The accounting officer must also ensure that all money owing by the municipality is **paid within 30 days** of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

The accounting officer must further ensure that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework.

10. Monitoring, Evaluation and Reporting

The accounting officer must within 30 days after the end of each quarter-

- a) table in the municipal council a consolidated report of all withdrawals made in during that quarter; and
- b) submit a copy of the report to the relevant provincial treasury and the Auditor-General.

A bank where a municipality at the end of a financial year holds a bank account, or held a bank account at any time during a financial year, must-

- a) within 30 days after the end of that financial year notify the Auditor-General in writing, of such bank account, including-
 - (i) the type and number of the account; and
 - (ii) the opening and closing balances of that bank account in that financial year
- b) promptly disclose information regarding the account when so requested by the National Treasury or the Auditor-General.

A bank, insurance company or other financial institution which at the end of a financial year holds, or at any time during a financial year held, an investment for a municipality, must-

- a) within 30 days after the end of that financial year, notify the Auditor-General in writing, of that investment, including the opening and closing balances of that investment in that financial year; and
- b) promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General

The accounting officer must within 10 working days of the end of each month submit to the mayor of the Municipality a report describing in accordance with generally recognized accounting practices the investment portfolio of the Municipality as at the end of the month. The report must set out at least:

- a) the market value of each investment as at the beginning of the reporting period;
- b) any changes to the investment portfolio during the reporting period;
- c) the market value of each investment as at the end of the reporting period; and
- d) fully accrued interest and yield for the reporting period.

Reporting requirements

9. (1) The accounting officer of a municipality or municipal entity must within 10 working days of the end of each month, as part of the section 71 report required by the Act, submit to the mayor of the municipality or the board of directors of the municipal entity a report describing in accordance with generally recognised accounting practice the investment portfolio of that municipality or municipal entity as at the end of the month.
- (2) The report referred to in subregulation (1) must set out at least –
- (a) the market value of each investment as at the beginning of the reporting period;
 - (b) any changes to the investment portfolio during the reporting period;
 - (c) the market value of each investment as at the end of the reporting period; and
 - (d) fully accrued interest and yield for the reporting period.

11. Implementation

The Banking and Investment Policy will be implemented and adopted after approval thereof by the Council.

Addenda

A : Code of Practice in regard to payments and revenue collections

