

PART TWO

FINAL BUDGET RELATED POLICIES

2021 2022

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Final Provision for Doubtful Debts & Debtors Write-off Policy 2021 2022

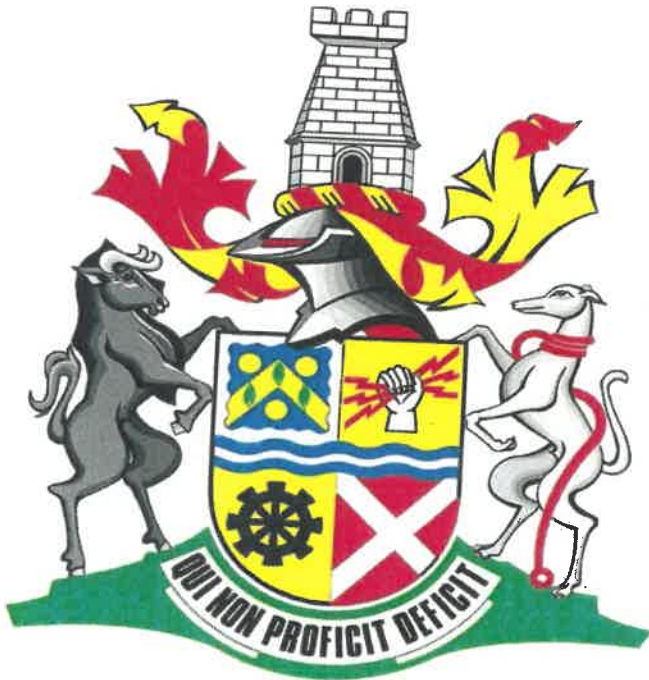
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NEWCASTLE MUNICIPALITY



PROVISION FOR DOUBTFUL DEBTS AND DEBTORS WRITE OFF POLICY

Provision for doubtful debts and debtors write off policy 2021 – 2022 final draft 0-2119-2020

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1. Definitions:

In this policy, unless the context indicates otherwise:

"the municipality" means the Newcastle Municipality;

"debt" means an obligation in money and/or services due and owing to the municipality;

"debtor" means a person, natural or juristic, who owes a debt to the municipality and who may be compelled to pay in terms of a claim or demand by the municipality;

"irrecoverable debt" means the debt which in terms of this policy meets the criteria for writing off;

2. Purpose and Scope of the Policy

The purpose of this policy is to provide a framework for regulating the write-off and provision of irrecoverable debts and the consequent further enhancement of the municipality's debt management strategy.

3. Objective of the Policy

- 3.1 To ensure that the debtors disclosed in the annual financial statements are stated at amounts that are deemed to be collectable.
- 3.2 To ensure that the uncollectable debt is written off within the guidelines of the existing policies and applicable legislation.

4. Transparency, accountability and fair administrative action

The municipality commits itself and its officers to act fairly and justly in an open and transparent manner in implementing this policy.

- 4.1 A proposal to write-off a debt, either as part of a group of debts, or individually, will be considered by the CFO on its merits pursuant to the procedure and with due regard to the information which must be provided to it in terms of this policy.
- 4.2 The Constitution entitles everyone to administrative action which is lawful, reasonable and procedurally fair and to be given reasons for any such action which affects them.
- 4.3 The Promotion of Administrative Justice Act, No 3 of 2000 is the legislation required by the Constitution to give effect to the right to just administrative action and in order to promote an efficient administration and good governance and to create a culture of accountability, openness and transparency in public administration or in the exercise of a public power or the performance of a public function.
- 4.4 This policy incorporates the above principles by providing parameters and procedures to guide the municipality and its officers in implementing it, and thereby exercising a public power through a series of administrative actions. In so doing, the policy seeks to provide certainty on the part of those affected by it with regard to how the municipality will act in the circumstances covered by the policy and uniformity of action on the part of its officers.

5. Policy principles

The following are the principles for the Debtors Write-Off of Irrecoverable Debt Policy –

- 5.1 The policy comply with the Local Government: Municipal Finance Management Act (No 56 of 2003), the Local Government: Municipal System Act (No 32 of 2000) and other related legislation.
- 5.2 Before any debt is written-off it must be proved that the debt has become irrecoverable. To ensure that recommendations for the writing-off of debt are consistent and accurate; irrecoverable debt will be defined as –
- i. Where the tracing of the debtors is unsuccessful;
 - ii. All reasonable steps, in terms of the Credit Control Policy, were taken by the administration to recover the debt; and
 - iii. All old debts of the approved indigents accounts.
- 5.3 Bad debt to be written-off must be considered in terms of cost benefit. Therefore, when it becomes too costly to recover and the chances of collecting the debt are very slim, a write-off should be considered.
- 5.4 Time value of money is very important because the older the debt becomes, the more difficult and costly it becomes to collect. It is therefore imperative that a proper system of credit control is implemented and maintained to avoid debt reaching the stage of becoming too expensive to recover.

6. Impairment of debtors

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for doubtful debts. The provision is made on an annual basis, or based on the expected cash flows.

In accordance with the relevant legislation and accounting framework an objective assessment of the accounts receivable is made at the financial year end to determine a possible impairment of the asset.

Individual classes of receivables are assessed for impairment using the following methodologies:

6.1 Consumer Debtors

Consumer debtors are evaluated at each reporting date and impaired as [per Risk Assessment Profile per debtor as per the report received from ITC](#)

Category of debtor	Percentage of debt regarded as collectable	Percentage of debt provided for as irrecoverable (i.e. impairment percentage)
Credit balances	Zero	Zero
Inactive accounts	Zero	100%
Approved indigents	Zero	100%
Formal arrangement of debt	50%	50%
Debtors ageing 365 days +	Zero	100%
Debtors ageing between 181 days – 365 days	70%	30%
Debtors ageing between 150 days – 180 days	70%	30%
Debtors ageing between 120 days and 150 days	75%	25%
Debtors ageing between 90 days and 120 days	80%	20%
Debtors ageing between 60 days and 90 days	85%	15%
Debtors ageing between 30 days and 60 days	90%	10%
Debtors ageing at 30 days	95%	5%

6.2 Sundry deposits

Provision for doubtful debts and debtors write off policy [2021 – 2022 finaldraft0-2119-2020](#)

6.2 Sundry deposits

6.2 Sundry deposits

Sundry deposits are assessed for impairment to ensure that no objective evidence exists that these deposits are irrecoverable.

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6.3 Sundry debtors

Sundry debtors are assessed for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

7. Procedures for writing off of debt

7.1 General

- a) A debt may be written off by the CFO and reported to Council by Sec 71 Reporting.
- b) The CFO may unless specific provision is made elsewhere in this policy, write off a debt containing at least the information prescribed in this policy certifying that the processes provided for in the municipality's Credit Control and Debt Collection Policy have been adhered to and that in his / her opinion there is no reasonable prospect of recovery of the debt and / or that further efforts to do so would be uneconomical.
- ~~c) A debt may only be written-off against the municipality's provision for doubtful debts,~~
- c)
- d) The writing-off of a debt is an accounting procedure and does not constitute abandonment by the municipality of its claim against a debtor.
- e) Copies of the reports to the Council in regard to all debts written-off are to be retained in the records of the municipality against the name of the debtor.
- f) In terms of the Indigent Policy, the arrears on an account are written-off upon registration as an indigent account and the related report is submitted to Council.
- g) Upon closure of an active account and after the security deposit is released, any outstanding balance of one hundred rand (R100.00) or less after three months that cannot be transferred to another account belonging to the accountholder should be written-off and a report submitted to Council accordingly.

7.2 Information to be placed in a report of writing off of a debt or group of debts:

- a) In the case of an individual debt, particulars of the debt including the amount of the debt, stating separately the capital amount and the interest accrued.
- b) In the case of a group of debts, particulars of the group including a motivation for the submission of the debts in question as a group (e.g. cause of action, collection procedures and prospect of recovery similar in each case) and the total amount of the debts in the group, stating separately the total of the capital amounts and interest accrued.
- c) Steps taken to recover the debt or group of debts
- d) Particulars of the debtor including:
 - i. Account number;
 - ii. Name of account holder;
 - iii. Whether the account holder has been liquidated or sequestrated;
 - iv. Whether the debtor can be traced.
- e) Any other information relating to the debt which may be requested by Council.

8. Factors which may be taken into account in writing off debt

- 8.1) A debt is deemed to be irrecoverable:
 - a. If it has prescribed in terms of the Prescribed in terms of the Prescription Act, No 68 of 1969;
 - b. If the debtor has been sequestrated or liquidated and the proceeds of the sequestration or the liquidation are insufficient to satisfy the debt;
 - c. The cost of recovery of the debt is likely to exceed the amount outstanding.
- 8.2) Any other debt may not be deemed to be irrecoverable unless:
 - a. all of the debtor's attachable movable and immovable property has either been sold in execution and the proceeds have not satisfied the debt, or the cost of recovery is higher than the value of the movable property;
 - b. the debtor is employed or in receipt of an income and all processes to attach that income or to obtain a court order for payment of the debt in instalments have been exhausted.
- 8.3) A debt may be considered irrecoverable if all reasonable attempts to trace the whereabouts of the debtor have been unsuccessful and no attachable assets have been found.

- 8.4) If the ITC report indicates that the debtor is deceased, is an uncollectable individual and the business is liquidated or deregistered.

9. General provisions relating to the writing off of debt

- 9.1 Not less often than once during the municipality's financial year, the Accounting Officer shall submit a report to the Council on debts to be written-off.
- 9.2 A debt shall not be regarded as written-off until the Council has taken a resolution.
- 9.3 Prior to writing-off a debt and after consideration of the report and recommendation of the Accounting Officer in terms of this policy, the Council must be satisfied that:
- i. the municipality has exhausted all means of debt recovery provided for in its Customer Care, Credit Control and Debt Collection Policy;
 - ii. recovery of the debt in question has been pursued diligently and completely;
 - iii. no other reasonably possible and practical means of recovery of the debt exists.
- 9.4 The writing off of a debt must be recorded in the records of the municipality and in its books of account in terms of Generally Recognised Accounting Practice.
- 9.5 The Council must in its budget make provision for doubtful debts through the medium of a funded reserve established in terms of the municipality's Funding and Reserve Policy, compliant with regulation 8, Municipal Budget and Reporting Regulations R 3214 dated 17/4/09.
- 9.6 Should any provision of this policy conflict with a provision of the municipality's Indigent Policy relating to a debt of a registered indigent, the latter policy takes precedence.
- 9.7 In writing-off a debt, the municipality does not abandon its claim and all amounts recovered in reduction of a debt subsequent to its writing-off shall be recorded in the books of the municipality as income.



THE NEWCASTLE
MUNICIPALITY
NEWCASTLE KWAZULU-NATAL

SUPPLY CHAIN MANAGEMENT POLICY

2021/22

Approved by Council on 26 May 2021

**SUPPLY CHAIN MANAGEMENT POLICY OF THE
NEWCASTLE MUNICIPALITY**

LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003

Date of adoption: 26 May 2021

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

Document Number:	Policy No:	Revision:	DD-001/2021	Signature
Author		Designation:	Director of SCM	
Reviewed By:		Designation:	Accounting Officer	
Recommended For EXCO Approval By:		Designation:	Accounting Officer	
Recommended For Council Approval By:		Designation:	Chairperson – Audit And Risk Committee	
Approved By:		Designation:	Chairperson – Council	
Effective Date:		Review Date:		

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SUPPLY CHAIN MANAGEMENT POLICY FOR INFRASTRUCTURE PROCUREMENT AND DELIVERY MANAGEMENT

1. Policy Statement / Preamble

The Municipal Finance Management Act, (Act No.56 of 2003), as amended, provides that the Newcastle Municipality has a duty to take effective and active measures to be financially efficient, effective, transparent and economical through its supply chain management (SCM) processes.

2. Purpose

The purpose of this policy is to regulate the SCM functions and systems of the Municipality.

3. Objective

- a. To provide a framework to implement the provisions of section 217 of the Constitution of the Republic of South Africa in order to:
- b. Implement a policy in the system that is fair, equitable, transparent, competitive and cost effective and complies with all the applicable provisions of the Municipal Finance Management Act (MFMA).
- c. Ensure consistency with the legal framework for MSCM.
- d. Ensure that the municipality's strategic objectives are achieved.

4. Definitions

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

"accounting officer"- in relation to a municipality, means the municipal official referred to in section 60 of the MFMA and includes a person acting as the accounting officer.

"competitive bidding process" means a competitive bidding process referred to in paragraph 26 (1) (d) of this SCM 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 24 of this SCM Policy;

"Family member" means a parent, sibling, child or spouse of a member

"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;
- a) a member of the board of directors of any municipal entity;
- b) an official of any municipality or municipal entity;
- c) 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);

- d) a member of the accounting authority of any national or provincial public entity; or
- e) an employee of Parliament or a provincial legislature;

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

“list of accredited prospective providers” means the list of accredited prospective providers which the Newcastle Municipality must keep in terms of paragraph 21 of this SCM policy;

‘Member’ means a person appointed by the accounting officer/authority to a bid evaluation panel, either as the chairperson, or as an ordinary member or secretariat, for purposes of conducting the evaluation of either transaction advisor bids or PPP bids as a representative of the institution

“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);
- d) Preferential Procurement Regulations, 2017

‘Privileged or confidential information’ means any information

- a) determined by the institution to be privileged or confidential
- a) discussed in closed session by the bid evaluation panel
- b) which if disclosed would violate a person's right to privacy
- c) declared to be privileged, confidential or secret in terms of any law including, but not limited to, information contemplated in sections 34(1);35(1); 36(1); 37(1)(a); 38(a); 39(1)(a); 40 or 43(1) of the Promotion of Access to Information Act, 2000.

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

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

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

“Written or verbal quotations” means quotations referred to in paragraph 19(1)(b) of this SCM Policy.

“B-BBEE” means broad-based black economic empowerment as defined in section 1 of The Broad-Based Black Economic Empowerment Act;

“B-BBEE status level of contributor” means the B-BBEE status receive by a measured entity based on its overall performance using the relevant scorecard contained in the Codes of Good Practice on Black Economic Empowerment, issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003);

“black designated groups” has the meaning assigned to it in the codes of good practice issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act;

“black people” has the meaning assigned to it in section 1 of the Broad-Based Black Economic Empowerment Act;

“co-operative” means a co-operative registered in terms of section 7 of the Cooperatives Act, 2005 (Act No. 14 of 2005);

“designated group” means-

- (a) black designated groups;
- (b) black people;
- (c) women;
- (d) people with disabilities; or
- (e) small enterprises, as defined in section 1 of the National Small Enterprise ,1996 (Act No. 102 of 1996);

“designated sector” means a sector, sub-sector or industry or product in of regulation 8(1)(a);

“EME” means an exempted micro enterprise in terms of a code of good practice on black empowerment issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act;

“functionality” means the ability of a tenderer to provide goods or services in accordance specifications as set out in the tender documents;

“military veteran” has the meaning assigned to it in section 1 of the Military Veterans Act, 2011 (Act No. 18 of 2011);

“National Treasury” has the meaning assigned to it in section 1 of the Public Finance Management Act, 1999 (Act No. 1 of 1999);

“people with disabilities” has the meaning assigned to it in section 1 of the Employment Equity Act, 1998 (Act No. 55 of 1998);

“price” includes all applicable taxes less all unconditional discounts;

“proof of B-BBEE status level of contributor” means-

- (a) the B-BBEE status level certificate issued by an authorised body or person;
- (b) a sworn affidavit as prescribed by the B-BBEE Codes of Good Practice; or
- (c) any other requirement prescribed in terms of the Broad-Based Black Economic Empowerment Act;

“QSE” means a qualifying small business enterprise in terms of a code of good practice on black economic empowerment issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act;

“Rand value” means the total estimated value of a contract in Rand, calculated at the time of the tender invitation;

“rural area” means-

- (a) a sparsely populated area in which people farm or depend on natural resources, including villages and small towns that are dispersed through the area; or
- (b) an area including a large settlement which depends on migratory labour and remittances and government social grants for survival, and may have a traditional land tenure system;

“stipulated minimum threshold” means the minimum threshold stipulated in terms of regulation 8(1)(b);

“the Act” means the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000);

“township” means an urban living area that any time from the late 19th century until 27 April 1994, was reserved for black people, including areas developed for historically disadvantaged individuals post 27 April 1994;

“treasury” has the meaning assigned to it in section 1 of the Public Finance Management Act, 1999 (Act No. 1 of 1999); and

“youth” has the meaning assigned to it in section 1 of the National Youth Development Agency Act, 2008 (Act No. 54 of 2008).

“Collusive Bidding/tendering” Collusive bidding/tendering (or bid rigging) occurs when business, that would otherwise be expected to compete, secretly conspire to raise prices or lower the quality of goods and/ or services for purchasers who wish to acquire goods and /or services through a bidding process. Bid rigging is, therefore, an agreement between competitors not to compete.

“Irregular expenditure” means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including the MFMA.

“Preferential Procurement legislation” The Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000) and it's associated Preferential Procurement Regulations of 2017.

5. Abbreviations

Abbreviation	Description
B-BBEE	Broad-Based Black Economic Empowerment
CFO	Chief Financial Officer
CIDB	Construction Industry Development Board
CSD	Central Supply Database
MFMA	Municipal Finance Management Act
PO	Purchase Order
PPP	Public Private Partnership
PPPFA	Preferential Procurement Policy Framework Act
SCM	Supply chain management
TOR	Terms of Reference

6. Legislative Framework

This policy is underpinned by the following pieces of legislation:

- The Constitution of the RSA, Act 108 of 1996, as amended
- Municipal Finance Management Act, (Act No. 56 of 2003), as amended (MFMA)
- Municipal Supply Chain Regulations (MSCM)
- All National Treasury and KwaZulu-Natal Provincial Treasury Practice Notes,
 - Circulars, letters and instruction notes issued from time to time
- The Preferential Procurement Policy Framework Act (PPPFA), Act 5 of 2000
- The Preferential Procurement Regulations issued in 2017
- The Broad-based Black Economic Empowerment Act, the Strategy and the Codes of Good Practice
- Public Audit Amendment Act 5 of 2018
- Construction Industry Development Board Act No 38 of 2000 and its Regulations
- The Prevention and Combating of Corrupt Activities Act
- Promotion of Administrative Justice Act, Act No 3 of 2000
- Promotion of Access to Information Act, Act No 2 of 2000
- Protected Disclosures Act, Act No 26 of 2000
- The Competition Act, Act No 89 of 1998
- The King III Report on Corporate Governance for South Africa
- All other relevant acts, as well as the general legal environment within which contracts will be executed

CHAPTER 1
IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY

7. Supply chain management policy

7.1. All officials and other role players in the Supply Chain Management (SCM) system of the Newcastle Municipality must implement this SCM Policy in a way that

- (a) Gives effect to –
 - (i) Section 217 of the Constitution; and
 - (ii) Part 1 of Chapter 11 and other applicable provisions of the Act;
- (b) is fair, equitable, transparent, competitive and cost effective;
- (c) complies with –
 - (i) the Regulations; and
 - (ii) any minimum norms and standards that may be prescribed in terms of section 168 of the Act;
- (d) is consistent with other applicable legislation;
- (e) does not undermine the objective for uniformity in SCM 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.

7.2. This SCM Policy applies when the Newcastle Municipality

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

7.3. This SCM Policy, except where provided otherwise, does not apply in respect of the procurement of goods, works 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.

8. Amendment of the SCM policy

8.1. The accounting officer must –

- (a) at least annually review the implementation of this SCM Policy; and
- (b) when the accounting officer considers it necessary, submit proposals for the amendment of this SCM Policy to the Newcastle Municipal Council.

8.2. If the accounting officer submits proposed amendments to the Newcastle Municipal Council that differs from the model policy issued by the National Treasury, the accounting officer must

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

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

9. Delegation of SCM powers and duties

9.1. The Newcastle Municipal Council hereby delegates all powers and duties to the accounting officer which are necessary to enable the accounting officer –

- (a) to discharge the SCM responsibilities conferred on accounting officers in terms of –
 - (i) Chapter 8 or 10 of the Act; and
 - (ii) this Policy;
- (b) to maximise administrative and operational efficiency in the implementation of this Policy;
- (c) to enforce reasonable cost-effective measures for the prevention of fraud, corruption, favoritism and unfair and irregular practices in the implementation of this policy; and
- (d) to comply with his or her responsibilities in terms of section 115 and other applicable provisions of the Act.

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

9.3. The accounting officer may not sub-delegate any SCM powers or duties to a person who is not an official of the Newcastle Municipality or to a committee which is not exclusively composed of officials of the Newcastle Municipality;

9.4. This paragraph may not be read as permitting an official to whom the power to make final awards has been delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 39 of this Policy.

10. Sub-delegations

10.1. The accounting officer may in terms of section 79 or 106 of the Act sub-delegate any SCM powers and duties, including those delegated to the accounting officer in terms of this SCM policy, but any such sub-delegation must be consistent with subparagraph (2) of this paragraph and paragraph 9 of this SCM Policy.

10.2. The power to make a final award:

- (a) above R2 million (VAT included) may not be sub-delegated by the accounting officer;
- (b) above R200 000,00 (VAT included), but not exceeding R2 million (VAT included), may be sub-delegated but only to a Bid Adjudication Committee (BAC) of which the chief financial officer and senior management are members.

10.3. The BAC must within five (5) days of the end of each month submit to the Accounting Officer a written report containing particulars of each final award made by the BAC 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.

10.4. Paragraph 10.3 does not apply to procurements out of petty cash.

10.5. This paragraph may not be interpreted as permitting an official to whom the power to make final awards has been sub-delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 39 of this SCM Policy.

10.6. No SCM decision-making powers may be delegated to an advisor or consultant.

11. Responsibilities

(a) Role of the Accounting Officer

- (i) Ensures strict adherence to the guidelines provided in the SCM policy.
- (ii) Implementation of the SCM policy and submission of quarterly reports.
- (iii) Annual review of targets and the SCM policy.
- (iv) Approves the inclusion of a service provider(s) in the Municipality SCM system after rehabilitation of the service provider according to statutory requirements.
- (v) Appoints the members of the bid committees.

(b) Role of Directors

Each Director shall be responsible and accountable for:

- (i) exercising the powers, performing the functions and discharging the duties conferred or assigned to him in terms of this SCM Policy;
- (ii) implementing the SCM policy and any procedural and other prescripts issued in terms of the SCM policy within his area of responsibility;
- (iii) ensuring compliance with the SCM policy and any procedural and other prescripts issued in terms of the SCM policy within his area of responsibility;
- (iv) developing, or causing to be developed, draft specifications for the procurements by his/her directorate exceeding an amount of R 500,00 (VAT inclusive);
- (v) properly planning for and, as far as possible, accurately estimating the costs of the provision of services, works or goods for which offers are to be solicited;
- (vi) selecting the appropriate preference point goals to be utilised in the evaluation of offers;
- (vii) achieving any objectives and targets set with regard to procurements and disposals;

(c) The role of the Chief Financial Officer:

- (i) Is the custodian of the SCM policy and report on progress regarding its implementation of the policy.
- (ii) Has overall management of the quotation and competitive bidding process from solicitation to processing of invoice payment.
- (iii) Promotes corporate approach by encouraging standardisation of items purchased within the Municipality to realize economies of scale.
- (iv) Ensures that procurements and disposals are effected through practices that demonstrate compliance to all relevant legislation.
- (v) Is responsible for managing procurements and disposals to ensure that the SCM system of the Municipality is adhered to.
- (vi) Ensures that the procurements and disposal process followed adheres to preference targets without compromising price, quality, service delivery and developmental objectives.
- (vii) Is responsible for ensuring that all employees involved in the SCM process receive the necessary training to support implementation of the SCM policy.
- (viii) Is responsible for establishing the amount to be paid by prospective service providers as a non-refundable deposit for enquiry documents issued by the Municipality.
- (ix) Shall submit regular reports to the accounting officer, who will in turn submit to the Finance Portfolio Committee; regarding progress and any matters of importance relating to the SCM policy.

(d) The role of Advisors

The accounting officer may procure the services of advisors to assist in the execution of the SCM function. These advisors must be obtained through a competitive bidding process. No advisor may however form part of the final decision-making process regarding the awarding of bids, as this will counter the principle of vesting accountability with the accounting officer. The accounting officer may not delegate decision-making authority to a person other than an official.

12. Oversight role of council

12.1. The Newcastle Municipal Council reserves its right to maintain oversight over the implementation of this SCM policy.

12.2. For the purposes of such oversight the accounting officer must:

(a) within 30 days of the end of each financial year, submit a report on the implementation of this SCM Policy and the SCM policy of any municipal entity under sole or shared control of the municipality, to the council of the municipality; and

(b) whenever there are serious and material problems in the implementation of this SCM Policy, immediately submit a report to the Newcastle Municipal Council

12.3. The accounting officer must, within 10 days of the end of each quarter, submit a report on the implementation of the SCM policy to the Mayor of the Newcastle Municipality through Finance Portfolio Committee.

12.4. The reports must be made public in accordance with section 21A of the Municipal Systems Act.

13. Supply Chain Management Unit

13.1. A SCM unit is hereby established to implement this SCM policy.

13.2. The SCM unit operates under the direct supervision of the chief financial officer or an official to whom this duty has been delegated in terms of section 82 of the Act.

14. Training of supply chain management officials

14.1. The training of officials involved in implementing this SCM policy should be in accordance with any Treasury guidelines on SCM training.

PART B
SUPPLY CHAIN MANAGEMENT SYSTEM

15. Format of supply chain management system

15.1. This SCM Policy provide system for –

- (a) demand management;
- (b) acquisition management;
- (c) logistics management;
- (d) disposal management;
- (e) risk management; and
- (f) performance management.

Chapter 1: Demand management

16. System of demand management

16.1. The accounting officer must establish and implement an appropriate demand management system in order to ensure that the resources required by Newcastle Municipality support its operational commitments and its strategic goals outlined in the Integrated Development Plan.

16.2. The demand management system must –

- (a) include timely planning and management processes to ensure that all goods and services required by the Newcastle Municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost;
- (b) take into account any benefits of economies of scale that may be derived in the case of acquisitions of a repetitive nature; and
- (c) provide for the compilation of the required specifications to ensure that its needs are met.
- (d) To undertake appropriate industry analysis and research to ensure that innovations and technological benefits are maximised.

17. Duties of Supply Chain Management Unit

- (a) During consultations between the SCM Unit and Business Units, all reasonable efforts shall be made to determine :
 - (i) the desired date and time at which a specific contract must be awarded;
 - (ii) the desired date and time when specific goods must be delivered, services rendered or work executed;
 - (iii) the place where any goods to be supplied shall be delivered;
 - (iv) the quantity and quality of any goods to be supplied; and

18. System of acquisition management

18.1. The accounting officer must implement the system of acquisition management set out in this part in order to ensure –

- (a) that goods and services are procured by the Newcastle Municipality in accordance with authorised processes only;
- (b) that expenditure on goods and services is incurred in terms of an approved budget in terms of section 15 of the Act;
- (c) that the threshold values for the different procurement processes are complied with;
- (d) that bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with any applicable legislation; and
- (e) that any Treasury guidelines and regulations on acquisition management are properly taken into account.

18.2. When procuring goods or services contemplated in section 110(2) of the Act, the accounting officer must make public the fact that such goods or services are procured otherwise than through the Newcastle Municipality's SCM system, 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.

18.3. A municipality or municipal entity procuring goods or services contemplated in section 110 (2) of the Act must make public the fact that it procures such goods or services otherwise than through its supply chain management system, including-

- (a) the kind of goods or services; and
- (b) the name of the supplier.

19. Range of procurement processes

19.1. Goods and services may only be procured by way of –

- (a) petty cash purchases, up to a transaction value of R2 000,00 (VAT included);
- (b) written or verbal quotations for procurements of a transaction value of R2 000,00 up to R10 000,00 (VAT included);
- (c) formal written price quotations for procurements of a transaction value over R10 000,00 up to R200 000,00 (VAT included); and
- (d) a competitive bidding process for:
 - (i) procurements above a transaction value of R200 000,00 (VAT included); and
 - (ii) the procurement of long term (period) contracts.

19.2. The accounting officer may, in writing-

- (a) lower, but not increase, the different threshold values specified in subparagraph (1); or
- (b) direct that –
 - (i) written or verbal quotations be obtained for any specific procurement of a transaction value lower than R2 000;
 - (ii) formal written price quotations be obtained for any specific procurement of a transaction value lower than R10 000; or

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

19.3. Goods or services may not deliberately be split into parts or items of a lesser value merely to avoid complying with the requirements of the SCM 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.

19.4. Approval authorities / delegations

- (a) The SCM policy must act in support of the delegations policy for approval authority for acquisitions in accordance with paragraphs 19.1, 19.2 and 19.3.

20. General preconditions for consideration of written quotations or bids

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

- (a) has furnished that provider's –
 - (i) full name;
 - (ii) identification number or company or other registration number; and
 - (iii) tax reference number and VAT registration number, if any;
- (b) has authorised the Newcastle Municipality to obtain a 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.

21. Lists of accredited prospective providers

21.1. The accounting officer must –

- a) make use of list of service providers in the approved National Treasury Central Supplier Database (CSD) for the procurement requirements through written or verbal quotations and formal written price quotations.
- b) May keep a list of accredited prospective providers of goods and services that may be used for the procurement requirements through written or verbal quotations and formal written price quotations who are registered on CSD for emergency and urgent procurement ; and
- c) 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.

22. Petty cash purchases

22.1. The conditions for procurement of goods by means of petty cash referred to in paragraph 19 (1) (a) of this Policy, are as follows –

- (a) The Chief Financial Officer may, in writing, delegate the responsibility to monitor petty cash purchases to the Accountant: Revenue/Income Officer.
- (b) Goods and services may only be procured by way of petty cash, up to a transaction value of R500 (VAT included).
- (c) A maximum of five petty cash purchases per month will be allowed for each departmental section.
- (d) Total petty cash may not exceed R5 000, 00 for each calendar month for the whole municipality.
- (e) Petty cash may only be used for the following types of expenditure: refreshments, catering, gifts, wheel repairs, and other small items.
- (f) A monthly reconciliation report from the Accountant Revenue must be submitted 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.

22.2. For the implementation of the petty cash purchases, refer to Newcastle Municipality petty cash policy.

23. Written or verbal quotations

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

- (a) Quotations must be obtained from at least three (3) different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers on CSD that if quotations are obtained from providers who are not listed on CSD, such providers must meet the listing criteria set out in paragraph 20(1)(b) and (c) of this SCM Policy;
- (b) to the extent feasible, providers must be requested to submit such quotations in writing;
- (c) if it is not possible to obtain at least three (3) quotations, the reasons must be recorded and reported quarterly to the accounting officer or another official designated by the accounting officer;
- (d) the accounting officer must record the names of the potential providers requested to provide such quotations with their quoted prices; and
- (e) if a quotation was submitted verbally, the order may be placed only against written confirmation by the selected provider.

24. Formal written price quotations

24.1. The conditions for the procurement of goods or services through formal written price quotations are as follows:

- (a) quotations must be obtained in writing from at least three (3) different providers whose names appear on the list of accredited prospective providers on CSD.
- (b) quotations may be obtained from providers who are not listed, provided that such providers meet the listing criteria set out in paragraph 19(1)(b) and (c) of this SCM Policy;
- (c) if it is not possible to obtain at least three (3) quotations, the reasons must be recorded and approved by the chief financial officer or an official designated by the chief financial officer, and
- (d) the accounting officer must record the names of the potential providers and their written quotations.

24.2.A designated official referred to in subparagraph (1) (c) must within three (3) 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.

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

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

- (a) when using the list of accredited prospective providers from CSD the accounting officer must promote ongoing competition amongst providers by inviting providers to submit quotations on a rotation basis;
- (b) all requirements in excess of R30 000,00 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of paragraph 23, be advertised for at least seven (7) days on the website and an official notice board of the Newcastle Municipality.
- (c) quotations will only be accepted from providers whose names appear on the list of accredited prospective providers on CSD.
- (d) offers received must be evaluated on a comparative basis taking into account unconditional discounts;
- (e) the accounting officer or chief financial officer must on a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a sub-delegation;
- (f) offers below R30 000,00 (VAT included) must be awarded based on compliance to specifications and conditions of contract, ability and capability to deliver the goods and services and lowest acceptable price; offers above R30 000,00 (VAT included), the accounting officer should apply the prescripts of the Preferential Procurement Policy Framework Act, Act 5 of 2000 and its associated Regulations unless appointment is through framework contracts or panel secured through an SCM bidding process.
- (g) acceptable offers, which are subject to the preference points system (PPPFA and associated regulations), must be awarded to the bidder who scored the highest points unless an objective criteria is applied in line with regulation 11 (2) of the PPPFA regulation of 2017.

26. Competitive bids

26.1. Goods or services above a transaction value of R200 000, 00 (VAT included) and long term contracts may only be procured through a competitive bidding process, subject to paragraph 18(2) of this SCM policy.

26.2. No requirement for goods or services above an estimated transaction value of R200 000,00 (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.

26.3. Subcontracting as condition of bid;

- (a) If feasible to subcontract for a contract above R10 million, it should also advance the designated groups.

- (b) The bid should specify in the conditions of the bid that the bidder must subcontract the minimum of 40% of the value of the contract to
- i) an EME or QSE;
 - ii) an EME or QSE which is at least 51% owned by black people;
 - iii) an EME or QSE which is at least 51% owned by black people who are youth;
 - iv) an EME or QSE which is at least 51% owned by black people who are woman;
 - v) an EME or QSE which is at least 51% owned by black people who are disabilities;
 - vi) an EME or QSE which is at least 51% owned by black people living in rural or underdeveloped areas or townships;
 - vii) a cooperative which is at least 51% owned by black people;
 - viii) an EME or QSE which is at least 51% owned by black people who are military veterans or;
 - vx) more than one of the categories referred to in paragraphs i) to viii)
- (c) The Municipality must provide the list of suppliers registered on CSD to the appointed bidder for the bidder to select a supplier(s).
- (d) The bidder may select more than one subcontractor to subcontract provided that the subcontracted value does not exceed 40% of the value of the contract.

26.4. Identification of preference point system, designated sector, pre-qualification criteria, objective criteria and subcontracting

26.4.1. The Newcastle Municipality shall,

(a) determine and stipulate in the tender documents:

- (i) The preference point system applicable to the tender as envisaged in regulations 6 or 7; or
 - (ii) if it is unclear which preference point system will be applicable, that either the 80/20 or 90/10 preference point system will apply and that the lowest acceptable tender will be used to determine the applicable preference point system;
- (b) determine whether pre-qualification criteria are applicable to the tender as envisaged in regulation 4;
 - (c) determine whether the goods or services for which a tender is to be invited, are in a designated sector for local production and content as envisaged in regulation 8;
 - (d) determine whether compulsory subcontracting is applicable to the tender as envisaged in regulation 9; and
 - (e) determine whether objective criteria are applicable to the tender as envisaged in regulation 11.

26.5. Pre-qualification criteria for preferential procurement

26.5.1. The Newcastle Municipality, where applicable, shall apply pre-qualifying criteria to advance certain designated groups, wherein the Newcastle Municipality shall advertise the tender with a specific tendering condition that only one or more of the following tenderers may respond-

- (a) a tenderer having a stipulated minimum B-BBEE status level of contributor;

- (b) an EME or QSE;
- (c) a tenderer subcontracting a minimum of 40% to-
 - (i) an EME or QSE which is at least 51% owned by black people;
 - (ii) an EME or QSE which is at least 51% owned by black people who are youth;
 - (iii) an EME or QSE which is at least 51% owned by black people who are women;
 - (iv) an EME or QSE which is at least 51% owned by black people with disabilities;
 - (v) an EME or QSE which is 51% owned by black people living in rural or underdeveloped areas or townships;
 - (vi) a cooperative which is at least 51% owned by black people;
 - (vii) an EME or QSE which is at least 51% owned by black people who are military veterans;
 - (viii) an EME or QSE

26.5.2. A tender that fails to meet any pre-qualifying criteria stipulated in the tender documents is an unacceptable tender.

27. Procurement through panels

- 27.1. The Municipality may appoint service providers to form a panel up to a maximum of 36 months in the respective area of specialisation.
- 27.2. In the panel procurement system, bids are only evaluated up to the functionality stage and all bidders who obtained set minimum functionality points threshold are enlisted in the panel.
- 27.3. Price and Preferential Points are not considered in the evaluation of bids through a panel procurement method.
- 27.4. Service providers in the approved panels are appointed through request for quotation process as and when work become available and Price and Preferential Points are only applied at this stage;
- 27.5. The Municipality in agreement with service providers in the approved panel may negotiate fixed market related rates for all service providers in the approved panel and appoint service providers on rotational basis as and when work become available.

28. Procurement through framework contracts

- 28.1. The Municipality may appoint service providers in to the framework contract up to a maximum of 36 months in the respective area of specialisation.
- 28.2. In the framework contract procurement system, bidders are evaluated for functionality if applicable and required to submit rates to be evaluated and approved by the Municipality.
- 28.3. The Municipality must ensure that only market related rates are accepted, in cases where bidders submit rates above acceptable market rates, the Municipality shall negotiate with the bidders or reject the bid where the bidder does not accept rates offered by the Municipality.
- 28.4. The Municipality may negotiate fixed/standard market related rates with all providers recommended to the framework contract and bidders who does not accept negotiated rates will have their bids rejected by the Municipality.
- 28.5. Price and Preferential Point system do not apply in the framework contracts.
- 28.6. The Municipality where necessary may disregard rates submitted by bidders and request quotations as and when work become available.

28.7. The Municipality may in the bid document determine minimum or maximum number of providers to be considered in the framework contract based on rates proposed by providers.

29. Process for competitive bidding

The procedures for the following stages of a competitive bidding process are as follows:

- (a) Compilation of bidding documentation as detailed in paragraph 30;
- (b) Public invitation of bids as detailed in paragraph 31;
- (c) Site meetings or briefing sessions as detailed in paragraph 31;
- (d) Handling of bids submitted in response to public invitation as detailed in paragraph 32;
- (e) Evaluation of bids as detailed in paragraph 41;
- (f) Award of contracts as detailed in paragraph 42;
- (g) Administration of contracts
- (h) After approval of a bid, the accounting officer and the bidder must enter into a written agreement.
- (i) Proper record keeping
- (j) Original / legal copies of written contracts agreements should be kept in a secure place for reference purposes. All original contracts shall be deposited with the Accounting Officer within a week of signing the contract and a copy shall be kept in the departmental file while another copy shall be delivered to the SCM unit.

30. Bid documentation for competitive bids

The criteria to which bid documentation for a competitive or panels and framework contracts bidding process must –

- (a) take into account –
 - (i) the general conditions of contract and any special conditions of contract, if specified;
 - (ii) any Treasury guidelines and regulations on bid documentation; and
 - (iii) the requirements of the Construction Industry Development Board, in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure;
- (b) include the preference points system to be used, goals as contemplated in the Preferential Procurement Regulations and evaluation and adjudication criteria, including any criteria required by other applicable legislation;
- (c) compel bidders to declare any conflict of interest they may have in the transaction for which the bid is submitted;
- (d) if the value of the transaction is expected to exceed R10 million (VAT included), require bidders to furnish–
 - (i) if the bidder is required by law to prepare annual financial statements for auditing, their audited annual financial statements –
 - (aa) for the past three years; or
 - (bb) since their establishment if established during the past three years;
 - (ii) a certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 days;

- (iii) particulars of any contracts awarded to the bidder by an organ of state during the past five (5) 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.

31. Public invitation for competitive bids

31.1. The procedure for the invitation of competitive bids is as follows:

- (a) Any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the Newcastle Municipality or any other appropriate ways (which may include an advertisement in the (Government Tender Bulletin and eTender Portal); and
- (b) the information contained in a public advertisement, must include –
 - (i) the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to subparagraph (2) of this SCM policy;
 - (ii) a statement that bids may only be submitted on the bid documentation provided by the Newcastle Municipality; and date, time and venue of any proposed site meetings or briefing sessions.;
 - (iii) that bids may only be accepted from providers that are registered with the National Treasury's central data base and/or the list of accredited service providers of the Newcastle Municipality

31.2. The accounting officer may determine a closure date for the submission of bids which is less than the 30 or 14 days requirement, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.

31.3. Bids submitted must be sealed.

31.4. Where bids are requested in electronic format, such bids must be supplemented by sealed hard copies.

31.5. All competitive bids should be included on the eTender Portal as per MFMA circular 83.

32. Procedure for handling, opening and recording of bids

The procedures for the handling, opening and recording of bids, are as follows:

- (a) Bids–
 - (i) must be opened only in public;
 - (ii) must be opened at the same time and as soon as possible after the period for the submission of bids has expired; and

- (iii) bids received after the closing time should not be considered and returned unopened immediately and the reason as to why the bid cannot be considered.
- (b) Any bidder or member of the public has the right to request that the names of the bidders who submitted bids in time must be read out and, if practical, also each bidder's total bidding price;
- (c) No information, except the provisions in subparagraph (b), relating to the bid should be disclosed to bidders or other persons until the successful bidder is notified of the award; and
- (d) The accounting officer must –
 - (i) record in a register all bids received in time;
 - (ii) make the register available for public inspection; and
 - (iii) publish the entries in the register and the bid results on the website.

33. Negotiations with preferred bidders

33.1. The accounting officer or delegated official may negotiate the final terms of a contract with bidders identified through a competitive bidding process as preferred bidders, provided that such negotiation –

- (a) does not allow any preferred bidder a second or unfair opportunity;
- (b) is not to the detriment of any other bidder; and
- (c) does not lead to a higher price than the bid as submitted.

33.2. Minutes of such negotiations must be kept for record purposes.

34. Two-stage bidding process

34.1. A two-stage bidding process is allowed for –

- (a) large complex projects;
- (b) projects where it may be undesirable to prepare complete detailed technical specifications; or
- (c) long-term projects with a duration period exceeding three years.

34.2. In the first stage technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments.

34.3. In the second stage final technical proposals and priced bids should be invited.

35. Issuing of bid documentation

- (a) Bid documents and any subsequent notices shall only be issued by the SCM Unit or authorised department.
- (b) A non-refundable bid charge, as required in the bid notice, may be raised by the Municipality for bid documents.
- (c) Details of all prospective bidders who have been issued with bid documents shall be recorded by the SCM Unit or authorised department. Such details shall include:
 - (i) the legal and full name of the person/company/closed corporation/firm drawing documents;
 - (ii) a contact person;
 - (iii) a contact telephone number;

- (iv) a contact fax number;
- (v) a postal address;
- (vi) an e-mail address;
- (d) Details recorded shall remain confidential for the duration of the bid period.

36. Validity periods

- (a) The period for which bids are to remain valid and binding shall be indicated in the bid documents. The period is calculated from the closing time and bids shall remain in force and binding until the end of the final day of the period.
- (b) This period of validity may be extended by mutual consent in writing between the Municipality and the bidder, provided that the original validity period has not expired, and that all bidders shall have an opportunity to extend such period.
- (c) If, in exceptional circumstances, it becomes necessary to extend the bid period, a notice shall be published in the press at least one week prior to the original bid closing date. This notice shall also be posted on the notice boards at designated Municipal offices, and a notice to all bidders of bids received at that stage to this effect shall be issued.
- (d) Should the bidder fail to respond on the bid validity extension request, the Municipality will proceed in evaluating the bid based on original bid proposal.

37. Bid Prices and Contract Periods for Engineering and Construction Contracts

- (a) For all contract periods equal to or exceeding one year in duration, an appropriate contract price adjustment formula shall be specified in the bid documents.
- (b) In general, where contract periods do not exceed one year in duration, the bid shall be a fixed price bid (not subject to contract price adjustment). However, if as a result of any extension of time granted, the duration of a fixed price contract exceeds one year, the contract will automatically be subject to contract price adjustment acceptable to both parties for that period by which the extended contract period exceeds such one year. An appropriate contract price adjustment formula shall be specified in the bid documents.
- (c) Notwithstanding the above arrangement, where the bid validity period is extended, then contract price adjustment may be applied.
- (d) An appropriate contract period must be specified for all engineering and construction contracts. The time for completion shall be stated in number of weeks.
- (e) In case where the price adjustment is gazetted by the Government, the price adjustment should be automatically applied regardless of the timeframe. The adjustment value should be in line with the gazetted adjustment.

38. Samples

When samples are called for in the bid documents, samples (marked with the bid and item number as well as the bidder's name and address) shall be delivered to the addressee mentioned in the bid documents by no later than the closing time of the bid. Bids shall not be included in parcels containing samples.

If samples are not submitted as requested, the bid concerned may be declared non responsive. Samples shall be supplied by a bidder at his own expense and risk. The Municipality shall not be obliged to pay for such samples or compensate for the loss thereof, unless otherwise specified in the bid documents, and shall reserve the right not to return such samples and to dispose of them at its own discretion.

Where a bid is accepted for the supply of goods according to a sample submitted by the bidder, such sample shall become the contract sample. All goods/materials supplied shall comply in all respects to the contract sample.

39. Committee system for competitive bids

39.1.A committee system for competitive bids is hereby established, consisting of the following committees for each procurement process or cluster of procurements as the accounting officer may determine:

- (a) a bid specification committee;
- (b) a bid evaluation committee; and
- (c) a bid adjudication committee;

39.2.The accounting officer appoints the members of each committee, taking into account section 117 of the Act; and

39.3.A neutral or independent observer, appointed by the accounting officer, must attend or oversee a committee when this is appropriate for ensuring fairness and promoting transparency.

39.4.The committee system must be consistent with –

- (a) paragraph 40, 41 and 42 of this SCM Policy; and
- (b) any other applicable legislation.

39.5.The accounting officer may apply the committee system to formal written price quotations.

39.6.The following persons shall not be eligible to become members of a bid committee –

- (a) a councilor of any municipality; and
- (b) a member of the Municipality's audit committee or performance audit committee.
- (c) No councilor of any municipality may attend a meeting of a bid committee in any capacity, nor may a councilor make a presentation or representations to or conduct an interview with a bid committee in any capacity.

39.7.A bid committee established in terms of this chapter shall perform its functions, exercise its powers and discharge its duties independently and without fear, favor or prejudice.

40. Bid Specification Committee

40.1. A bid specification committee must compile specifications for each procurement of goods or services by the Newcastle Municipality.

40.2. Specifications –

- (a) must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services;
- (b) must take account of any accepted standards such as those issued by Standards South Africa, the International Standards Organisation, or an authority accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply;
- (c) must, where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design;
- (d) may not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labeling of conformity certification;
- (e) may not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the word “equivalent”;
- (f) must indicate each specific goal for which points may be awarded in terms of the points system set out in the Preferential Procurement Regulations 2001, as amended; and
- (g) must be approved by the accounting officer prior to publication of the invitation for bids in terms of paragraph 31 of this SCM Policy.

40.3. A Bid Specification Committee must be composed of one or more managers responsible for the function involved and may, when appropriate, include external specialist advisors.

40.4. No person, advisor or corporate entity involved with the bid specification committee, or director of such a corporate entity, may bid for any resulting contracts.

41. Bid Evaluation Committee

41.1. A bid evaluation committee must –

- (a) evaluate bids in accordance with –
 - (i) the specifications and conditions for a specific procurement; and
 - (ii) the points system set out in terms of paragraph 40(2)(f).
- (b) evaluate each bidder's ability to execute the contract;
- (c) check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears, and; the bidder submitted the required original tax clearance certificate and other clearance / registration forms as prescribed by various acts and / or in the bid documentation; and
- (d) submit to the adjudication committee a report and recommendations regarding the award of the bid or any other related matter.

- 41.2. A Bid Evaluation Committee must as far as possible be composed of-
- (a) Directors from departments requiring the goods or services.
 - (b) At least one SCM Practitioner of the Newcastle Municipality

42. Bid Adjudication Committees

42.1. A bid adjudication committee must –

- (a) consider the report and recommendations of the bid evaluation committee; and
- (b) either –
 - (i) depending on its delegations, make a final award or a recommendation to the accounting officer to make the final award; or
 - (ii) make another recommendation to the accounting officer how to proceed with the relevant procurement.

42.2. A Bid Adjudication Committee must consist of at least four Strategic Executive Directors (SED) of the Newcastle Municipality or Directors in cases of vacancies in the positions of SED -

- (a) the chief financial officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer; and at least one senior supply chain management practitioner who is an official of the Newcastle Municipality; and
- (b) a technical expert in the relevant field who is an official, if such an expert exists.

42.3. The accounting officer must appoint the Chairperson of the Bid Specification Committee, Bid Evaluation Committee and Bid Adjudication 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.

42.4. Neither a member of a bid evaluation committee, nor an advisor or person assisting the evaluation committee, may be a member of a bid adjudication committee. Members of the Bid Evaluation Committee may present their recommendations / reports to the Bid Adjudication committee and clarify issues but shall not have any voting powers.

42.5. If the bid adjudication committee decides to award a bid other than the one recommended by the bid evaluation committee,

- (a) the bid adjudication committee must prior to awarding the bid –
 - (i) check in respect of the preferred bidder whether that bidder's municipal rates and taxes and municipal service charges are not in arrears, and;
 - (ii) Notify the accounting officer.
- b) The accounting officer may –
 - (i) after due consideration of the reasons for the deviation, ratify or reject the decision of the bid adjudication committee referred to in paragraph (a); and
 - (ii) if the decision of the bid adjudication committee is rejected, refer the decision of the adjudication committee back to that committee for reconsideration.

42.6. The accounting officer may at any stage of a bidding process, refer any recommendation made by the evaluation committee or the adjudication committee back to that committee for reconsideration of the recommendation.

42.7. The accounting officer must comply with section 114 of the Act within 10 working days.

42.8. Meetings of bid committees and decision-making

- (a) The chairperson of the relevant bid committee shall determine the date, time and venue of meetings of the committee concerned. At least three working days written notice shall be given of a meeting of a bid committee to all the members.
- (b) A majority of the members of a bid committee must be present before the committee concerned may consider any matter.
- (c) Members of the committee can only be represented by another person who is acting or seconded to the meeting on his behalf for that day.
- (d) Decisions of a bid committee shall be taken by a majority of the members present at a meeting voting in favor of, or against, a question.
- (e) The accounting officer shall make appropriate arrangements to ensure that secretarial and such other administrative support services as may be required are provided to a bid committee.
- (f) Minutes shall be kept of each meeting of a bid committee. Such minutes shall :
 - (i) be considered and adopted, with or without amendments, as a true and accurate reflection of the proceedings at, and resolutions taken during a bid committee meeting, by the relevant committee at its first meeting next ensuing;
 - (ii) be signed by the person presiding at the meeting when they are approved; and
 - (iii) shall prima facie be evidence of the proceedings at a meeting of the relevant committee until the contrary is proven.
 - (iv) after approval be submitted to the SCM Unit, together with the tender documents concerned, for the calling of tenders or quotations where applicable.

43. Procurement of banking services

43.1. A contract for banking services –

- (a) must be procured through competitive bids;
- (b) must be consistent with section 7 or 85 of the Act; and
- (c) may not be for a period of more than five years at a time.

43.2. The process for procuring a contract for banking services must commence at least nine months before the end of an existing contract.

43.3. The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in a newspaper in terms of paragraph 31(1). Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990).

44. Procurement of IT related goods or services

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

44.2. Both parties must enter into a written agreement to regulate the services rendered by, and the payments to be made to, SITA.

44.3. The accounting officer must notify SITA together with a motivation of the IT needs if –

(a) the transaction value of IT related goods or services required in any financial year will exceed R50 million (VAT included); or

(b) the transaction value of a contract to be procured whether for one or more years exceeds R50 million (VAT included).

44.4. If SITA comments on the submission and the Newcastle 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 KwaZulu-Natal Provincial Treasury and the Auditor-General.

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

45.1. The accounting officer may procure goods or services under a contract secured by another organ of state, but only if –

(a) the need has to be identified, as resources required by Newcastle Municipality support its operational commitments and its strategic goals outlined in the Integrated Development Plan as well as the Procurement plan.

(b) specifications must be compiled by the Bid Specification Committee and must be approved by the Accounting Officer prior to the engagement of that organ of the state.

(c) the contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state;

(d) there is no reason to believe that such contract was not validly procured;

(e) there are demonstrable discounts or benefits to do so; and

(f) that other organ of state and the provider have consented to such procurement in writing.

(g) It in compliance with MFMA Circular No 96 Municipal Finance Management Act No. 56 of 2003

45.2. Subparagraphs (1)(c) and (d) do not apply if –

(a) a municipal entity procures goods or services through a contract secured by its parent municipality; or

(b) a municipality procures goods or services through a contract secured by a municipal entity of which it is the parent municipality.

46. Procurement of goods necessitating special safety arrangements

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

46.2. Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership, cost advantages and environmental impact and must be approved by the accounting officer.

47. Proudly SA Campaign

47.1. The Newcastle Municipality supports the Proudly SA Campaign to the extent that, all things being equal, preference is given to procuring local goods and services from:

- (a) Firstly – suppliers and businesses within the municipality or district;
- (b) Secondly – suppliers and businesses within the relevant province;
- (c) Thirdly – suppliers and businesses within the Republic.
- (d) Where bidders imports goods outside borders of South Africa, Department of Trade and Industry and National Treasury regulations will be applied.

48. Appointment of consultants

48.1. 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.

48.2. Consultancy services must be procured through competitive bids if

- (a) the value of the contract exceeds R200 000,00 (VAT included); or
- (b) the duration period of the contract exceeds one year.

48.3. In addition to any requirements prescribed by this SCM policy for competitive bids, bidders must furnish particulars of –

- (a) all consultancy services provided to an organ of state in the last five years; and
- (b) any similar consultancy services provided to an organ of state in the last five years.

48.4. The accounting officer must ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, thing, system or process designed or devised, by a consultant in the course of the consultancy service is vested in the Newcastle Municipality.

48.5. The accounting officer must put measures in place to ensure that skills transfer does occur to avoid over reliance on consultants by the project managers.

49. Deviation from, and ratification of minor breaches of, procurement processes

49.1. The accounting officer may –

- (a) dispense with the official procurement processes established by this SCM Policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –
 - (i) in an emergency;
 - (ii) if such goods or services are produced or available from a single provider only;
 - (iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile;
 - (iv) acquisition of animals for zoos and/or nature and game reserves; or
 - (v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes; and
- (b) ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature.

49.2. The accounting officer must record the reasons for any deviations in terms of subparagraphs (1)(a) and (b) of this SCM policy and report them to the next meeting of the council and include as a note to the annual financial statements.

49.3. Subparagraph (2) does not apply to the procurement of goods and services contemplated in paragraph 18(2) of this SCM policy.

50. Unsolicited bids

50.1. In accordance with section 113 of the Act there is no obligation to consider unsolicited bids received outside a normal bidding process.

50.2. The accounting officer may decide in terms of section 113(2) of the Act to consider an unsolicited bid, only if –

- (a) the product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
- (b) the product or service will be exceptionally beneficial to, or have exceptional cost advantages;
- (c) the person who made the bid is the sole provider of the product or service; and
- (d) the reasons for not going through the normal bidding processes are found to be sound by the accounting officer.

50.3. If the accounting officer decides to consider an unsolicited bid that complies with subparagraph (2) of this SCM policy, the decision must be made public in accordance with section 21A of the Municipal Systems Act, together with –

- (a) reasons as to why the bid should not be open to other competitors;
- (b) an explanation of the potential benefits if the unsolicited bid were accepted; and
- (c) an invitation to the public or other potential suppliers to submit their comments within 30 days of the notice.

- 50.4. The accounting officer must submit all written comments received pursuant to subparagraph (3), including any responses from the unsolicited bidder, to the National Treasury and the KwaZulu-Natal Provincial Treasury for comment.
- 50.5. The adjudication committee must consider the unsolicited bid and may award the bid or make a recommendation to the accounting officer, depending on its delegations.
- 50.6. A meeting of the adjudication committee to consider an unsolicited bid must be open to the public.
- 50.7. When considering the matter, the adjudication committee must take into account –
- (a) any comments submitted by the public; and
 - (b) any written comments and recommendations of the National Treasury or the KwaZulu-Natal Provincial Treasury.
- 50.8. If any recommendations of the National Treasury or provincial treasury are rejected or not followed, the accounting officer must submit to the Auditor General, the KwaZulu-Natal Provincial Treasury and the National Treasury the reasons for rejecting or not following those recommendations.
- 50.9. Such submission must be made within seven days after the decision on the award of the unsolicited bid is taken, but no contract committing the Newcastle Municipality to the bid may be entered into or signed within 30 days of the submission.

51. Combating of abuse of supply chain management system

- 51.1. The accounting officer must–
- (a) take all reasonable steps to prevent abuse of the supply chain management system;
 - (b) investigate any allegations against an official or other role player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with this SCM Policy, and when justified –
 - (i) take appropriate steps against such official or other role player; or
 - (ii) report any alleged criminal conduct to the South African Police Service;
 - (c) check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector;
 - (d) reject any bid from a bidder–
 - (i) if any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the Newcastle Municipality, or to any other municipality or municipal entity, are in arrears for more than three months; or any bidder who failed to produce a valid original tax clearance certificate issued by SARS to certify that the tax matters of a certain bidder are in order or necessary arrangements were made with SARS. or
 - (ii) who during the last five years has failed to perform satisfactorily on a previous contract with the Newcastle Municipality or any other organ of state after written notice was given to that bidder that performance was unsatisfactory;
 - (e) 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;
 - (f) cancel a contract awarded to a person if –

- (i) the person committed any corrupt or fraudulent act during the bidding process or the execution of the contract; or
- (ii) an official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of the contract that benefited that person; and
- (g) reject the bid of any bidder if that bidder or any of its directors –
 - (i) has abused the supply chain management system of the Newcastle Municipality or has committed any improper conduct in relation to such system;
 - (ii) has been convicted for fraud or corruption during the past five years;
 - (iii) has willfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years; or
 - (iv) has been listed in the Register for Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004).

51.2. The accounting officer must inform the National Treasury and KwaZulu-Natal Provincial Treasury in writing of any actions taken in terms of subparagraphs (1)(b)(ii), (e) or (f) of this SCM policy.

Chapter 3: Logistics, Disposal, Risk and Performance Management

52. Logistics Management

52.1. The accounting officer must establish and implement an effective system of logistics management, which must include -

- (a) the monitoring of spending patterns on types or classes of goods and services incorporating, where practical, the coding of items to ensure that each item has a unique number;
- (b) the setting of inventory levels that includes minimum and maximum levels and lead times wherever goods are placed in stock;
- (c) the placing of manual or electronic orders for all acquisitions other than those from petty cash;
- (d) before payment is approved, certification by the responsible officer that the goods and services are received or rendered on time and is in accordance with the order, the general conditions of contract and specifications where applicable and that the price charged is as quoted in terms of a contract;
- (e) appropriate standards of internal control and warehouse management to ensure that goods placed in stores are secure and only used for the purpose for which they were purchased;
- (f) regular checking to ensure that all assets including official vehicles are properly managed, appropriately maintained and only used for official purposes; and
- (g) monitoring and review of the supply vendor performance to ensure compliance with specifications and contract conditions for particular goods or services.
- (h) The SCM Unit shall be responsible and accountable for the establishment, management and operation of store facilities for the Municipality, which shall consist of a main store and such satellite stores in other areas within the Municipality as may be necessary.
- (i) The Supply Chain Manager shall be responsible and accountable for:
 - (i) The day-to-day operation of the Municipality's store facilities;
 - (ii) Determining the range and nature of items that will be carried in the main store facility and satellite stores;
 - (iii) Setting of inventory levels;
 - (iv) Timely placement of orders when stock levels are low;

- (v) Receiving and distribution of goods; and
- (vi) Expediting orders.

53. Disposal management

53.1. The criteria for the disposal or letting of assets, including unserviceable, redundant or obsolete assets, subject to sections 14 and 90 of the Act, are as follows:

- (a) The Newcastle Municipal Council has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services;
- (b) The Newcastle Municipal Council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset to the Municipality.
- (c) The accounting officer of the Newcastle Municipality shall have delegated authority to transfer ownership as a result of a sale or other transaction, or otherwise permanently dispose of a capital asset not needed to provide the minimum level of basic municipal services, with a value of up to R1 000 000,00.
- (d) The Newcastle Municipal Council shall authorise transfer ownership as a result of a sale or other transaction, or otherwise permanently dispose of a capital asset not needed to provide the minimum level of basic municipal services, with a value of greater than R1 000 000,00 by resolution of a municipal council meeting open to the public.

53.2. Assets may be disposed of by –

- (a) transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
- (b) transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
- (c) selling the asset; or
- (d) destroying the asset.

53.3. The accounting officer must ensure that –

- (a) immovable property is sold only at market related prices except when the public interest or the plight of the poor demands otherwise;
- (b) movable assets are sold either by way of written price quotations, a competitive bidding process, auction or at market related prices, whichever is the most advantageous;
- (c) firearms are not sold or donated to any person or institution within or outside the Republic unless approved by the National Conventional Arms Control Committee;
- (d) immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise; as determined by council from time to time
- (e) all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed;
- (f) where assets are traded in for other assets, the highest possible trade-in price is negotiated; and
- (g) in the case of the free disposal of computer equipment, the provincial department of education is first approached to indicate within 30 days whether any of the local schools are interested in the equipment.

54. Disposal and lease of municipal land

- 54.1.** The Newcastle Municipality has a core responsibility to acquire and avail land and buildings, in the first instance, for its own use for purposes of developing and maintaining municipal infrastructure, promoting service delivery and facilitating social and economic development and spatial integration. Future land requirements must be acknowledged and immovable property should be held in reserve for this purpose.
- 54.2.** In acquiring, managing, developing and releasing land, the Newcastle Municipality must consider the best interests of the municipality (and thus its residents) rather than that of individuals when entering into real estate transactions. Maximum benefit should be given to the Municipality and thereby the community.
- 54.3.** The Newcastle Municipality should act in the best interests of its citizens, and it therefore follows that the Newcastle Municipality will not singularly follow the historic processes and values of the market. Moreover, because the historic accumulation of land and property is highly varied, this must be acknowledged in terms of future transactions. Certain interventions may be necessary in land transactions pursued by the Newcastle Municipality as compared to those of the private land and property market. The private market is concerned with maximising capital gain, as against the role of the Municipality in acting in the best interests of its citizens.
- 54.4.** The Newcastle Municipality must act in support of sectoral policies such as economic development, environment management, land use, housing, social and community infrastructure and culture and recreation.
- 54.5.** Any land assets unrelated to these uses is deemed surplus.
- 54.6.** Market forces shall be the point of departure in all transactions.

55. Categories of Land

The municipality's land assets are categorised as follows:

- (a) land intended for residential development
- (b) land intended for commercial and industrial purposes
- (c) land intended for social purposes including religious, education and institutional purposes
- (d) land intended to be developed for sport and recreation purposes
- (e) land intended for agricultural purposes

56. Manner of disposal of various categories of land

- (a) Land incapable of development in its own right within predominantly residential areas e.g. sanitary lanes and unutilised substation erven will be offered in ownership to the respective adjoining owners at market value. The purchaser will be liable for all costs of possible relocation of services, rezoning, survey, registration and transfer. The creation of a free standing lot will in each instance be the preference of Council in order that new residential opportunities are created.
- (b) Residential land capable of development in its own right shall be offered for sale by means of an invitation to bid or public auction subject to an upset price that is market related but taking

- into account historical individuals. Residential land intended for sale for the development and sale to the beneficiaries of a housing programme of the national or provincial government shall be offered for sale by private treaty at a price determined by council provided that the plight of the poor is taken into account.
- (c) Residential land that has been acquired for a capital project which has yet to commence and which is thus not immediately required by the municipality will be offered on a short term lease basis. The rental payable shall be market related unless determined otherwise by council. The property will be offered on private treaty at no cost to Council.
 - (d) Commercial land that is incapable of development on its own right will be offered to the respective adjoining owners at market value. The purchaser will be responsible for all costs associated with the possible relocation of services, rezoning, survey, registration and transfer
 - (e) Commercial and industrial land capable of development in its own right will be offered for sale by public competition (either by public auction or invitation to bid as the council may prefer from time to time. Sale of land will be subject to an upset value that is market related and such other conditions supporting the policies and programmes of the municipality.
 - (f) Land located within an area of specific focus or which is subject to a specific development or social programme may be offered for sale or lease as the council may determine on a case by case basis through an invitation to bid. In such cases the maximization of returns will not necessarily be the determining factor and the aims of the municipality will be clearly articulated in the bid documentation. Land in this category may be allocated to take into account historically disadvantaged individuals.
 - (g) Commercial and industrial land not immediately required for the municipality needs will be offered on a short term basis and the notice period will vary based on when the property will be required. The rental will be at market related rates unless determined otherwise by council in the interest of the public.
 - (h) Ownership of social sites shall be by means of an invitation to bid. Bidders will be subject to a screening process that will take into account amongst other things the community, the nature of the organization and its ability to discharge its intentions. The sale shall be subject to a predetermined market related price or as may be determined by council
 - (i) Amateur sports bodies are those bodies that are providing sporting facilities. Land will be offered in an open bidding process on a leasehold basis and will preclude discrimination and will be subject to development clauses to ensure the discharge of intentions. The rental will be established on the basis of a nominal rental for the total land component on the lease as may be approved by the municipality. The lessee will be liable for rates and services consumed as prescribed by the Newcastle Municipality's tariff of charges.
 - (j) Land for professional sport
 - (i) in instances where there is commercial benefit to be derived by the owner or shareholders of a club a differentiation will be made from those agreement for amateur sport in terms of rental payable
 - (ii) land for rental will be at its full economic value or a percentage of all financial turnover and such percentage will be determined by the Municipality from time to time. The contribution the sport makes to the economic development will be taken into consideration in determining such percentage.
 - (iii) the sporting organization's liability to rates shall be in accordance with the rates policy.

(k) Land for agricultural purposes

Agricultural land shall be offered for sale by means of an invitation to bid, subject to an upset price that is market related and will take into consideration the historical disadvantaged. The land shall be leased to community groups on a case by case basis taking into consideration the municipal social programmers and the historically disadvantaged.

57. Unsolicited proposals for land

The municipality will follow the following procedure for unsolicited proposals for land development

- (a) proposals received will be evaluated by the Municipality.
- (b) realistic propositions will be advertised in the media to solicit competitive proposals or objections from the public.
- (c) if a response is received from the public, a competitive
- (d) will be called for by means of an invitation to bid.
- (e) the sale will be by way of market value unless the development is in the plight of the poor in which case the council determines to price land on a case by case basis.

58. Contracts providing for compensation based on turnover

If a service provider acts on behalf of the Newcastle 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 Newcastle Municipality must stipulate –

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

59. Risk management

59.1. The criteria for the identification, consideration and avoidance of potential risks in the SCM system, are as follows:

59.2. 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.

60. Performance management

The accounting officer must establish and implement an internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorized supply chain management processes were followed and whether the objectives of this SCM Policy were achieved.

61. Contract Management

61.1. Service Level Agreements

- (a) Contracts concluded for the procurement of goods and services should be made subject to the conclusion of a service level agreement.
- (b) It is the responsibility of each directorate concerned to ensure that a valid and legally binding contract is entered into between the municipality and the successful bidder in line with the bid specifications, after approval of the bid as mentioned above.
- (c) In the event that a suitable contract has not been included in the bid documentation, a copy of the approval and all relevant documentation must be provided to Legal Services timely for the drafting of a suitable contract.
- (d) After signing of the contract by the parties, the directorate concerned must ensure that copies are made available to all role players including the SCM Unit. The originally signed copy must be filed at the main records who will act as custodian of all procurement contracts of the Municipality.
- (e) The directorate concerned is responsible, in consultation with the SCM Unit and Legal Services, to ensure that service providers comply with the provisions of the contract, and in the event of a possible breach of contract or proposed amendment to the contract, to submit a report in this regard to the accounting officer.
- (f) In case where a panel of service providers are appointed with the similar scope of works, it is the responsibility of the user-department, for which the contract was procured, to ensure that the appointed service providers are fairly rotated in a transparent manner and such rotation must be done in consultation with the SCM Unit.
- (g) Contract Management must be implemented in line with the approved contract management Standard Operating Procedure (SOP).

61.2. Extension/Expansion of contracts

The accounting officer must as far as possible refrain from extending/expanding contracts and for allowing a variation orders as this increases risk, reflects possible flaws in planning and creates an uncompetitive environment that may possibly unfairly prejudice other possible vendors. Extensions should only be granted if it makes economic sense and provided that it can be justified in terms of fairness, equitableness, transparency, competitiveness and cost effectiveness.

62. Remedies in case of death, sequestration, liquidation or judicial management

- (a) In the event of the death of a contractor or the provision of or final sequestration of his or her estate or of his or her cession or transfer of contract without the approval of the Newcastle Municipality or of the surrender of his or her estate or his or her reaching a compromise with

his or her creditors or of the provisional or final liquidation of a contractor's company or placing of its affairs under judicial management, the council must without prejudice to any rights it may have, exercise any of the following:

- (i) Cancel the contract and accept any of the bids which were submitted originally with that of the contractor or any offer subsequently received to complete the contract. In such a case the estate of the contractor shall not be relieved from liability for any claim which has arisen or may arise against the contractor in respect of supplies not delivered or work not carried out under the contract, and the Newcastle Municipality shall have the right to hold and retain all or any of the securities and retention moneys held by it at the date of the aforementioned occurrences until such claim has been satisfied or
 - (ii) Allow the executor, trustee, liquidator or judicial manager as the case may be for and on behalf of and at the expense and cost of the estate of the contractor to carry on and complete the contract.
- (b) In the event of the contract being cancelled by the Municipality in the exercise of its rights in terms of these conditions, the contractor should be liable to pay council any losses sustained and or additional costs or expenditure incurred as a result of such cancellation and Council should have the right to recover such losses, damages or additional costs by means of set off from moneys due or which may become due in terms of the contract or any other contract or from a guarantee provided for the due fulfillment of the contract and until such time as the moneys or guarantee as security have been determined for any loss which the Council may suffer or have suffered. The contractor must be held responsible for any consequential damages and loss sustained which may be caused by any defect, latent or otherwise in the supply or service rendered.
- (c) Transfer of contract
The contractor must not abandon, transfer, assign or sublet a contract or part thereof without the written permission of the Council.

63. Penalties

63.1. Where a contract has been awarded on the strength of preference point information furnished by the contractor, which after the conclusion of the relevant contract is proved to have been incorrect, the Municipality may in addition to any other legal remedy it may have to recover from the contractor all costs, losses or damages incurred or sustained by the municipality as a result of the award of the contract and /or

- (a) cancel the contract and claim damages which the municipality may suffer as a result of having to make less favourable arrangements and /or
- (b) impose on the contractor a penalty not exceeding 5% of the value of the contract

Chapter 4: Other Matters

64. Prohibition on awards

64.1. To persons whose tax matters are not in order:-

- (a) No award may be made in terms of this SCM Policy 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 officer must first check with SARS whether that person's tax matters are in order.
- (c) If SARS does not respond within 7 days such person's tax matters may, for purposes of subparagraph 64(1)(a), be presumed not to be in order.

64.2. To persons in the service of the state:-

Irrespective of the procurement process followed, no award may be made to a person in terms of this SCM Policy –

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

64.3. To persons whose Municipal services are not in order:-

- (a) The bidders must make sure that their directors Municipal services in which they are staying are for the period of not more than 30 days are in order.
- (b) Those that reside within the Newcastle Municipality should make an arrangement with the Municipality prior to the award being made.

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

The accounting officer must ensure that the notes to the annual financial statements disclose particulars of any award of more than R2000,00 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.

65. Ethical standards

65.1. A code of ethical standards is hereby established for officials and other role players in the supply chain management system of the Newcastle Municipality in order to promote –

- (a) mutual trust and respect; and
- (b) an environment where business can be conducted with integrity and in a fair and reasonable manner.

65.2. Code of conduct

65.2.1. SCM Practitioners and all other role players involved in SCM operations are:

- (a) to act at all times with fidelity, honesty, integrity and in the best interests of the Newcastle Municipality and the general public it serves
- (b) to diligently perform the duties of a member efficiently, effectively and strictly in accordance with the rules of bidding and bid evaluation, as set out in the bid documentation and according to all relevant instructions given by the institution
- (c) to properly prepare for and attend each meeting of the bid committees applicable, and failing this to withdraw as a member
- (d) to act at all times in accordance with the relevant legislation and regulations,
- (e) specifically, to comply with the *Code of Conduct for the Municipality*.
- (f) to recognise the public's right to access to information in the interests of administrative justice
- (g) to take the utmost care in ensuring that there is reasonable protection of the records of the institution and all bid documentation
- (h) not to misuse the position or privileges of a member, or privileged or confidential information obtained as a member
- (i) to carry out duties with the skill and care expected from a person of knowledge and experience, and to exercise due judgment
- (j) not to unfairly discriminate against any bidder on the grounds of race, gender, ethnic or social origin, colour, sexual orientation, age, disability, religion, political persuasion, conscience, belief, culture or language
- (k) not to abuse any position in the public services to promote or prejudice the interest of any political party or interest group
- (l) to give the Auditor-General all the information and explanations it requires to carry out its functions
- (m) to report to the appropriate authorities any case of fraud, corruption, nepotism, mal-administration and any other acts which constitute an offence or which are prejudicial to the public interest, arising during the bid evaluation panel proceedings
- (n) to declare, diligently, accurately and honestly, in the declaration of interest, all personal and/or business interests that I or a family member may have in any business of any bidder, and to willingly abide by any decision of the chairperson of the bid evaluation panel or the accounting officer/authority to withdraw as a member of the panel because of this.

- (o) to be open and honest about all decisions and actions taken regarding the bid evaluation, and to give clear reasons for these, which can be accurately recorded.
- (p) not to make any dishonest allegations about any bidder
- (q) not to make any false or misleading entries into the records of the bid evaluation panel
- (r) to make no contractual commitments related to the bid, to any bidding party, on behalf of the institution.
- (s) to proactively protect privileged or confidential information of the bid evaluation panel from theft, unauthorized disclosure or inappropriate use, and specifically:
 - (i) not respond to any queries relating to the bid evaluation on behalf of the institution, unless expressly authorised in writing by the accounting officer/authority to do so.
 - (ii) not to speak to or correspond carelessly with any person (fellow member, colleague, friend, family member or otherwise) on any matter related to the bid evaluation
- t) not to use his position for private gain or to improperly benefit another person, not to request, solicit or accept any reward, gift or favor in return for voting or not voting in a particular way on any matter, or for disclosing privileged or confidential information.
- u) not to accept or agree to later accept, any 'kickbacks' in the form of money, favours, inappropriate gifts or anything else of value from a member of the public, government, a political or social movement, or any stakeholder or potential stakeholder which is or may be viewed as aimed at influencing or directing the evaluation of the bids.
- v) to disclose immediately to the chairperson or the accounting officer/authority any attempted inducement or offers of perks that may be construed as aimed at influencing or directing the evaluation of the bids
- w) to report to the chairperson of the panel any invitations to any kind of entertainment by any party that may be construed as being associated in any way with the outcome of the bid evaluation
- x) to not vote at, attend or participate in any other way in any meeting or hearing in relation to any matter before the bid evaluation panel, if any interest prevents me from carrying out my member functions in a fair, unbiased and proper way in accordance with this code of conduct.

65.2.2. A breach of the code of ethics must be dealt with as follows –

- (a) in the case of an employee, in terms of the disciplinary procedures of the Newcastle Municipality envisaged in section 67(1)(h) of the Municipal Systems Act;
- (b) in the case a role player who is not an employee, through other appropriate means in recognition of the severity of the breach.
- (c) In all cases, financial misconduct must be dealt with in terms of chapter 15 of the Act.

66. Inducements, rewards, gifts and favors to municipalities, officials and other role players

66.1. In respect of this SCM Policy the following shall apply:

- 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 –
- b) any inducement or reward to the Newcastle Municipality for or in connection with the award of a contract; or
- c) any reward, gift, favor or hospitality to –
 - (i) any official; or
 - (ii) any other role player involved in the implementation of this SCM Policy.
- d) all declarations must be recorded in a register which the accounting officer must keep.
- e) the accounting officer must report all gifts he/she may receive to the Mayor and the Mayor shall report all gifts he/she received to the Speaker.

66.2. The accounting officer must promptly report any alleged contravention of subparagraph (1) to the National Treasury for considering whether the offending person, and any representative or intermediary through which such person is alleged to have acted, should be listed in the National Treasury's database of persons prohibited from doing business with the public sector.

66.3. Subparagraph (1) does not apply to gifts less than R350.00 in value.

67. Sponsorships

The accounting officer must promptly disclose to the National Treasury and the KwaZulu-Natal 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.

68. Objections and complaints

68.1. Persons aggrieved by decisions or actions taken in the implementation of this SCM system, may lodge an objection within 14 days of the decision or action –

- (a) if the objection or complaint is against the procurement process, submit a written objection or complaint against the decision or action to the accounting officer of the municipality who shall, in turn, refer the written objection or complaint to the independent and impartial person for resolution or
- (b) if such complaint or objection is against the award of a bid, lodge a written appeal with the accounting officer who in turn shall refer written objection to the independent and impartial person to review decision taken by the Municipality against grounds of appeal and provide legal opinion to be implemented by the accounting officer.
- (c) Should the complainant still not satisfied with the legal opinion of an independent and impartial person may refer the matter to Kwa-Zulu Natal Municipal Bid Appeals Tribunal who will hear the matter and make final ruling.

68.2. Resolution of objections and complaints against procurement process

- (a) The accounting officer must appoint an independent and impartial person, not directly involved in the SCM processes to assist in the resolution of objections and complaints between the Municipality and any other person regarding -
 - i. the implementation of the procurement process in terms of the SCM system; or
 - ii. any matter arising from the implementation of the procurement process in terms of the SCM system.
- (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 objections and complaints received; and
 - (ii) submit reports to the accounting officer on all such objections and complaints received, attended to or resolved.
- (a) If the independent and impartial person, is of the view that a matter which should be dealt with in terms of paragraph 68.1(a)(b), he or she shall forthwith refer the matter to the Provincial Treasury Municipal Bid Tribunals and that Tribunal shall then hear and determine the matter in accordance with the provisions of paragraph 68.1(a)(b).
- (b) An objection or complaint may be referred to the KwaZulu-Natal Provincial Treasury if:
 - (i) the objection or complaint is not resolved within 60 days; or
 - (ii) no response is forthcoming within 60 days.
- (c) If the Provincial Treasury does not or cannot resolve the matter, the objection or complaint may be referred to the National Treasury for resolution.

Chapter 5: Preferential Procurement Management

69. Preferential Procurement Management

Offers for the procurement of goods and services shall be in line with the applicable procurement legislation, namely the Preferential Policy Framework Act, 2000 (Act No 5 of 2000) and its associated Preferential Procurement Regulations, and the Broad-Based Black Economic Empowerment Act, 2003 (Act No 53 of 2003). Offers for the procurement of goods and services shall be adjudicated on the following criteria:

69.1. Evaluation of bids on functionality

- (a) The Newcastle Municipality shall indicate on the invitation to submit a bid if a bid shall be evaluated on functionality.
- (b) The evaluation criteria for measuring functionality shall be objective.
- (c) Where bids are evaluated on functionality, the following shall be clearly specified in the invitation to submit a bid –

- (i) The evaluation criteria for measuring functionality
 - (ii) The weight of each criterion
 - (iii) The applicable value; and
 - (iv) The minimum qualifying score for functionality
- (d) No bid shall be regarded as an acceptable bid if it fails to achieve a minimum score for functionality as indicated in the bid invitation.
- (e) Bidders that have achieved the minimum qualifying score for functionality shall be evaluated further for preference point systems prescribed in paragraphs 69.2 and 69.3 of this SCM Policy.

69.2. The 80/20 Preferential Point System

- a) The following formula shall be used to calculate preference points in respect of bids (including price quotations) with a Rand value equal to, or above R 30 000,00 up to a Rand value of R 50 000 000,00 (all applicable taxes included):

$$Ps = \frac{80(1 - Pt - P \text{ min})}{P \text{ min}}$$

Where

- Ps = Points scored for price of bid or offer under consideration.
 Pt = Price of tender under consideration.
 P min = Price of lowest acceptable tender

The Newcastle Municipality may apply the formula in paragraph a) for quotations with a value less than R30 000,00 if and when appropriate.

- b) Subject to sub-paragraph 69.2(c) points shall be awarded to a bidder attaining the B-BBEE status level contributor in accordance with the table below.

B-BBEE Status Level of Contributor	Number of Points
1	20
2	18
3	14
4	12
5	8
6	6
7	4
8	2
Non-compliant contributor	0

- c) A maximum 20 points shall be allocated in accordance with sub-paragraph 69.2(b) of this SCM policy.
- d) The points scored by the bidder in respect of B-BBEE contribution contemplated in sub-paragraph 69.2 (b) shall be added to the points scored for price as calculated in sub-paragraph 69.2 (a) of this SCM policy.
- e) Subject to sub-paragraph 69.4 of this SCM policy the contract shall be awarded to a bidder who scores the highest number of points.

A tenderer may not be awarded points for B-BBEE status level of contributor if the tender documents indicate that the tenderer intends subcontracting more than 25% of the value of the contract to any other person not qualifying for at least the points that the tenderer qualifies for, unless the intended subcontractor is an EME that has the capability to execute the subcontract

If the price offered by a tenderer scoring the highest points is not market related, the organ of state may not award the contract to that tenderer.

(b) The organs of state may-

- (i) negotiate a market-related price with the tenderer scoring the highest points or cancel the tender;
 - (ii) if the tenderer does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the second highest points or cancel the tender;
 - (iii) if the tenderer scoring the second highest points does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the third highest points or cancel the tender.
- (c) If a market-related price is not agreed as envisaged in paragraph (b)(iii), the organ of state must cancel the tender.

69.3. The 90/10 Preferential Point System

(a) The following formula shall be used to calculate preference points in respect of bids with a Rand value above of R50 000 000,00 (all applicable taxes included):

$$P_s = 90 \frac{(1 - P_t - P_{\min})}{P_{\min}}$$

Where

- P_s = Points scored for price of tender under consideration.
- P_t = Price of tender under consideration.
- P_{min} = Price of lowest acceptable tender.

(b) Subject to sub-paragraph 69.3(c) points shall be awarded to a bidder attaining the B-BBEE status level contributor in accordance with the table below.

B-BBEE Status Level of Contributor	Number of Points
1	10
2	9

3	6
4	5
5	4
6	3
7	2
8	1
Non-compliant contributor	0

(c) A maximum 10 points shall be allocated in accordance with sub-paragraph 69.3(b) of this SCM policy.

(d) The points scored by the bidder in respect of B-BBEE contribution contemplated in sub-paragraph 69.3(b) shall be added to the points scored for price as calculated in sub-paragraph 69.3(a) of this SCM policy.

(e) Subject to sub-paragraph 69.4 of this SCM policy the contract shall be awarded to a bidder who scores the highest number of points.

69.4. A contract may be awarded to a bidder that did not score the highest total number of points, only in accordance with section 2(1) (f) of the Preferential Procurement Policy Framework Act, 5 of 2000.

- a. tenderer may not be awarded points for B-BBEE status level of contributor if the tender documents indicate that the tenderer intends subcontracting more than 25% of the value of the contract to any other person not qualifying for at least the points that the tenderer qualifies for, unless the intended subcontractor is an EME that has the capability to execute the subcontract

If the price offered by a tenderer scoring the highest points is not market related, the organ of state may not award the contract to that tenderer.

- b. The organs of state may-
- i. negotiate a market-related price with the tenderer scoring the highest points or cancel the tender;
 - ii. if the tenderer does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the second highest points or cancel the tender;
 - iii. if the tenderer scoring the second highest points does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the third highest points or cancel the tender.
- c. If a market-related price is not agreed as envisaged in paragraph (b)(iii), the organ of state must cancel the tender.

69.5. The Preferential Policy Framework Act, 2000 (Act No 5 of 2000) and its associated Preferential Procurement Regulations, and the Broad-Based Black Economic Empowerment Act, 2003 (Act No 53 of 2003) do not apply when awarding bids through framework contracts as bidders are approved on market related rates. When the Municipality appoint service providers through panels, preferential procurement regulations only apply at the request for quotation stage after panel has been approved.

70. Cancellation and Re-invitation of Bids

70.1. In the application of the 80/20 preference point system

- (a) in the event that, in the application of the 80/20 preference point system as stipulated in the bid documents, all bids received exceed the estimated Rand value of R 50 000,000,00 the bid invitation shall be cancelled.
- (b) If one or more acceptable bids received are within the prescribed threshold of R50 000 000,00 all bids received must be evaluated on the 80/20 preference point systems.

70.2. In the application of the 90/10 preference point system

- (a) in the event that, in the application of the 90/10 preference point system as stipulated in the bid documents, all bids received are equal to, or below the estimated Rand value of R 50 000,000,00 the bid invitation shall be cancelled.
- (b) If one or more acceptable bids received are above the prescribed threshold of R50 000 000,00 all bids received must be evaluated on the 90/10 preference point systems.

70.3. The Newcastle Municipality shall, after cancellation of a bid invitation as contemplated in sub-paragraphs 69.1 (a) and 69.2(a), re-invite bidders and shall, in the bid documents stipulate the correct preference point system to be applied.

70.4. The Newcastle Municipality shall, prior to the award of a bid, cancel a bid if –

- (a) due to changed circumstances, there is no longer a need for the services, works or goods specified in the invitation;; or
- (b) funds are no longer available to cover the total envisaged expenditure
- (c) there is a material irregularity in the tender process; or
- (d) No acceptable bids are received

71. Local Production and Content

71.1. The bidding conditions may stipulate a minimum threshold of local production and content, as contemplated in regulation 16 of the new Preferential Procurement Regulations, NO. R32 dated 20 January 2017, where for such bids locally produced goods. Services or works or locally manufactured goods are of critical importance.

71.2. Every bid issued in terms of sub-paragraph 71.1 must be measurable and audited.

72. Variation order

72.1. Contracts may be expanded or varied by not more than 20% for construction related goods, services and/or infrastructure projects and 15% for all other goods and/or services of the original value of the contract.

72.2. Any expansion or variation in excess of these thresholds must be dealt with in terms of the provisions of section 116(3) of the MFMA which will be regarded as an amendment to the contract.

72.3. The contents of the above paragraph are not applicable to transversal term contracts, facilitated by the relevant treasuries on behalf of municipalities and, specific term contracts. The latter refers to orders placed as and when commodities are required and at the time of awarding contracts, the required quantities were unknown.

73. Payments of Service Providers

73.1. Payments should be paid within 30 days from the receipt of dully acceptable invoice.

73.2. Verification of debt due to Newcastle Municipality by the directors of the company will be made prior to the payment being released.

73.3. Any payments due to Newcastle Municipality should first be recovered from the invoice due to the service provider.

73.4. After conducting risk assessment, the Municipality may make partly upfront payment to the service provider provided it was submitted as part of pricing proposal terms and conditions.

74. Contracts providing for compensation based on turnover

74.1. If a service provider acts on behalf of a municipality or municipal entity 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 or municipal entity must stipulate -

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

PART C



THE NEWCASTLE
MUNICIPALITY
NEWCASTLE KWAZULU-NATAL

**Supply Chain Management Policy for Infrastructure Procurement and Delivery
Management**

Adopted on 26 May 2021

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1 Scope

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

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

2 Terms, definitions and abbreviations

2.1 Terms and definitions

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

agent: person or organization that is not an employee of Newcastle Municipality that acts on its behalf in the application of this document

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

conflict of interest: any situation in which:

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

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

family member: a person's spouse, whether in a marriage or in a customary union according to indigenous law, domestic partner in a civil union, or child, parent, brother, sister, whether such a relationship results from birth, marriage or adoption

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

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

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

gratification: an inducement to perform an improper act

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

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

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

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

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

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

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

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

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

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

2.2 Abbreviations

For the purposes of this document, the following abbreviations apply

CIDB: Construction Industry Development Board

SARS: South African Revenue Services

3 General requirements

3.1 Delegations

3.1.1 The **Council of Newcastle Municipality** hereby delegates all powers and duties to the accounting officer which are necessary to enable the accounting officer to:

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

- d) comply with his or her responsibilities in terms of section 115 and other applicable provisions of the Local Government Municipal Finance Management Act of 2003 Act.

3.1.2 No departure shall be made from the provisions of this policy without the approval of the accounting officer of Newcastle Municipality

3.1.3 The accounting officer shall for oversight purposes:

- a) within 30 days of the end of each financial year, submit a report on the implementation of this the policy and the equivalent policy of any municipal entity under the sole or shared control of the Newcastle Municipality, to the council of the Newcastle Municipality³ / within 20 days of the end of each financial year, submit a report on the implementation of this policy to the board of Strategic Executive Directors, who must then submit the report to the accounting officer of Newcastle Municipality for submission to the council;
- b) whenever there are serious and material problems in the implementation of this policy, immediately submit a report to the Council, who must then submit the report to the accounting officer of Newcastle Municipality for submission to the council;
- c) within 10 days of the end of each quarter, submit a report on the implementation of the policy to the Mayor; and
- d) make the reports public in accordance with section 21A of the Municipal Systems Act of 2000.

3.2 Implementation of the Standard for Infrastructure Procurement and Delivery Management

3.2.1 Infrastructure procurement and delivery management shall be undertaken in accordance with the all applicable legislation and the relevant requirements of the latest edition of the National Treasury Standard for Infrastructure Procurement and Delivery Management.⁵

3.3 Supervision of the infrastructure delivery management unit

The Infrastructure Delivery Management Unit shall be directly supervised by the Chief Financial Officer

3.4 Objections and complaints

Persons aggrieved by decisions or actions taken in the implementation of this policy, may lodge within 14 days of the decision or action, a written objection or complaint against the decision or action.

3.5 Resolution of disputes, objections, complaints and queries

3.5.1 The accounting officer shall appoint an independent and impartial person, not directly involved in the infrastructure delivery management processes to assist in the resolution of disputes between the Newcastle Municipality and other persons regarding:

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

3.5.2 The accounting officer or Designated Person shall assist the person appointed in terms of 3.5.1 to perform his or her functions effectively.

3.5.3 The person appointed in terms of 3.5.1 shall:

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

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

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

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

4 Control framework for infrastructure delivery management

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

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

4.2 Gateway reviews

4.2.1 Gateway reviews for major capital projects above a threshold

4.2.1.1 Municipal Manager shall appoint a gateway review team in accordance with the provisions of clause 4.1.13.1.2 of the standard to undertake gateway reviews for major capital projects.

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

Stage		Person/Body assigned the responsibility for approving or accepting end of stage deliverables	Output	Project Value
No	Name			
0	Project initiation	Council accepts the initiation report	Approved IDP	Above R200 000
1	Infrastructure planning	Strategic Executive Director: Technical Services approves the infrastructure plan	Approved Budget	Above R200 000
2	Strategic resourcing	Strategic Executive Director: Technical Services / or procurement strategy approves the delivery and		Above R200 000

3	Pre-feasibility		[Strategic Executive Director: Technical Services accepts the pre-feasibility report		Above R200 000
	Preparation and briefing		[Strategic Executive Director: Technical Services accepts the strategic brief		Above R200 000
4	Feasibility		Strategic Executive Director: Technical Services accepts the feasibility report		Above R200 000
	Concept and viability		Strategic Executive Director: Technical Services accepts the concept report		Above R200 000
5	Design development		Strategic Executive Director: Technical Services development report	Designs	Above R200 000
6	Design documentation	6A Production information	Strategic Executive Director: Technical Services which are identified when the design development report is accepted as requiring acceptance	Designs	Above R200 000
		6B Manufacture, fabrication and construction information	The contract manager accepts the manufacture, fabrication and construction information	Designs	Above R200 000

Stage		Person assigned the responsibility for approving or accepting end of stage deliverables	Output	Project Value
No	Name			
7	Works	The contract manager certifies completion of the works or the delivery of goods and associated services		Above R200 000
8	Handover	The owner or end user accepts liability for the works		Above R200 000
9	Package completion	The contract manager or supervising agent certifies the defects certificate in accordance with the provisions of the contract The contract manager certifies final completion in accordance with the provisions of the contract <i>[Strategic Executive Director; Technical Services]</i> accepts the close out report		Above R200 000

5 Control framework for infrastructure procurement

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

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

- a) Bid Documentation Committee shall grant approval for the issuing of the procurement documents, based on the, contents of a documentation review report developed in accordance with the provisions of the standard;
- b) the Bid Adjudication Committee may award the contract if satisfied with the recommendations contained in the evaluation report prepared in accordance with the provisions of the standard or alternatively make a recommendation to the Municipal Manager to award if the value exceeds R10 million.

5.3 The responsibilities for taking the key actions associated with the issuing of an order in terms of a framework agreement shall be as stated in Table 3.

6 Infrastructure delivery management requirements

6.1 Institutional arrangements

6.1.1 Committee system for procurement

6.1.1.1 General

6.1.1.1.1 A committee system comprising the Bid Specification committee, Bid evaluation committee and Bid Adjudication committee shall be applied to all procurement procedures where the estimated value of the procurement exceeds R200 000 and to the putting in place of framework agreements.

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

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

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

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

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

6.1.1.2 Bid Specification committee

6.1.1.2.1 The Municipal Manager shall appoint in writing a standing committee to review the procurement documents and to develop a procurement documentation review report in accordance with clause 4.2.2.1 of the standard.

6.1.1.2.2 The Bid specification committee shall comprise of a Chairperson, Vice Chairperson and three (3) members of which one (1) is the responsible official and one (1) is a SCM official. The chairperson shall be an employee of Newcastle Municipality with requisite skills.

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

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

Activity	Sub-Activity (see Table 3 of the standard)	Key action	Person assigned responsibility to perform key action
1*	Establish what is to be Procured 1.3 PG1 Obtain permission to start with the procurement process	Make a decision to proceed / not to proceed with the procurement based on the broad scope of work and the financial estimates.	Strategic Executive Director: Technical Services
2*	Decide on procurement Strategy 2.5 PG2 Obtain approval for procurement strategies that are to be adopted including specific approvals to approach a confined market or the use of the negotiation procedure	Confirm selection of strategies so that tender offers can be solicited	Strategic Executive Director: Technical Services
3	Solicit tender 3.2 PG3 Obtain approval for procurement documents	Grant approval for the issuing of the procurement documents	Bid specification Committee
	Offers 3.3 PG4 Confirm that budgets are in place	Confirm that finance is available for the procurement to take place	Strategic Executive Director: Financial Services/Manager: Budgets
	Evaluate 4.2 PG5 Obtain authorisation to proceed with next phase of tender process in the qualified, proposal or competitive negotiations procedure	Review evaluation report, ratify recommendations and authorise progression to the next stage of the tender process	Strategic Executive Director: Technical Services

4	tender offers	4.7 PG6	Confirm recommendations contained in the tender evaluation report	Review recommendations of the bid evaluation committee and refer back to bid evaluation committee for reconsideration or make recommendation for award	Bid Adjudication committee
5	Award contract	5.3 PG7	Award contract	Formally accept the tender offer in writing and issue the contractor with a signed copy of the contract	[authorised person] <i>Accounting Officer</i>
		5.5 GF1	Upload data in financial management and payment system	Verify data and upload contractor's particulars and data associated with the contract or order	[designated person] <i>SCM</i>

* Applies only to goods and services not addressed in a procurement strategy developed during stage 2 (strategic resourcing) of the control framework for infrastructure delivery management

Table 2 (concluded)

Activity	Sub-Activity	Key action	Person assigned responsibility to perform key action
Administer contracts and Confirm	6.4 PG8A Obtain approval to waive penalties or low performance damages.	Approve waiver of penalties or low performance damages	[Strategic Executive Director: Technical Services]
	6.5 PG8B Obtain approval to notify and refer a dispute to an adjudicator	Grant permission for the referral of a dispute to an adjudicator or for final settlement to an arbitrator or court of law	Manager: Legal Services
Compliance With requirements	6.6 PG8C Obtain approval to increase the total of prices, excluding contingencies and price adjustment for inflation, or the time for completion at the award of a contract or the issuing of an order up to a specified percentage ²¹	Approve amount of time and cost overruns up to the threshold	[Project Management Unit Manager]
	6.7 PG8D Obtain approval to exceed the total of prices, excluding contingencies and price adjustment for inflation, or the time for completion of a contract or the issuing of an order 20% and 30%, respectively at award of a contract or the issuing of an order by more than	Approve amount of time and cost overruns above a the threshold	[municipal manager or chief executive or, depending upon the value, a appropriately delegated authority]

6.8 PG8E	Obtain approval to cancel or terminate a contract	Approve amount	[Strategic Executive Director: Technical Services]
6.9 PG8F	Obtain approval to amend a contract	Approve proposed amendment to contract	[Strategic Executive Director: Technical Services]

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

Activity	Key action	Person assigned responsibility to perform key action
<p>1 FG1</p> <p>Confirm justifiable reasons for selecting a framework contractor where there is more than one framework agreement covering the same scope of work</p>	<p>Confirm reasons submitted for not requiring competition amongst framework contractors or instruct that quotations be invited</p>	<p><i>Accounting Officer or designated official</i></p>
<p>3 FG2</p> <p>Obtain approval for procurement documents</p>	<p>Grant approval for the issuing of the procurement documents</p>	<p><i>Accounting Officer or designated official</i></p>
<p>4 FG3</p> <p>Confirm that budgets are in place</p>	<p>Confirm that finance is available so that the order may be issued</p>	<p><i>[designated person e.g. programme manager or financial Strategic Executive Director]</i></p>
<p>6 FG4</p> <p>Authorise the issuing of the order</p>	<p>If applicable, review evaluation report and confirm or reject recommendations. Formally accept the offer in writing and issue the contractor with a signed copy of the order</p>	<p><i>CFO or designated official</i></p>

6.1.1.3 Bid Evaluation committee

6.1.1.3.1 The Municipal Manager shall appoint in writing:

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

6.1.1.3.2 The bid evaluation committee shall comprise of a Chairperson, Vice Chairperson and three (3) members of which one (1) is the responsible official and one (1) is a SCM official. The chairperson shall be an employee of Newcastle Municipality with requisite skills.

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

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

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

6.1.1.3.5 The chairperson of the evaluation committee shall promptly notify the Municipal Manager of any respondent or tenderer who is disqualified for having engaged in fraudulent or corrupt practices during the tender process.

6.1.1.4 Bid Adjudication Committee

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

- a) the Chief Financial Officer;
- b) Vice chairperson (manager in the budget and treasury office reporting directly to the CFO)
- c) At least one senior SCM practitioner who is an official of the Municipality;
- d) 2 x officials in top management positions employed by Newcastle Municipality
- e) Secretary (official from the SCMU with no voting rights);

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

6.1.1.4.3 The bid adjudication committee shall:

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

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

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

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

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

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

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

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

6.1.2.1 Award of a contract

6.1.2.1 The municipal manager shall, if the value of the contract inclusive of VAT, is within his or her delegation, consider the report(s) and recommendations of the bid adjudication committee and either:

- a) award the contract after confirming that the report is complete and addresses all considerations necessary to make a recommendation and budgetary provisions are in place; or

- b) decide not to proceed or to start afresh with the process.

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

6.1.2.3 Issuing of an order

The authorised person shall, if the value of an order issued in terms of a framework contract, is within his relevant, and either:

- a) authorise the issuing of an order in accordance with the provisions of clause 4.25 of the standard; or
- b) decide not to proceed or to start afresh with the process.

6.1.3 Conduct of those engaged in infrastructure delivery

6.1.3.1 General requirements

6.1.3.1.1 All personnel and agents of Newcastle Municipality shall comply with the requirements of the CIDB Code of Conduct for all Parties engaged in Construction Procurement. They shall:

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

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

- a) not perform any duties to unlawfully gain any form of compensation, payment or gratification from any person for themselves or a family member or an associate;
- b) perform their duties efficiently, effectively and with integrity and may not use their position for private gain or to improperly benefit another person;
- c) strive to be familiar with and abide by all statutory and other instructions applicable to their duties;
- d) furnish information in the course of their duties that is complete, true and fair and not intended to mislead;

- e) ensure that resources are administered responsibly;
- f) be fair and impartial in the performance of their functions;
- g) at no time afford any undue preferential treatment to any group or individual or unfairly discriminate against any group or individual;
- h) not abuse the power vested in them;
- i) not place themselves under any financial or other obligation to external individuals or firms that might seek to influence them in the performance of their duties;
- j) assist Newcastle Municipality in combating corruption and fraud within the infrastructure procurement and delivery management system;
- k) not disclose information obtained in connection with a project except when necessary to carry out assigned duties;
- l) not make false or misleading entries in reports or accounting systems; and
- m) keep matters of a confidential nature in their possession confidential unless legislation, the performance of duty or the provision of the law require otherwise.

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

6.1.3.2 Conflicts of interest

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

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

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

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

- a) Newcastle Municipality states in the tender data that such an agent is a potential tenderer;
- b) all the information which was made available to, and the advice provided by that agent which is relevant to the tender, is equally made available to all potential tenderers upon request, if not already included in the scope of work; and

- c) the bid specification committee is satisfied that the procurement document is objective and unbiased having regard to the role and recommendations of that agent.

6.1.3.3 Evaluation of submissions received from respondents and tenderers

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

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

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

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

6.1.3.4 Non-disclosure agreements

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

6.1.3.5 Gratifications, hospitality and gifts

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

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

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

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

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

- a) meals and entertainment, but excluding the cost of transport and accommodation;
- b) promotional material of small intrinsic value such as pens, paper-knives, diaries, calendars, etc;
- c) incidental business hospitality such as business lunches or dinners, which the employee is prepared to reciprocate;
- d) complimentary tickets to sports meetings and other public events, but excluding the cost of transport and accommodation, provided that such tickets are not of a recurrent nature; and
- e) gifts in kind other than those listed in a) to d) which have an intrinsic value greater than R350 unless they have declared them to the Municipal Manager.

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

6.1.3.5.6 Employees and agents of Newcastle Municipality shall without delay report to the Municipal Manager any incidences of a respondent, tenderer or contractor who directly or indirectly offers a gratification to them or any other person to improperly influence in any way a procurement process, procedure or decision.

6.1.3.6 Reporting of breaches

Employees and agents of Newcastle Municipality shall promptly report to the Municipal Manager any alleged improper conduct which they may become aware of, including any alleged fraud or corruption.

6.1.4 Measures to prevent abuse of the infrastructure delivery system²⁷

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

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

- 2) an employee or other role player committed any corrupt or fraudulent act during the tender process or during the execution of that contract.

6.1.5 Awards to persons in the service of the state

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

- a) a member of any municipal council, any provincial legislature, or the National Assembly or the National Council of Provinces;
- b) a member of the board of Strategic Executive 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.

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

6.1.6 Collusive tendering

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

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

6.1.7 Placing of contractors under restrictions

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

- a) withdrawn such tender or quotation after the advertised closing date and time for the receipt of submissions;
- b) after having been notified of the acceptance of his tender, failed or refused to commence the contract;

- c) had their contract terminated for reasons within their control without reasonable cause;
- d) offered, promised or given a bribe in relation to the obtaining or the execution of such contract;
- e) acted in a fraudulent, collusive or anti-competitive or improper manner or in bad faith towards Newcastle Municipality, or
- f) made any incorrect statement in any affidavit or declaration with regard to a preference claimed and is unable to prove to the satisfaction of Newcastle Municipality that the statement was made in good faith or reasonable steps were taken to confirm the correctness of the statements,

6.1.7.2 The Manager: Legal Services shall prepare a report on the matter and make a recommendation to the Municipal Manager for placing the contractor or any of its principals under restrictions from doing business with the Newcastle Municipality

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

6.1.7.4 The Manager: Legal Services shall:

- a) record the names of those placed under restrictions in an internal register which shall be accessible to employees and agents of Newcastle Municipality who are engaged in procurement processes; and
- b) notify the National Treasury and Western Cape Provincial Treasury and , if relevant, the Construction Industry Development Board, of such decision and provide them with the details associated therewith.

6.1.8 Complaints

6.1.8.1 All complaints regarding the Newcastle Municipality's infrastructure delivery management system shall be addressed to the Municipal Manager. Such complaints shall be in writing.

6.1.8.2 The Manager: Legal Services shall investigate all complaints regarding the infrastructure procurement and delivery management system and report on actions taken to the Municipal Manager who will decide on what action to take.

6.2 Acquisition management

6.2.1 Unsolicited proposal

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

- a) the goods, services or any combination thereof that is offered is a demonstrably or proven unique innovative concept;
- b) proof of ownership of design, manufacturing, intellectual property, copyright or any other proprietary right of ownership or entitlement is vested in the person who made the offer;

- c) the offer presents a value proposition which demonstrates a clear, measurable and foreseeable benefit for Newcastle Municipality;
- d) the offer is in writing and clearly sets out the proposed cost;
- e) the person who made the offer is the sole provider of the goods or service; and
- f) Newcastle Municipality finds the reasons for not going through a normal tender processes to be sound.

6.2.1.2 The Municipal Manager may only accept an unsolicited offer and enter into a contract after considering the recommendations of the bid adjudication committee if:

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

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

6.2.2 Tax and rates compliance

6.2.2.1 SARS tax clearance

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

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

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

6.2.2.1.4 Notwithstanding the requirements of 6.2.2.1.1 and 6.2.2.1.3 the following shall apply, unless a person who is not tax compliant indicates to the Manager: SCM, Assets & Insurance that it intends challenging its tax compliance status with SARS,

- a) a non-compliant contractor shall be issued with a first warning that payments in future amounts due in terms of the contract may be withheld, before the authorising of any payment due to such contractor;
- b) before authorising a further payment due to a non-compliant contractor who has failed to remedy its tax compliance status after receiving a first warning, a second and final warning shall be issued to such contractor;
- c) no payments may be released for any amounts due in terms of the contract due to a non-compliant contractor if, after a period of 30 calendar days have lapsed since the second warning was issued, the non-compliant contractor has failed to remedy its tax compliance status.

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

6.2.2.2 Municipal rates and taxes

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

6.2.3 Declarations of interest

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

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

6.2.4 Invitations to submit expressions of interest or tender offers

6.2.4.1 All invitations to submit tenders where the estimated value of the contract exceeds R200 000 including VAT, except where a confined tender process is followed, and expressions of interest shall be advertised on Newcastle Municipality's website and on the National Treasury eTender Publication Portal. Advertisements shall be placed by the delegated official within the SCM unit

6.2.4.2 Advertisements relating to construction works which are subject to the Construction Industry Development Regulations issued in terms of the Construction Industry Development Act of 2000 shall in addition to the requirements of 6.2.4.1 be advertised on the CIDB website. Advertisements shall be placed by the designated official within the SCM unit.

6.2.4.3 Where deemed appropriate by the Manager: SCM, Assets & Insurance an invitation to tender and a call for an expression of interest shall be advertised in suitable local and national newspapers and the Government Tender Bulletin as directed by such person. Advertisements shall be placed by the designated person within the SCM unit.

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

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

6.2.5 Publication of submissions received and the award of contracts³⁵

6.2.5.1 The designated official with the SCM unit shall publish within 10 working days of the closure of any advertised call for an expression of interest or an invitation to tender where the estimated value of the contract exceeds R200 000 including VAT on the municipality's or municipal entity's website, the names of all tenderers that made submissions to that advertisement, and if practical or applicable, the total of the prices and the preferences claimed. Such information shall remain on the website for at least 30 days.

6.2.5.2 The designated official with the SCM unit shall publish within 7 working days of the award of a contract the following on Newcastle Municipality's website

- a) the contract number;
- b) contract title;
- c) brief description of the goods, services or works;
- d) the total of the prices, if practical;
- e) the names of successful tenderers and their B-BBEE status level of contribution;
- f) duration of the contract; and
- g) brand names, if applicable.

6.2.5.3 The designated official with the SCM unit shall submit within 7 working days of the award of a contract the information required by National Treasury on the National Treasury eTender Publication Portal regarding the successful and unsuccessful tenders.

6.2.5.4 The award of contracts relating to construction works which are subject to the Construction Industry Development Regulations issued in terms of the Construction Industry Development Act of 2000 shall in addition to the requirements of 6.2.5.3 be notified on the CIDB website. The notification shall be made by the designated official with the SCM unit.

6.2.6 Disposal committee

6.2.6.1 The accounting officer shall appoint on a disposal by disposal basis in writing the members of the disposal committee to decide on how best to undertake disposals in accordance with the provisions of clause 10 of the standard.

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

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

6.3 Reporting of infrastructure delivery management information

The Manager: SCM, Assets & Insurance shall submit any reports required in terms of the standard to the National Treasury or Western Cape Provincial Treasury.

7 Infrastructure procurement

7.1 Procurement documents

7.1.1 Newcastle Municipality's preapproved templates for Part C1 (Agreements and contract data) of procurement documents shall be utilised to obviate the need for legal review prior to the awarding of a contract. All modifications to the standard templates shall be approved by the Municipal Manager prior to being issued for tender purposes.

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

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

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

7.3 Developmental procurement

The approved Preferential Procurement Policy of Council will address developmental aspects

7.4 Payment of contractors

Newcastle Municipality shall settle all accounts within 30 days of invoice or statement as provided for in the contract.

7.5 Approval to utilise specific procurement procedures

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

- a) The municipal manager shall authorise the use of the negotiated procedure above the thresholds provided in the standard.
- b) The Municipal Manager shall authorise the approaching of a confined market except where a rapid response is required in the presence of, or the imminent risk of, an extreme or emergency situation arising from the conditions set out in the standard and which can be dealt with or the risks relating thereto arrested within 48 hours; and
- c) the proposal procedure using the two-envelope system, the proposal procedure using the two-stage system or the competitive negotiations procedure⁴⁵.

7.5.2 The person authorised to pursue a negotiated procedure in an emergency is the Head of the Department.

7.6 Receipt and safeguarding of submissions

7.6.1 A dedicated and clearly marked tender box shall be made available to receive all submissions made.

7.6.2 The tender box shall be fitted with a lock and the key kept by a designated official within the SCM unit. Such personnel shall be present when the box is opened on the stipulated closing date for submissions.

7.7 Opening of submissions

7.7.1 Submissions shall be opened by an opening panel comprising at least two designated officials in the SCM unit who have declared their interest or confirmed that they have no interest in the submissions that are to be opened.

7.7.2 The opening panel shall open the tender box at the stipulated closing time and:

- a) sort through the submissions and return those submissions to the box that are not yet due to be opened including those whose closing date has been extended;
- b) return submissions unopened and suitably annotated where:
 - 1) submissions are received late, unless otherwise permitted in terms of the submission data;
 - 2) submissions were submitted by a method other than the stated method,
 - 3) submissions were withdrawn in accordance with the procedures contained in SANS 10845-3; and.
 - 4) only one tender submission is received and it is decided not to open it and to call for fresh tender submissions;
- c) record in the register submissions that were returned unopened;
- d) open submissions if received in sealed envelopes and annotated with the required particulars and read out the name of and record in the register the name of the tenderer or respondent and, if relevant, the total of prices including VAT where this is possible;
- e) record in the register the name of any submissions that is returned with the reasons for doing so;
- f) record the names of the tenderer's representatives that attend the public opening;
- g) sign the entries into the register; and
- h) stamp each returnable document in each tender submission.

7.7.3 A designated member of the opening panel shall initial the front cover of the submission and all pages that are stamped in accordance with the requirements of 7.7.3h).

7.7.4 Respondents and tenderers whose submissions are to be returned shall be afforded the opportunity to collect their submissions.

7.7.5 Submissions shall be safeguarded from the time of receipt until the conclusion of the procurement process.

7.8 Use of another organ of state's framework agreement

Newcastle Municipality may make use of another organ of state's framework contract which has been put in place by means of a competitive tender process and there are demonstrable benefits for doing so. The municipal manager shall make the necessary application to that organ of state to do so.

7.9 Insurances

7.9.1 Contractors shall be required to take out all insurances required in terms of the contract.

7.9.2 The insurance cover in engineering and construction contracts for loss of or damage to property (except the works, Plant and Materials and Equipment) and liability for bodily injury to or death of a person (not an employee of the Contractor) caused by activity in connection with a contract shall in general not be less than the value stated in Table 4, unless otherwise directed by the municipal manager.

7.9.3 Lateral earth support insurance in addition to such insurance shall be take out on a case by case basis.

Table 4: Minimum insurance cover⁵²

Type of insurance	Value
Engineering and construction contracts - loss of or damage to property (except the works, Plant and Materials and Equipment) and liability for bodily injury to or death of a person (not an employee of the Contractor) caused by activity in connection with a contract	Not less than R20 million
Professional services and service contracts - death of or bodily injury to employees of the Contractor arising out of and in the course of their employment in connection with a contract or damage to property	Not less than R10 million
Professional indemnity insurance	geotechnical, civil and structural engineering: R5,0 million electrical, mechanical and engineering: R3,0 million architectural: R5,0 million other R3,0 million

7.9.4 The insurance cover in professional services and service contracts for damage to property or death of or bodily injury to employees of the Contractor arising out of and in the course of their employment in connection with a contract shall not be less than the value stated in Table 4 for any one event unless otherwise directed by the municipal manager.

7.9.5 SASRIA Special Risk Insurance in respect of riot and associated risk of damage to the works, Plant and Materials shall be taken out on all engineering and construction works.

7.9.5 Professional service appointments shall as a general rule be subject to proof of current professional indemnity insurance being submitted by the contractor in an amount not less than the value stated in Table 4 in respect of each claim, without limit to the number of claims, unless otherwise directed by the in relation to the nature of the service that they provide.

7.9.6 Newcastle municipality shall take out professional indemnity insurance cover where it is deemed necessary to have such insurance at a level higher than the levels of insurance commonly carried by contractors.

7.9.7 Where payment is to be made in multiple currencies, either the contractor or Newcastle Municipality should be required to take out forward cover. Alternatively, the prices for the imported content should be fixed as soon as possible after the starting date for the contract.

7.10 Written reasons for actions taken

7.10.1 Written reasons for actions taken shall be provided by the Chairperson of the Bid Adjudication Committee.

7.10.2 The written reasons for actions taken shall be as brief as possible and shall as far as is possible, and where relevant, be framed around the clauses in the:

- a) SANS 10845-3, *Construction procurement - Part 3: Standard conditions of tender*, and, giving rise to the reason why a respondent was not short listed, prequalified or admitted to a data base; or
- b) SANS 10845-4, *Construction procurement - Part 4: Standard conditions for the calling for expressions of interest*;

as to why a tenderer was not considered for the award of a contract or not awarded a contract.

7.10.3 Requests for written reasons for actions taken need to be brief and to the point and may not divulge information which is not in the public interest or any information which is considered to prejudice the legitimate commercial interests of others or might prejudice fair competition between tenderers.

7.11 Request for access to information

7.11.1 Should an application be received in terms of Promotion of Access to Information Act of 2000 (Act 2 of 2000), the "requestor" should be referred to Newcastle municipality's Information Manual which establishes the procedures to be followed and the criteria that have to be met for the "requester" to request access to records in the possession or under the control of Newcastle municipality.

7.11.2 Access to technical and commercial information such as a comprehensive programme which links resources and prices to such programme should be refused as such information provides the order and timing of operations, provisions for time risk allowances and statements as to how the contractor plans to do the work which identifies principal equipment and other resources which he plans to use. Access to a bill of quantities and rates should be provided in terms of the Act.



NEWCASTLE MUNICIPALITY

**CASH MANAGEMENT & INVESTMENT
POLICY**

CASH MANAGEMENT & INVESTMENT POLICY

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CASH MANAGEMENT & INVESTMENT POLICY

1. DEFINITIONS

In this Policy, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the Municipal Finance Management Act (MFMA) No. 56 of 2003, has the same meaning.

Accounting Officer refers to the Municipal Manager of Newcastle Municipality

Auditor-General means the person appointed as Auditor-General in terms of section 193 of the Constitution, and includes a person as acting as Auditor-General, designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General.

Chief Financial Officer or his delegate means an officer of the Municipality, designated by the Municipal Manager to be administratively in charge of the financial affairs of the Municipality;

Creditor in relation to a municipality, means a person to whom money is owing by the municipality.

Debt means a monetary liability or obligation created by a financing agreement, bond or overdraft, or by the issuance of municipal debt instruments; or a contingent liability such as that created by guaranteeing a monetary liability.

Debt Agreement includes any loan agreement under which a municipality undertakes to repay a long-term debt over a period of time.

Financial year means a year ending on 30 June.

Investee means an institution with which an investment is placed or its agent.

Investment in relation to funds of a municipality, means

- the placing on deposit of funds of a municipality with a financial institution,
- the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds.

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Lender in relation to a municipality, means a person who provides debt finance to a municipality.

Long-term debt means debt repayable over a period exceeding one year.

Long-term investments means any cash or liquid securities owned by the Municipality which have a maturity date, and/or callable date reasonably expected to be exercised, that is greater than one year.

Month means one of the 12 months of a calendar year.

Council means the Municipal Council of Newcastle Municipality.

Municipal entity has the meaning assigned to it in section 1 of the Municipal Systems Act.

Municipality means Newcastle Municipality.

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

Primary bank account means the main bank account referred to in section 8(1) of the MFMA.

Provincial treasury means KwaZulu-Natal Provincial Treasury (KZNPT)

Short-term debt means debt repayable over a period not exceeding one year.

Short-term investments Any cash or liquid securities owned by the municipality which is having a maturity date, and/or callable date reasonably expected to be exercised, that is equal to or less than one year.

CASH MANAGEMENT & INVESTMENT POLICY

2. INTRODUCTION

- 2.1. This Policy is 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 this 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.
- 2.2 Managing the cash resources of the Municipality is a key requirement to ensure the liquidity of the Municipality in order to meet its financial obligations. In order to achieve this objective the Newcastle Municipality has to adopt and review this Policy as and when required.

3. STATUTORY FRAMEWORK

Section 13 (2) of the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003) requires that the Municipality must establish an appropriate and effective cash management and investment policy in accordance with a framework that may be prescribed by the Minister of Finance.

4. SCOPE OF POLICY

This Policy applies to all cash investments made by Newcastle Municipality, and the Municipality shall at all times manage its cash management and investments in compliance with this Policy and must not be inconsistent with the Municipal Finance Management Act and the Municipal Investment Regulations.

5. THE PURPOSE AND OBJECTIVES OF THE POLICY

The purpose of this Policy is to ensure that investment of surplus funds forms part of the financial system of the Municipality and to ensure that prudent investment procedures are consistently applied in order:

- i) To manage cash flows in an efficient and prudent manner

CASH MANAGEMENT & INVESTMENT POLICY

- ii) To maintain a level of liquidity sufficient to meet both planned and unforeseen cash requirements
- iii) To invest only in approved financial institutes
- iv) To minimize the risk of investments
- v) To maximize returns on investments without incurring undue risks
- vi) To ensure all relevant information is disclosed to Council
- vii) To ensure that all investment decisions are made by the appropriate delegated authority
- viii) To prohibit investment of funds for speculative purposes
- ix) To ensure transparency and compliance in all investment processes

6. RESPONSIBILITIES OF THE ACCOUNTING OFFICER

- 6.1 According to the Municipal Finance Management Act 2004, chapter 8, paragraph 60 and 61, the Accounting Officer of a municipality is the Accounting Officer of the Municipality for the purposes of this Act, and, as Accounting Officer, must –
- (a) Exercise the functions and powers assigned to an Accounting Officer in terms of this Act; (b) Provide guidance and advice on compliance with this Act to –
 - (i) The political structures, political office-bearers and officials of the Municipality; and
 - (ii) Any municipal entity under the sole or shared control of the Municipality.
- 6.2 The Accounting Officer of a municipality must in terms of Municipal Finance Management Act:
- (a) Exercise utmost care to ensure reasonable protection of the assets and records of the entity;
 - (b) Act with fidelity, honesty, integrity and in the best interest of the entity in managing the financial affairs of the entity;
 - (c) disclose to the entity's parent municipality and the entity's board of directors, all material facts, including those reasonably discoverable, which in any way may influence the decisions or actions of the parent municipality or the board of directors; and
 - (d) Seek, within the sphere of influence of that Accounting Officer, to prevent any prejudice to the financial interests of the parent municipality or the municipal entity.

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- 6.3 The Accounting Officer may not –
- (a) Act in a way that is inconsistent with the responsibilities assigned to Accounting Officers of municipal entities in terms of this Act; or
 - (b) Use the position or privileges of, or confidential information obtained as Accounting Officer, for personal gain or to improperly benefit another person.
- 6.4 The Accounting Officer is therefore accountable for all transactions entered into by his designates. One of the main functions of Accounting Officer is that of adequate and effective cash management.
- 6.5 The Chief Financial Officer is responsible for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management.
- 6.6 Sound cash management includes the following:
- a) Collecting revenue when it is due and banking it promptly;
 - b) Making payments, including transfers to other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the government's normal terms for account payments;
 - c) Avoiding pre-payments for goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;
 - d) Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;
 - e) Pursuing debtors with appropriate sensitivity and rigor to ensure that amounts receivable by the Municipality are collected and banked promptly;
 - f) Accurately forecasting the institution's cash flow requirements;
 - g) Timing the inflow and outflow of cash;
 - h) Recognizing the time value of money, i.e. economically, efficiently, and effectively managing cash; and

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- i) Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or obsolete assets in terms of the Asset Management Policy.
- 6.7 The overall responsibility of investments lies on the Accounting Officer. However the day to day handling of investments is the responsibility of the Chief Financial Officer or his designate.
- 6.8 In the instance that the investment amount requires that the Chief Financial Officer submit recommendations to the Accounting Officer for decision on the best investment to be made, quotations are required from the various financial institutions. In the case of telephonic quotations, the following information is required:
- a) The name of the person who gave the quotation;
 - b) The relevant terms and rates; and
 - c) Other facts such as if interest is payable on a monthly basis or on maturation date
 - d) The Council needs to pass a resolution in respect of the limits for the investment of its funds.
- 6.9 In the instance where the investment will be processed via electronic funds transfer system, the banking details of the successful institution that exist of the municipal supplier database should be utilised. Where such details are not available, the successful institutional shall be required to complete and submit supplier database information in terms of the municipality's supply chain management policy.
- 6.10 In the instance that the Chief Financial Officer authorizes the investment, two authorized signatories must authorize and affect the electronic funds transfer in respect of the investment amount.
- 6.11 Where payments to financial institutions in respect of investments are to be effected by cheques, the following procedures apply:
- a) The Accountant must complete a cheque requisition form and submit it to the Chief Financial Officer together with the supporting quotations;
 - b) The Chief Financial Officer must either authorize the requisition or submit it to the Accounting Officer, pending on the value of the investment;

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c) When the Accounting Officer or the Chief Financial Officer has authorized the requisition, the Chief Financial Officer or two authorized signatories are required to sign the cheque and submit it to the financial institution.

7. CASH MANAGEMENT PROCEDURES

7.1 Bank Arrangements

7.1.1 The Accounting Officer is responsible for the management of the bank accounts. All withdrawals from the primary or other municipal banks account must be authorised by the Accounting Officer.

7.1.2 Written and signed delegations clearly indicating power and/or duties delegated should be in place. This is in terms of section 79 of the MFMA.

7.1.3 The Accounting Officer is responsible for opening the primary bank account with authorized banking institutions.

7.1.4 The Chief Financial Officer must prepare the bank reconciliation within 7 days after the end of each month, investigate any irregularities and report them to the accounting officer. The bank statements are analyzed on a daily basis. The monthly bank reconciliation prepared must reflect agreeing balances between the balances as per bank statement to that arrived at by the Municipality in its cash book.

7.2 Revenue Collection

7.2.1 The Accounting Officer or delegated official must ensure that all revenue is properly accounted for.

7.2.2 The collection and control of arrear revenue and accounts must be managed in accordance with policies issued and implemented in terms of section 64(2) of the MFMA and section 95 of the Municipal Systems Act.

7.2.3 Adequate provision must be made for writing off irrecoverable revenue in terms of the Credit Control & Debt Collection Policy.

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7.3 Debtor Collections

7.3.1 All monies due to the Municipality must be collected by the due dates and banked daily.

7.3.2 All monies collected must be deposited daily or on the next working day into the primary bank account of the Municipality.

7.3.3 A numbered official receipt reflecting the name of the Municipality must be issued for the receiving of all monies.

7.3.4 The debt collection process must be reviewed regularly to determine the efficiency and effectiveness thereof.

7.3.5 Any debt older than the period determined by the credit control policy must be handed over to the applicable section for recovery.

7.4 Payment to Creditors

7.4.1 All payments should be settled on or before the due date, that is, within 30 days of the receipt of the invoice, unless otherwise agreed to between the supplier and the municipality.

7.4.2 However, the Municipality will strive to settle the amounts payable to suppliers within the settlement period as advised on the invoice to take advantage of any settlement discounts.

7.4.3 Due regard must be taken of terms of credit offered.

7.4.4 All payments by Municipality, where possible, should be effected electronically.

7.4.5 Payments may not be split to circumvent the tender regulation and any such non-compliance constitutes financial misconduct.

7.5 Receipt of Money

7.5.1 All payments received over the counter by the Municipal cashier must be acknowledged by the issuing of a numbered official receipt.

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7.5.2 An endorsed cancelled receipt must be attached to the day end cash reconciliation form.

7.5.3 A cancelled receipt must be retained for audit purposes.

7.5.4 Any money, including cheques and postal orders received via mail must be recorded in a designated register that must reflect all necessary details to enable later use and identification of such receipts.

7.5.5 The register, including all payments received, must be submitted to the cashier for receipting.

7.5.6 All receipts will be recorded in the designated register, and any documents relative to the payments will be filed for audit purposes.

7.5.6 All deposits must be promptly identified and receipted into the correct revenue source or debtor account to avoid identified deposits.

7.6 Management of Cash Flow

7.6.1 The Chief Financial Officer must prepare an annual estimate of the cash flow per calendar month, this is in terms of section 71 of the MFMA.

7.6.2 The Chief Financial Officer must, every month, update estimated cash flow with the actual cash flow.

7.6.3 Comments and explanations must be provided for any significant cash flow deviations.

7.6.4 The Accounting Officer must by no later than 10 working days after the end of each month submit to the Mayor of the Municipality / Executive Committee (EXCO) and the KZNPT a statement in the prescribed format in terms of section 71 of the MFMA.

7.6.5 The analysis of the cash flow will include:

- (i) When surplus revenue should be invested;
- (ii) When investments should be liquidated; and
- (iii) When long and short-term debt should be incurred.

CASH MANAGEMENT & INVESTMENT POLICY

8. INVESTMENT ETHICS

8.1 The Chief Financial Officer or delegated official, shall be responsible for investing the surplus revenues of the Municipality, and shall manage such investments in compliance with this Policy and any other policy directives formulated by Council and any regulations promulgated.

8.2 In making such investments the Chief Financial Officer, shall at all times have only the best interests on the Municipality and shall not accede to any influence or interference from other Council officials, Councilors, investment agents or institutions or any other outside parties.

8.3 Neither the Chief Financial Officer or any other Municipal Official, Executive Member or Councilor, may accept any undue gift or benefit, from any investment agent or institution or any party with which the Municipality has made or may potentially make an investment.

8.4 Prudence

Investment shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. Investment officials are required to:

- a) Adhere to written procedures and policy guidelines.
- b) Exercise due diligence.
- c) Prepare all reports timeously.
- d) Exercise strict compliance with all legislation.

8.5 Ownership

All investments must be made in the name of the Newcastle Municipality.

CASH MANAGEMENT & INVESTMENT POLICY

9. INVESTMENT PRINCIPLES

9.1 Limiting Exposure

a) 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.

b) 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 i.e. Call, Money Market and Fixed Deposit. There is a limitation to the extent on investment on the institution selected. Any investments made shall be placed with registered banks.

9.2 Risk and Return

The offer of best interest rates on an investment must be considered with the degree of risk involved 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. Money's invested may not be made for speculation and no funds may be borrowed at any time to be used for investments.

10. INVESTMENT PROCEDURE

10.1. After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer must consider the way in which the investment is to be made.

10.2. Short-term Investment

a) The term of investment shall not be more than 12 months.

b) Quotations must be obtained from a minimum of three registered financial institutions, for the term of which the funds will be invested.

c) Should one of the institutions offer a better rate for a term, other than the term originally quoted for, the other institutions which were approached, must also be asked to quote a rate for the other term.

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d) Quotations must be obtained via e-mail communication, as rates generally change on a regular basis and time is a determining factor when investments are made.

e) No attempts must be made to make institutions compete with each other.

10.3. Long-term investment

a) Written quotations must be obtained for investments made for periods longer than twelve months.

b) The prior approval of the Accounting Officer must be obtained for all investments made for periods longer than twelve months after considering the cash requirement for the next three years.

10.4. Investment maturity

a) Upon maturity of the investment the Municipality shall do one of the following:

i. Shall withdraw the whole amount invested.

ii. Shall re-invest 100% interest plus the original amount that had been invested, in terms of the investment procedure, unless if Council wishes to utilize the original money or the interest.

iii. Shall invest in part.

10.5. Early withdrawal of invested funds

a) When investing the funds with the banking institutions, the Chief Financial Officer shall ensure that such funds are not withdrawn earlier than the maturity date agreed upon, by so doing the Municipality will not incur fruitless and wasteful expenditures in form of penalties resulting from early withdrawal of investments.

b) The Chief Financial Officer shall only withdraw funds if :

i) the banking institution concerned has agreed to exempt any penalties due to early withdrawal of investment or;

ii) the Chief Financial Officer may grant approval to withdraw the invested funds after he/she has satisfied himself/herself that the urgency was unforeseeable at the time when funds were invested and that the need for funds far outweighs the penalties being paid for such early withdrawal

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11. CONTROL OVER INVESTMENTS

11.1 The Chief Financial Officer shall ensure that proper records are kept of all investments made by the Municipality. Such records shall indicate:

- i. The date on which the investment is made
- ii. The institution with which the money's are invested
- iii. The amount of investment
- iv. The interest rate applicable and
- v. The maturity date

11.1.2 The Chief Financial Officer shall ensure that all interest and capital properly due to the Municipality are timeously received and shall take appropriate steps if interest or capital is not fully or timeously received.

11.2 The Chief Financial Officer shall ensure that all investment documents are adequately safeguarded.

11.3 If an Investment Adviser is ever engaged, the Chief Financial Officer shall ensure that such Adviser has the credentials specified for the "Investment Manager" in Regulation 1 of the Act.

11.4 The Chief Financial Officer shall maintain a review a register of all investments held by the municipality.

11.5 All new investments accounts shall be reported to the Provincial Treasury and the Auditor General.

12. BANKING ARRANGEMENTS

12.1 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

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authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time.

12.2 In compliance with the requirements of good governance, the Accounting Officer shall open a primary bank account for ordinary operating purposes, and shall further maintain a separate accounting records for each of the following: the administration of Government grants & Subsidies, monies received from Department of Human Settlements for the administration of various housing projects.

12.3 The Accounting Officer shall invite tenders in accordance with the necessary SCM Regulations & Policies in as far as the opening of the primary bank account is concerned.

13 GENERAL INVESTMENT PRACTICE

13.1 General

After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer or his/her Delegate must consider the way in which the investment is to be made. As rates can vary according to money market perceptions with regard to the terms of investment, quotations must be requested via email, within term limitations, and these must be set out on a schedule.

13.2 Commission Certificate

The Auditor General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate must state that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.

13.3 Reports

The Council must be given a monthly report on all investments.

13.4 Cash in the Bank

Where money is kept in current accounts, it would be possible to bargain for more beneficial rates with regards to deposits, for instance call deposits. Fixed term deposits can increase these rates. The most important factor is that the cash in the current account must be kept to an absolute minimum.

13.5 Obtaining Quotations

- a) Quotations for call deposits greater than 7 days, fixed deposits or any other investment with a financial institution should be requested via e-mail for a period within the limitations of the anticipated term of the investment.
- b) Quotations must be solicited from a minimum of three registered financial institutions referred to, bearing in mind the limits of the term for which it is intended to invest the funds.
- c) All quotations must be recorded on a schedule by the accountant. This schedule, together with the printed e-mails, must thereafter be given to the Chief Financial Officer or review or his delegate for final consideration.
- d) The person responsible for requesting quotations from institutions should record the name of institution, the name of the person who gave the quotation and the relevant terms and rates and other facts such as whether the interest is payable on a monthly basis or on a maturity date. Written confirmation of the quotation accepted is essential.
- e) Where an investment is made at an institution at a rate lower than that of other quotations, reasons must be recorded by the Accounting Officer/delegated official and reported to Council quarterly report by the Chief Financial Officer or his/her delegated official.
- f) Investments funds must be placed with the entity that offers the best offer, while taking into account the risk limiting the risk exposure as per 9.1 above, as well the investment ethics in terms of 8 above.

14 INTERNAL CONTROL PROCEDURES

- 14.1 An investment register must be kept of all investments made. The following facts must be indicated:
 - a) Name of institution;
 - b) Capital invested;
 - c) Date invested;

CASH MANAGEMENT & INVESTMENT POLICY

- d) Interest rate; and
 - e) Maturity date and
 - f) Interests earned on investments,
 - g) The Reason for investment (Purpose).
- 14.2 The investment register and accounting records must be reconciled on a monthly basis. The investment register must be examined on a fortnightly basis by the senior official under the direction of the Chief Financial Officer as instructed, to identify investments falling due within at least two weeks.
- 14.3 Where investments are to be undertaken for a period longer than three (3) months, a cash flow analysis is required.
- 14.4 Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer or his or her assignee must check that the interest is calculated correctly, in terms of sound universally accepted financial management practices.
- 14.5 All investment must be denominated in South African Rand (ZAR)

15 AUTHORITY

The Accounting Officer is responsible for ensuring that this Policy is implemented and enforced. The Accounting Officer may delegate any authority and duty assigned to him within this Policy by delegating it in writing and in conformance with requirements of the MFMA.

16 IMPLEMENTATION OF THIS POLICY

The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Strategic Executive Director: Budget and Treasury Office.

The policy shall be reviewed on annual basis and updated if there are any changes brought about through an amendment of any legislation and/or policies by National Treasury or arrangement within the municipality.



Newcastle Local Municipality

ASSET MANAGEMENT POLICY

2021 / 2022

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1. PREAMBLE

Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued.

And whereas the municipal council of Newcastle Local Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets.

And whereas the municipal manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets.

And whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes.

And whereas the Municipal Manager must ensure an effective Asset Management Unit that will give guidance regarding the execution of the asset management policies and procedures is in operation.

Now therefore the municipal council of the Newcastle Local Municipality adopts the following asset management policy:

2. DEFINITIONS

Accounting Officer means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

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

Biological Assets are defined as living animals or plants.

Assets are items of Biological Assets, Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.

Carrying Amount is the amount at which an asset is recognised after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

Chief Financial Officer (CFO) means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Critical Assets are assets identified as having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected.

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

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

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value

of items of plant and equipment is usually their market value determined by appraisal, while the fair value of land and buildings is usually determined from market-based evidence by appraisal.

GAAP are standards of Generally Accepted Accounting Practice.

GRAP are standards of Generally Recognised Accounting Practice.

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

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

Intangible Assets are defined as identifiable non-monetary assets without physical substance.

Investment Properties are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

Land and Buildings are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

MFMA refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

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

Property, Plant and Equipment (PPE) are tangible assets that:-

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

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

Recoverable Service Amount is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

Residual Value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful Life is:-

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

Write-off includes the sale, loss, theft, destruction, decommissioning, derecognition or any other form of alienation that is the result of loss of control of the asset in question.

3. OBJECTIVE

The MFMA was introduced with the objective of improving accounting in the municipal sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

With the cash system, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated useful lives. This necessitates that a record is kept of the cost of the assets, the assets are verified, and the condition assessed periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

According to the MFMA, the Accounting Officer in the Municipality should ensure:

- that the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;
- the effective, efficient and economical use of the resources of the municipality;
- the management (including safeguarding and maintenance) of the assets of the municipality;
- that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

The objective of this Asset Management Policy is to ensure that the municipality:

- has consistent application of asset management principles;
- implements accrual accounting;
- complies with the MFMA, Treasury Regulations, GRAP and other related legislation;

- safeguards and controls the assets of the municipality; and
- Optimises asset usage.

ASSET MANAGEMENT AND LOSS CONTROL COMMITTEE

To facilitate and assist the Chief Financial Officer in his/her functions, the Municipal Manager, may delegates the custody of and responsibility for assets to the various Strategic Executive Directors (SEDs) as defined in the organisational structure of the Newcastle Local Municipality. Strategic Executive Directors will identify officials on an appropriate level to assist them with the application of the policy and procedures proclaimed from time to time. **The Asset Management and Loss Control Committee as established in terms of paragraph 1 must be established in writing by the Municipal Manager.**

The responsibilities for **Asset Management and Loss Control Committee** as detailed hereunder include and remain until the asset is disposed of or transferred to another entity:

- Ensuring that, when acquiring assets, decisions on how to account for the transactions, e.g. whether they should be capitalised or expensed, are made in full compliance with the MFMA, accounting standards, National Treasury and other guidelines;
- Ensuring that the purchase of assets complies with all municipal policies and procedures, including the MTREF;
- Ensuring that the correct date on which an asset is put into service or commissioned is properly recorded in the Asset Register and that the appropriate financial data are recorded;
- Ensuring that all assets are duly processed, identified and recorded before being issued for use;
- Ensuring that all assets under the Asset Manager's control are appropriately safeguarded from inappropriate use or loss, including appropriate control over the physical access to these assets and regular asset verification to ensure that losses have not occurred, and ensuring that any known losses are immediately reported to the Chief Financial Officer and loss control officer;
- Ensuring that proper procedures for the movement of assets from one asset holder to another, for maintenance, or disposals outside the municipality are in place and enforced;
- Ensuring that assets are utilised for the purpose for which they were acquired/intended by the municipality.
- Ensuring that all assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected.

- Make recommendations on any matters above to the Municipal Manager for auctioning.

ASSET MANAGEMENT UNIT

Shall be a unit responsible for daily management of asset operations within the municipality. The Chief Financial Officer shall be responsible for the overall supervision of the unit, in ensuring compliance with the standards of GRAP and the implementation of this policy;

The responsibilities for Asset Management Unit shall include, but not limited to the following;

- Provide overall guidance and support to the Strategic Executive Director on matters of asset management;
- Annual verification of movable assets;
- Reconciliation of the Asset Register, general ledger and the Annual Financial Statements;
- Development of systems and procedures to ensure proper accounting and maintenance for assets;
- Coordinate reports for disposal and writing-off of assets for consideration by the Executive Committee and Council;
- Provide necessary support and report to the Asset Management and Loss Control Committee

4. LEGISLATIVE FRAMEWORK

4.1 LEGAL FRAMEWORK

A municipality exercises its legislative and executive authority by, among others, developing and adopting policies, plans, strategies and programmes, including setting targets for delivery (section 11(3) of the MSA).

Participation by the local community in the affairs of the municipality must take place through, among others, generally applying the provisions for participation as provided for in the MSA (section 17(1) of the MSA).

A municipality must communicate to its community, information concerning, among others, municipal governance, management and development (section 18(1) of the MSA).

As head of administration the Municipal Manager is, subject to the policy directions of the municipal council, responsible and accountable for, among others, the following:

- The management of the provision of services to the local community in a sustainable and equitable manner;
- Advising the political structures and political office bearers of the municipality (section 55(1) of the MSA); and
- Providing guidance and advice on compliance with the MFMA to the political structures, political office-bearers and officials of the municipality (section 60 of the MFMA).

As accounting officer of the municipality, the Municipal Manager is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).

The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 62(1) of the MFMA).

4.2 RATIONALE FOR MANAGEMENT OF ASSETS

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objectives:

- Providing democratic and accountable government for local communities;
- Ensuring the provision of services to communities in a sustainable manner;
- Promoting social and economic development;
- Promoting a safe and healthy environment; and

- Encouraging the involvement of communities and community organisations in matters of local government.

In terms of the MFMA, the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.

The MFMA further requires the accounting officer to ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- The municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
- The municipality has and maintains a system of internal control of assets and liabilities.

The OHS Act requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.

According to the International Infrastructure Management Manual (IIMM), the goal of infrastructure asset management is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

The core principles of infrastructure asset management are:

1. Taking a life-cycle approach;
2. Developing cost-effective management strategies for the long-term;
3. Providing a defined level of service and monitoring performance;
4. Understanding and meeting the impact of growth through demand management and infrastructure investment;
5. Managing risks associated with asset failures;
6. Sustainable use of physical resources; and
7. Continuous improvement in asset management practices.

5. POLICY FRAMEWORK

The main challenges associated with managing assets can be characterised as follows:

- Moveable assets – controlling acquisition, location, use, and disposal (over a relatively short term lifespan)
- Immovable assets – life-cycle management (over a relatively long-term lifespan).

The policy approach has been to firstly focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets, and secondly to focus on the management of immovable assets as a fundamental departure point for service delivery. This arrangement is summarised in Figure 1.



FIGURE 1: PROPOSED POLICY AND STRATEGIC FRAMEWORK

5.1 POLICY PRINCIPLES

The following policy principles serve as a framework for the achievement of the policy objective:

5.1.1 Effective Governance

The municipality strives to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected. To this end, the municipality will:

- Adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- Regularly review and update amendments to the above legislation;

- Review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- Effectively apply legislation for the benefit of the community.

5.1.2 Sustainable Service Delivery

The municipality strives to provide to its customers services that are technically, environmentally and financially sustainable. To this end, the municipality will:

- Identify levels and standards of service that conform to statutory requirements and rules for their application based on the long-term affordability to the municipality;
- Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- Identify current and future demand for services, and demand management strategies;
- Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable in line with national targets;
- Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- Prepare and adopt an immovable (infrastructure) asset management strategy and immovable (infrastructure) asset management plans to support the achievement of the required performance;
- Prepare and adopt an immovable (infrastructure) asset maintenance strategy and immovable (infrastructure) asset maintenance plans to execute maintenance timeously;
- Allocate budgets that take cognisance of the full life cycle needs of existing and future assets;
- Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

5.1.3 Social and Economic Development

The municipality strives to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community. To this end, the municipality will:

- Regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- Implement changes to services in response to changing customer needs and expectations where appropriate;
- Foster the appropriate use of services through the provision of clear and appropriate information;

- Ensure services are managed to deliver the agreed levels and standards; and
- Create job opportunities and promote skills development in support of the national EPWP.

5.1...4 Custodianship

The municipality strives to be a responsible custodian and guardian of the community's assets for current and future generations. To this end, the municipality will:

- Establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- Establish appropriate development control measures including community information;
- Cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- Ensure that heritage resources are identified and protected; and
- Ensure a long-term view and life-cycle costs are taken into account in immovable asset management decisions.

5.1.5 Transparency

The municipality strives to manage its immovable assets in a manner that is transparent to all its customers, both now and in the future. To this end, the municipality will:

- Develop and maintain a culture of regular consultation with the community with regard to its management of immovable assets in support of service delivery;
- Clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- Avail asset management information on a ward basis; and
- Continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

5.1.6 Cost-effectiveness and Efficiency

The municipality strives to manage its immovable assets in an efficient and effective manner. To this end, the municipality will:

- Assess life-cycle options for proposed new immovable assets;
- Regularly review the actual extent, nature, utilisation, criticality, performance and condition of immovable assets to optimise planning and implementation works;

- Assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of immovable assets;
- Ensure the proper utilisation and maintenance of existing assets;
- Establish and implement demand management plans;
- Timeously renew immovable assets based on capacity, performance, risk exposure, and cost;
- Timeously dispose of immovable assets that are no longer in use;
- Establish documented processes, systems and data to support effective life-cycle immovable asset management;
- Strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- Conduct annual assessments to support continuous improvement of immovable asset management practice.

6. Asset Recognition

6.1 Classification of Assets

General

When accounting for assets, the municipality should follow the various standards of GRAP relating to the assets. An item is recognised in the statement of financial position as an asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Assets are classified into the following categories for financial reporting purposes:

1. Property, Plant and Equipment (GRAP 17)
 - Land and Buildings (land and buildings not held as investment)
 - Community Assets (properties held to provide a social service and rental income is incidental)
 - Infrastructure Assets (immovable assets that are used to provide basic services)
 - Work in progress
 - Other Assets (ordinary operational resources)
2. Finance Lease Assets GRAP 13 (agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation/ maintenance of such assets)
3. Intangible Assets (GRAP 31)
 - Intangible Assets (assets without physical substance held for ordinary operational resources)
4. Investment Property (GRAP 16)
 - Investment Assets (resources held for capital or operational gain)
5. Heritage Assets (GRAP 103)
 - Heritage Assets
6. Agriculture (GRAP 27)
 - Biological Assets (livestock and plants held)

When accounting for Current Assets (that is of non-capital nature), the municipality should follow the various standards of GRAP relating to these assets.

Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used.

To facilitate the practical management of infrastructure assets and Asset Register data, infrastructure assets have been further classified. The recommended classifications for all assets are provided in **Appendix B**.

Policy

The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in **Appendix B** shall be adopted. The CFO shall ensure that the classifications adopted by the municipality are adhered to.

Procedures and Rules

- The **Asset Management Unit** shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to.
- The **Asset Management Unit** shall inform Strategic Executive Directors of the classification requirements.
- Strategic Executive Directors shall ensure that all fixed assets under their control are classified correctly.

6.2 Identification of Assets

General

An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location.

Policy

An asset identification system shall be operated and applied in conjunction with an Asset Register. As far as practical, every individual asset shall have a unique identification number. This allows for tool boxing of lower-value items for example plastic stackable chairs.

Procedures and Rules

- The Asset Management Unit shall develop and implement an asset identification system, while acting in consultation with Strategic Executive Directors.
- Strategic Executive Directors shall ensure that all the assets under their control are correctly identified.
- As far as practicable, all movable assets must be bar-coded or uniquely marked.
- Immovable assets must be identified using naming and numbering conventions that enable easy location of the assets in the field.
- GPS coordinates must be captured on the Asset Register for infrastructure assets and buildings where practicable. The Head: Information Technology will update the GIS and ensure that the GPS coordinates on the Asset Register and the GIS are reconciled at least once per year after the annual physical asset verification.

6.3 Asset Register

General

An Asset Register is a database of information related to all the assets under the control of the municipality. The Asset Register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the Asset Register. The data requirements for the Asset Register are as follows:

Data type	Land	Movable	Infrastructure/ Buildings
Identification			
• Unique identification number or asset mark	✓	✓	✓
• Unique name	✓	✓	✓
• National Treasury Classification	✓	✓	✓
• Internal Classification	✓	✓	✓
• Descriptive data (make, model, etc.)	✓	✓	✓
• Erf/Registration	✓	✓	✓
• Title deed reference	✓		

Data type	Land	Movable	Infrastructure/ Buildings
Accountability			
• Department	✓	✓	✓
• Insurance reference		✓	✓
Performance			
• Age		✓	✓
• Condition		✓	✓
• Remaining Useful life		✓	✓
• Expected Useful Life		✓	✓
• Technical Asset Residual Value			✓
• Criticality		✓	✓
Accounting			
• Historic cost	✓	✓	✓
• Take on value	✓	✓	✓
• Take on date	✓	✓	✓
• Revalued amount	✓	✓	✓
• Valuation Difference (for purposes of Valuation Reserve and depreciation)	✓	✓	✓
• Depreciation method	✓	✓	✓
• Depreciation portion that should be transferred from Revaluation reserve to accumulated depreciation (where assets were revalued)	✓	✓	✓
• Depreciation charge for the current financial year	✓	✓	✓
• Depreciation charge for ensuing year (for purposes on current portion)	✓	✓	✓
• Impairment losses in the current year	✓	✓	✓

Data type	Land	Movable	Infrastructure/ Buildings
• Accumulated depreciation	✓	✓	✓
• Carrying value	✓	✓	✓
• Residual value	✓	✓	✓
• Source of financing	✓	✓	✓

Assets remain in the Asset Register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated is not in itself a reason for writing-off such an asset.

Policy

An Asset Register shall be maintained for all assets. In some cases, such as Investment Properties, Heritage Assets and Intangible Assets, separate Asset Registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The Asset Register should be continuously updated and asset records should be reconciled to the general ledger on a monthly basis.

Procedures and Rules

- The CFO must define the format of the Asset Register in consultation with the Strategic Executive Directors and must ensure that the Asset Register format complies with legislative requirements.
- The Asset Management Unit must ensure that a defined process and forms exist to update and maintain the Asset Register.
- The Strategic Executive Directors must provide the CFO with the information required to compile and maintain the Asset Register.

7. RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT

General

A Capital asset should be recognised as an asset in the financial and asset records when:

- The entity has control of the asset;
- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- The cost or fair value of the item to the municipality can be measured reliably;
- The cost is above the municipal capitalisation threshold (if any); and
- The item is expected to be used during more than one financial year.

Spare parts and servicing equipment are usually carried as inventory in terms of the Standard of GRAP on *Inventories* and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

CALCULATION OF INITIAL COST PRICE

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

- Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Asset
- The cost of site preparation;
- Initial delivery and handling costs;
- Installation costs;
- Professional fees e.g. architects and engineers etc.;
- The estimated cost of dismantling and removing the asset and restoring the site; and

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

Component approach

The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:

- Significant cost; and
- Considerable difference in useful life

If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset as a whole, it should be recognised as a separately depreciable part (component).

SUBSEQUENT EXPENSES

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

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

Rehabilitation/Enhancements/Renewals of capital assets

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if:

- The expenditure satisfies the recognition criteria;
- That expenditure is enhancing the service potential of that capital asset beyond its original expectation and either that expenditure:
 - increases the useful life of that capital asset (beyond its original useful life);
 - increases the capital asset capacity (beyond its original capacity);
 - increases the performance of the capital asset (beyond the original performance);
 - increases the functionality of that capital asset;
 - reduces the future ownership costs of that capital asset significantly; or
 - increases the size of the asset or changes its shape.

The expenditure to restore the functionality of the capital asset to its original level is a maintenance or refurbishment expense and will not be capitalised to the carrying value of the capital asset. The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or renewed, the amount incurred will be added to the carrying value of the asset.

LEASED ASSETS – (GRAP 13)

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases:

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as an asset.
- Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

Policy

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. All assets will be capitalised, except those listed as examples in *Annexure C*, but the application thereof will be determined annually by the municipality.

However, the municipality (Municipal Manager or to whom the right is delegated) can determine with an internal memorandum which assets, as mentioned in *Annexure C*, may not be classified as capital assets.

The Council shall specify which kinds of leases the municipality may enter into. A lease register shall be maintained with all the information that is necessary for reporting purposes.

Procedures and Rules

- Strategic Executive Directors shall ensure that all leased assets under their control are correctly accounted for and recognised as assets.
- The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, contracts, amortisation tables, etc.

8. SUBSEQUENT MEASUREMENT OF ASSETS

General

After initial recognition of Property, Plant and Equipment, the municipality values its assets using the cost model, unless a specific decision have been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation or fair value model.

When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.

When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Procedures and Rules

- The CFO shall ensure that all Property, Plant and Equipment are correctly recorded in the Asset Register and revaluated (if applicable) in terms of the municipality's policies.

9. RECOGNITION OF INVENTORY ITEMS (NON-CAPITAL ITEMS)

General

Inventories encompass finished goods purchased or produced, or work in progress being produced by the municipality. They also include materials and supplies awaiting use in the production process and goods purchased or produced by the municipality, which are for distribution to other parties for no charge or for a nominal charge. GRAP 12.7 defines Inventories as assets:

- In the form of materials or supplies to be consumed in the production process;

- In the form of materials or supplies to be consumed or distributed in the rendering of services;
- Held for sale or distribution in the ordinary course of operations; or
- In the process of production for sale or distribution.

Examples of Inventories may include the following:

- Ammunition
- Consumable stores;
- Maintenance materials;
- Spare parts for plant and equipment other than those dealt with under PPE;
- Strategic stockpiles (e.g. Water reserves);
- Work in progress; and
- Land / Property held for sale or development (and where plans have been approved)

Cost of inventories shall comprise of all costs of purchase (i.e. purchase price, import duties, other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and supplies), costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Trade discounts, rebates and other similarities are deducted. Taxes recoverable by the entity from the SARS may not be included.

Costs of development for housing or similar developments which are acquired or developed for resale will include costs directly related to the development – e.g. purchase price of land acquired for such developments, surveying, conveyance costs and the provision of certain infrastructure. Infrastructure costs relating to extending the capacity of existing infrastructure are excluded. The costs of inventories of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads are included.

Policy

Assets acquired or owned by the municipality for the purpose of selling or developing such assets with the intention to sell it or utilising the asset in the production process or in the rendering of services shall be accounted for in the municipality's financial statements as inventory items and not as property, plant and equipment.

Inventories are recorded in a dedicated section of the Inventory Register and it is maintained for this purpose. The amount of cost of inventories is recognised and carried forward until related revenues are recognised.

Inventories are measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for nominal charge, or for consumption in the production process of goods to be distributed at no charge or for a nominal charge.

In cases where the above does not apply, inventories are measured at lower of cost and net realisable value.

10. RECOGNITION AND DERECOGNITION OF LAND (iGRAP 18)

General

iGRAP 18 was early adopted and will subsequently be used in the recognition and derecognition of land.

iGRAP 18 can be applied to clarify the treatment of land where the building is owned by another party including, but not limited to:

- Formal RDP houses
- Informal RDP houses (without council permission)
- Schools, clinics, churches and similar
- Private properties on municipal land

It will also assist in confirming the treatment of the following assets regardless of ownership of the land:

- Infrastructure assets
- Community assets
- Vacant stands registered at the title deeds office
- Vacant stands not registered at the title deeds office

Policy

The control of land is evidenced by the following criteria:

(a) legal ownership; and/or

(b) the right to direct access to land, and to restrict or deny the access of others to land.

In assessing the control criteria, any binding arrangements over properties will be considered. Binding agreements can be in written form, a verbal agreement, or the result of past practice.

The loss of control will result in the derecognition of the property, despite legal title, while assets over which the entity does not hold the legal title may be recognized as an asset if control over the property has been established.

11. ASSET TYPES

11.1 Property, Plant and Equipment: LAND AND BUILDINGS

General

Land and Buildings comprise any land and buildings held (by the owner or by the lessee under a finance lease) by the municipality to be used in the production or supply of goods or for administrative purposes and/or to provide services to the community. These assets include building assets such as offices, staff housing, aquariums, cemeteries, clinics, hospitals, game reserves, museums, parks and also include recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

Land held for a currently undetermined future use, should not be included in PPE: Land and Buildings, but should be included in Investment Properties. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

Policy

Land and buildings shall be accounted for using the cost model. Land shall initially be accounted for at cost price, or fair value in cases where cost price is not known, and shall not be depreciated. Land on which infrastructure and/or buildings are located shall be listed separately in the land register and not with the infrastructure or building assets. A reference to the land shall however be included in the infrastructure and/or building Asset Register.

Land and Buildings shall be recorded under the following categories;

- LAND
 - Developed Land
 - Undeveloped Land
- BUILDINGS
 - Dwellings
 - Non-residential Structures
- LANDFIL SITE

Procedures and Rules

- The CFO shall ensure that all land and buildings are correctly recorded in the Asset Register. The Asset Management Unit shall ensure that land and buildings are revalued (if applicable) in terms of the municipality's policies.
- The CFO shall ensure the recognition, measurement and revaluation of *Land and Buildings* in terms of GRAP 17.

11.2 Property, Plant and Equipment: INFRASTRUCTURE ASSETS – GRAP 17

General

Infrastructure Assets comprise assets used for the delivery of infrastructure-based services. These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Many infrastructure assets form part of a greater facility e.g. a transformer in a sub-station.

Level of detail of componentisation

For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that means the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very costly when dealing with assets that are very numerous in nature e.g. water meters, street signs, household connections, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data i.e. Costs vs Benefits.

The compilation of a detailed infrastructure Asset Register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing Asset Registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increase their knowledge in the assets they own. The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high risk assets, such as pump stations, treatment works, etc.

Policy

The infrastructure Asset Register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. An improvement plan stipulating

the level of detail and the timing of improvements shall be prepared. Infrastructure assets should be valued at cost less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the depreciation methods applied to Infrastructure assets should be reviewed annually, but the cost related to such reviews should be measured against benefits derived to ensure value for money. Such reviews will have to be performed at least once in a three year cycle.

Infrastructure assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected must be rated as critical in the Asset Register. Assets identified as critical in terms of the aforementioned are identified in **Annexure B**.

Infrastructure Assets shall be recorded under the following main categories;

- Electricity Network;
- Roads Network;
- Solid Waste Disposal;
- Storm Water Network

Procedures and Rules

- The **Asset Management Unit** shall define the level of detail of the infrastructure Asset Register in consultation with the Strategic Executive Directors.
- The **Asset Management Unit** shall approve an improvement process that defines the target level of detail for each infrastructure asset type with the target year of implementation in consultation with the Strategic Executive Directors.
- The **Asset Management Unit** shall ensure the recognition and measurement of *Infrastructure Assets* in terms of GRAP 17.
- Although a category of assets may not be regarded as critical as a whole, individual assets may fulfil in the definition of criticality and Strategic Executive Directors must inform the Asset Management Unit of such assets or any changes in the criticality of an asset/category of assets and the Asset Registers must be updated accordingly.

11.3 HERITAGE ASSETS – (GRAP 103)

General

A *Heritage Asset* is an asset that has historical, cultural or national importance and needs to be preserved. The following is a list of some typical heritage assets encountered in the municipal environment:

- Archaeological sites;
- Conservation areas;
- Historical buildings or other historical structures (such as war memorials);
- Historical sites (for example, historical battle site or site of a historical settlement);
- Museum exhibits;
- Public statues; and
- Works of art (which will include paintings and sculptures).

Policy

Heritage assets are valued at cost less accumulated impairment losses. No depreciation shall be charged against such assets. If the cost price of heritage assets is not known, then the heritage asset will be valued at fair value.

Procedures and Rules

- A register of all heritage assets will be kept by the municipality.
- For reporting purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note in the Financial Statements.
- The **Asset Management Unit**, in consultation with Strategic Executive Directors, shall ensure that all heritage assets are appropriately recorded and valued in terms of the municipality's policies.

11.4 Property, Plant and Equipment: OTHER ASSETS

General

Other Assets include a variety of assets that are of indirect benefit to the communities they serve. These assets include office equipment, furniture and fittings, bins and containers, emergency equipment, motor vehicles, plant and equipment.

Policy

Other assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not revalued.

Other assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected must be rated as critical in the Asset Register. Assets identified as critical in terms of the aforementioned are identified in **Annexure B**.

Other Assets shall be recorded under the following main categories;

- Aircraft;
- Bins and Containers;
- Emergency Equipment;
- Furniture and Fittings;
- Motor Vehicles;
- Office Equipment;
- Plant and Equipment;
- Specialised Vehicles;
- Watercraft; and
- Other Assets.

Procedures and Rules

- The **Asset Management Unit**, in consultation with Strategic Executive Directors, shall ensure that all other assets are appropriately recorded in terms of the municipality's policies.
- Although a category of assets may not be regarded as critical as a whole, individual assets may fulfil in the definition of criticality and Strategic Executive Directors must inform the **Asset Management Unit** of such assets or any changes in the criticality of an asset/category of assets and the Asset Registers must be updated accordingly.

11.5 Intangible Assets – GRAP 31

General

Intangible Assets can be purchased, or can be internally developed, by the municipality and includes, but are not limited to, computer software, website development cost, valuation roll, servitudes and mining rights.

Policy

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed, and development costs may be capitalised if all the criteria set out in GRAP 31 has been met.

Procedures and Rules

- The Asset Management Unit, in consultation with Strategic Executive Directors, shall ensure that all intangible assets are appropriately recorded in terms of the municipality's policies.
- It is the responsibility of the Head of Information Technology to ensure that all licensed computer software other than operating software are accounted.

11.6 Investment Property – GRAP 16

General

Investment Property comprise of land or buildings (or parts of buildings) or both, held by the municipality as owner, or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties);
- Shopping centres (developed along similar lines);
- Housing developments (developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit).
- Land held for a currently undetermined future use. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

Policy

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Investment Property is initially measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE

until it is ready for its intended use, where after it shall be reclassified as an investment asset.

RECOGNITION: Investment property recognised at cost, if acquired through a non-exchange transaction, the cost is measured as the fair value of the asset.

COST: After initial recognition, all investment property shall be measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the asset. Land has an indefinite useful life thus it is acceptable practice that no depreciation is calculated on land parcels.

FAIR VALUE: After initial recognition, all investment property shall be measured at fair value. The fair value should reflect market conditions and circumstances as at the reporting date. Management shall assess at each reporting period whether conditions exist that indicate the fair value does not reflect market conditions and circumstances, and only adjust fair values if required. The fair values of properties will be adjusted at a minimum with every update of the municipal valuation roll, or any supplementary valuation roll.

A gain or loss arising from a change in the fair value of investment property shall be included in surplus or deficit for the period in which it arises.

Investment assets are recorded in an Investment Property register.

The following classes of Municipal Property will be classified as Investment Property:

- a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which council intends to sell at a beneficial time in the future.
- b) Land held for a currently undetermined future use.
- c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis.
- d) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
- e) Property that is being constructed or developed for future use as investment property.

The following classes of Municipal Property will not be classified as Investment Property:

- a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.
- b) Property being constructed or developed on behalf of the Provincial Government: Housing Department.

- c) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.
- d) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner-occupied property.
- e) Property that is leased to another entity under a finance lease.
- f) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation. The decision should be documented and approved through a resolution.
- g) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.

11.7 Agricultural Assets – GRAP 27

General

Biological Assets are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. Managed agricultural activity such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the municipality from its ownership or control of the asset.

Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to the market.

Where the municipality is unable to measure the fair value of biological assets reliably, a biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

Policy

Biological assets, such as livestock and crops, shall be valued annually at fair value less estimated point-of-sales costs.

Procedures and Rules

- The **Asset Management Unit**, in consultation with Strategic Executive Directors, shall ensure that all biological assets obtained from a managed agricultural activity, such as livestock and crops, are valued at 30 June each year by a recognised valuator in the line of the biological assets concerned.

- The **Asset Management Unit** shall ensure the recognition and measurement of *Biological Assets* in terms of GRAP 27.

11.8 INVENTORY PROPERTY (GRAP 12)

General

Inventory Property comprises any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business.

Policy

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's asset register or Statement of Financial Position. Inventory property shall be valued annually at reporting date at the lower of carrying value or net realisable value, except where they are held for:

- a) distribution at no charge or for a nominal charge, or
- b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge, then they shall be measured at the lower of cost and current replacement cost.

Inventory properties shall be recorded in the Inventory register.

12. ASSET ACQUISITION

12.1 Acquisition of Assets

General

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing.

Policy

Should the municipality decide to acquire an asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- The purpose for which the asset is required is in line with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset fits the definition of an asset (as defined in GRAP 12, GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place.
- The most suitable and appropriate type, brand, model, etc. has been selected.

Procedures and Rules

- The **Asset Management Unit** shall ensure that the Supply Chain Management Policy makes provision for these principles.
- The CFO shall ensure that all acquired assets are appropriately insured.

12.2 Creation of New Infrastructure Assets

General

Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that have not been in the control or ownership of the municipality in the past.

Policy

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into its significant components, each of which have an appropriate useful life.

Work in progress shall be flagged as such in the Asset Register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management.

Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Procedures and Rules

- Strategic Executive Directors shall ensure that relevant documents are submitted to Finance that includes the details of the work in progress relating to the relevant invoice and/or payment request.
- Strategic Executive Directors shall notify Finance when the works have been completed and the assets can be recognised.
- Strategic Executive Directors shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the Asset Register.
- Strategic Executive Directors shall keep a timesheet system for internal staff to capture professional time spent on infrastructure projects. The time shall be priced at recognised professional fee scales and should be included in the capitalisation cost of the asset.

12.3 Self-constructed Assets

General

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.

Policy

All assets that can be classified as assets and that are constructed by the municipality should be recorded in the Asset Register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged as such in the Asset Register until such time that the facility is completed. Depreciation will commence when the asset is in the condition necessary for it to operate in the manner intended by management.

Procedures and Rules

- Strategic Executive Directors shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.
- Strategic Executive Directors shall open a job card for each infrastructure project constructed by the municipality.
- Strategic Executive Directors shall keep a timesheet system for internal staff to capture professional time spent on infrastructure projects. The time shall be priced at recognised professional fee scales and should be included in the capitalisation cost of the asset.

- On completion of the infrastructure project, the Strategic Executive Directors shall notify the Budget and Treasury Office of the asset being commissioned and will assist the Budget and Treasury Office in ensuring that all costs (both direct and indirect) associated with the construction of the assets are summed and capitalised to the assets that make up the project.

12.4 Donated Assets

General

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

Policy

Donated assets should be valued at fair value, reflected in the Asset Register, and depreciated as normal assets.

Procedures and Rules

- All donated assets must be approved by the **Asset Management Unit** and ratified by Council prior to acceptance.
- The **Asset Management Unit** must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the municipality.
- The conditions associated with the donation must be agreed upon and signed by the Municipal Manager.
- Municipal officers must inform the **Asset Management Unit** of any donations made to the Municipality.

13. ASSET MAINTENANCE

13.1 Useful Life of Assets

General

Useful Life of assets is defined in paragraph 2 of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

National Treasury (NT) published its Local Government Asset Management Guideline in August 2008 that includes directives for useful lives of assets, but municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for the particular classes of assets. Should the municipality decide on a useful life outside the given parameters, the National Treasury (OAG) should be approached and provided with a motivation, for its agreement of the rate utilised. The calculation of useful life is based on a particular level of planned maintenance.

Policy

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

Procedures and Rules

- Strategic Executive Directors must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the **Asset Management Unit**.
- During annual physical verification the condition of each asset must be reviewed to determine the validity of its remaining useful life as reflected on the Assets Register. All items identified as being impaired (with remaining useful life shorter than anticipated as per the Assets Register) must be reported to the Chief Financial Officer who will implement steps to ensure that the impairments are incorporated in the Assets Register and reported on as required by the relevant standards of GRAP.
- The CFO shall ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the Asset Register, general ledger and Financial Statements.
- The **Asset Management Unit** shall ensure that the *Remaining Useful Life* of an asset shall be reviewed at each reporting date.

13.2 Residual Value of Assets

General

The Residual Value of an asset is the estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual values of most assets are however considered to be insignificant and therefore immaterial in the calculation of the depreciable amount. The reason is that the majority of assets are hardly ever recovered through sale, but rather through use of the asset until the end of its useful life, after which insignificant amounts, if any, are expected to be obtained, as these assets will most probably be replaced in its entirety.

Assets typically not sold by the municipality are land, buildings, infrastructure and community assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle. Residual values will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. Past experiences of municipal auctions held revealed that furniture, computer equipment and other movable assets does not reach selling prices that are material.

Policy

Residual values should be determined upon the initial recognition (capture) of assets. However, this will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value of assets shall be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

Procedures and Rules

- Strategic Executive Directors must determine the reasonable residual values of the assets under their control. Changes in residual values must be approved by the **Asset Management Unit**.
- The CFO shall ensure that residual values, and changes thereof, are properly recorded and accounted for in the Asset Register and the general ledger.
- The **Asset Management Unit** shall ensure that the *residual value* of an asset shall be reviewed at each reporting date.

13.3 Depreciation of Assets

General

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

The depreciation method used must reflect the pattern in which economic benefits or service potential of an asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

- Straight-line;
- Diminishing Balance; and
- Sum of the Units.

Policy

All assets, except land, investments properties and heritage assets, shall be depreciated over their reasonable useful lives. The *residual value* and the *useful life* of an asset shall be reviewed at each reporting date. The depreciation method applied must be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality or expected to be so controlled or used during the ensuing financial year.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed. Depreciation of an asset should begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner it is intended by management. Depreciation of an asset ceases when the asset is de-recognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production.

In the case of intangible assets being included as assets, the procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

Procedures and Rules

- Strategic Executive Directors must ensure that a budgetary provision is made for the depreciation of the assets under their control in the ensuing financial year.
- Strategic Executive Directors must determine the reasonable useful life of the asset classifications under their control. Deviations from the standards

of useful life must be motivated in writing to the **Asset Management Unit** for approval.

- In the case of an asset which is not listed in the asset classification list, Strategic Executive Directors shall determine a useful operating life, in consultation with the CFO, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed. The **Asset Management Unit** must be informed of the additional asset classification and amend the Asset Management Policy accordingly.
- Alternative depreciation methods may be used in exceptional cases, if motivated by the Strategic Executive Director controlling the asset to the **Asset Management Unit**. The Strategic Executive Director must then provide the **Asset Management Unit** with sufficient statistical information to make estimates of depreciation expenses for each financial year.
- The CFO shall ensure that depreciation shall be up to date on a monthly basis and be reconciled between the Asset Register and the general ledger.
- The CFO shall ensure that the *residual value, useful life and depreciation method* of an asset shall be reviewed at each reporting date.

13.4 Impairment Losses – GRAP 21

General

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. The following serve as examples of impairment indicators:

- Carrying amount of an asset far exceeds the recoverable amount or market value;
- During routine physical inspection of the asset there was evidence of physical damage (or obsolescence);
- The asset is not being used, or access to the asset is restricted, due to structural damage.
- The asset is not able to perform at the planned or required level and as a result is not meeting service delivery targets.
- During routine physical inspection of the asset it was identified that the asset deteriorated faster than expected, or was subject to damage, which will result in replacement or significant maintenance earlier than expected.

The entity will designate its assets as either non-cash generating or cash generating in accordance with GRAP 21.

Designation is based on the entities objective of using the asset at initial recognition for:

- Delivery of service (service assets) or
- Generating commercial return (profit assets)

It is expected that some assets may have a dual-purpose.

A dual-purpose asset is only classified as cash-generating (profit assets) if the purpose to create a profit clearly stands out and the service delivery aspect is incidental. If the purpose is not clear, the assets are presumed to be non-cash-generating (service assets)

The designation has to be done on an asset or cash-generating unit.

In the designation process assets are first designated using a group of assets and any remaining assets are then designated on an individual asset basis. The designation is applied to individual assets.

An asset could comprise a group of assets that are part of a system or network, that is, infrastructure assets.

Examples of a cash-generating unit (group of assets):

- Administrative / owner-occupied assets
- Infrastructure – Roads
- Infrastructure – Water
- Infrastructure – Electricity
- Infrastructure – Sewer
- Infrastructure – Waste Management
- Community Assets – Swimming Pool
- Community Assets – Community Hall

For non-cash generating assets GRAP 21 will be applied.

For cash generating assets GRAP 26 will be applied.

The impairment amount is calculated as the difference between the carrying value and the recoverable value.

Non-cash generating assets

The recoverable value is the higher of the asset's value in use or its fair value less cost to sell.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Cash generating assets

The recoverable value is the higher of the asset's value in use or its fair value less cost to sell.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

Where the recoverable amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The

impairment loss should be recognised as an expense when incurred unless the asset is carried at re-valued amount.

If the asset is carried at a re-valued amount the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

Policy

Assets shall be reviewed annually for impairment. Impairment of assets shall be recognised as an expense, unless if it reverses a previous revaluation in which case it should be charged to the *Revaluation Surplus*. The reversal of previous impairment losses recognised as an expense is recognised as an income.

Procedures and Rules

- The **Asset Management Unit** must ensure that annual impairment surveys are performed.
- The CFO shall ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the Asset Register and the general ledger.

13.5 Maintenance of Assets and the Asset Register

General

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

The splitting of linear infrastructure has a data management implication, but it is the easiest method that maintains the data integrity over time.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

Policy

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are individually identified in the Asset Register.

The risk and criticality of all assets must be assessed in conjunction with the annual physical asset verification process. All assets with a condition rating greater than 3 (three) must be reported to the **Asset Management Unit, which** will give instructions with regard to the criticality grading of the assets on the Asset Register. Strategic Executive Directors must ensure that the assets identified as critical are attended to in order to prevent possible failure.

Procedures and Rules

- Strategic Executive Directors responsible for the control and utilisation of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.
- Strategic Executive Directors shall ensure that the operating expenses are expended against the operating budget and not the capital budget.
- Strategic Executive Directors shall report to the Council annually of the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance.
- Strategic Executive Directors shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes;
- Strategic Executive Directors shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

13.6 Renewal of Assets

General

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However, if the service is no longer required, the asset should not be renewed. Asset renewal projections are generally based on

forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

Policy

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

Procedures and Rules

- The **Asset Management Unit** must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.
- Strategic Executive Directors shall ensure that renewals expenditure are correctly budgeted for in the capital budget and posted accordingly against this budget.
- Strategic Executive Directors must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

13.7 Replacement of Assets

General

This paragraph deals with the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

Policy

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset.

Procedures and Rules

- The **Asset Management Unit** must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.
- Strategic Executive Directors shall ensure that replacement expenditure are correctly budgeted for in the capital budget and posted accordingly against this budget.

14. ASSET DISPOSAL

14.1 Transfer of Assets

General

The processes and rules for the transfer of an asset to another municipality, municipal entity or national/provincial organ of state are governed by an MFMA regulation namely “the Local Government: Municipal Asset Transfer Regulations”.

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed Asset Register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building to another; and
- One entity to another.

Policy

The transfer of assets is regulated by the SCMP and shall be controlled by the transfer processes in the policy and the Asset Register shall be updated accordingly.

Procedures and Rules

- Strategic Executive Directors must ensure that all asset transfer information is passed to Budget and Treasury Office.
- The CFO must ensure that a process is in place to capture and record asset transfer data.
- Staff of the Municipality, except for duly authorised staff, shall not move rented assets, such as photocopy machines.
- No person shall transfer any IT equipment without the knowledge and written consent of the Head: Information Technology.
- Strategic Executive Directors must immediately report to the **Asset Management Unit** any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.

14.2 Exchange of Assets

General

According to GRAP 17.29 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

- (a) the exchange transaction lacks commercial substance; or
- (b) the fair value of neither the asset received, nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Policy

The SCMP will be applied when assets are exchanged. The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

Procedures and Rules

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations, and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The **Asset Management Unit** shall approve all asset exchanges in consultation with the relevant Strategic Executive Director.

14.3 Alienation / Disposal of Assets

General

Alienation / Disposal (alienation) is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of assets. Specifically:

- A municipality may not ...” permanently dispose of an asset needed to provide the minimum level of basic municipal services”
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an

asset must be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Policy

There are various methods of disposal. Different disposal methods will be needed for different types of assets. When deciding on a particular disposal method and consideration of the following, the SCMP on disposal of assets must be applied:

- The nature of the asset
- The potential market values
- Other intrinsic value of the asset
- Its location
- Its volume
- Its trade-in prices
- Its ability to support wider Government programmes;
- Environmental considerations
- Market conditions
- **The asset's life**

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution
- Sale to another institution
- Letting to another institution
- Trade-in
- Controlled dumping (for items that have low value or are unhygienic)

Alienated assets shall be written-off in the Asset Register.

Procedures and Rules

- Strategic Executive Directors shall report in writing to the **Asset Management Unit** timeously during the financial year on all assets which they wish to alienate and the proposed method of alienation.
- The CFO shall consolidate the requests received from the various departments and shall promptly report the consolidated information to the **Executive Unit**, recommending the process of alienation to be adopted.

- **The final approval of the alienation of assets rest with the Council of the Municipality;**
- The Council shall ensure that the alienation of any asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2003. The Act states that the municipality may not alienate any asset required to provide a minimum level of service. The municipality may alienate any other asset, provided the municipality has considered the fair market value and the economic and community value to be received in exchange for the asset.
- **Selling:** Assets to be sold shall be sold in terms of paragraph 9.4 below.
- **Donations:** Donations may be considered as a method of alienation, but such requests must be motivated to the **Asset Management Unit** for approval.
- **Destruction:** Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- **Scrapping:** Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the **Asset Management Unit**.
- Once the assets are alienated, the CFO shall write-off the relevant assets in the Asset Register.
- The letting of immovable property must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.
- The **Asset Management Unit** must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

14.4 Selling of Assets

General

Selling of assets refers to the public sale of municipal assets approved for alienation.

Policy

The selling of assets must be within the parameters laid down in the SCMP. Further must all assets earmarked for sale be sold by public auction or tender and the following steps shall be followed:

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.

- Leased assets in a form of cell phones, tables and iPads may be sold to the user by private treaty at the higher of the asset's carrying value or the residual value of at least 5%.
- All leased assets in the form of cell phones, tables and iPads remain the property of the municipality until such time as it has been disposed or written off in line with the provisions of this policy;
- The shall take all steps necessary to ensure that the cost of assets not returned by the employee or councillor on exit is recovered from the employee/councillor responsible.

Sold assets shall be written-off in the Asset Register.

Procedures

- A request for assets to be sold must be submitted to the **Asset Management Unit** for approval. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 11.3 above.
- The **Asset Management Unit may engagement the services** of auctioneers either on a quotation basis or by tender depending on the goods to be alienated.

The municipality reserves that right to dispose the properties to the current lessees of the property and the right to dispose mobile devices to the current device users through a private treaty process

Should the municipality decides to dispose properties and mobile devices to the current lessees (and/or users) in terms of the clause ... above, council resolution to this effect must be obtained

- **Bidding:** Bidders are afforded the opportunity to make an offer on identifiable items. Bids are compared and the highest bidder is awarded the bid.
- **Tenders:** Tenders shall be invited according to the municipality's tender procedures.
- Once the assets are sold, the CFO shall write-off the relevant assets in the Asset Register.
- If the proceeds of the sales are less than the carrying value recorded in the Asset Register, such difference shall be recognised as a loss for the department or vote concerned in the Statement of Financial Performance. If the proceeds of the sales, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain for the department or vote concerned in the statement of financial performance.
- Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall

take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

- The Municipal Manager may request the recommendations of the Asset Management and Loss Control Committee prior to Council Approval for disposal of assets.

14.5 Writing-off of Assets

General

The write-off of assets is the process to permanently remove the assets from the Asset Register. Assets can be written-off after Council approval acting on a report indicating that:

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is out dated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.
- The SCMP has been adhered to.

The Municipal Manager may request the recommendations of the Asset Management and Loss Control Committee prior to Council Approval for assets being written-off.

Policy

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

Procedures and Rules

- Strategic Executive Directors shall report to the CFO during the financial year on any assets which such Strategic Executive Director wishes to have written-off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports and shall promptly submit a recommendation to the Asset Management Unit on the assets to be written off.

- An asset, even though fully depreciated, shall be written-off only on the recommendation of the Strategic Executive Director controlling or using the asset concerned, and with the approval of the **Asset Management Unit**.
- In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full carrying value of the asset concerned as impairment expenses.
- Assets that are replaced should be written-off and removed from the Asset Register.

15. ASSET PHYSICAL CONTROL

15.1 Physical Control / Verification

General

Movable assets require physical control and verification of existence.

Policy

All movable assets shall be actively controlled, including an annual verification process.

Procedures and Rules

- All movable assets, where practicable, must have a visible bar code or unique asset marking as determined by the **Asset Management Unit**.
- Annual verification of movable assets should be conducted under the direction of Finance. This procedure would enable the municipality to identify discrepancies and dispositions and properly investigate and record the transactions.
- Procedures should be established to adequately identify assets owned by others or subject to reclamation by donors.
- The **Asset Management Unit** shall co-ordinate and control regular physical checks, and all discrepancies are to be reported immediately to the **Asset Management Unit**.
- Registers must be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control. These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.
- Where a change in person in direct control of equipment takes place, a handing-over certificate shall be completed and signed by both parties concerned and a copy of this certificate must be forwarded to Finance. If surpluses or deficiencies are found, the certificates shall be dealt with as with stock-taking reports.
- If for any reason the person from whom the asset is being taken over is not available, the asset controller should assist the person taking over with the checking of the equipment and the certification of any discrepancies.
- In case of failure to comply with the requirements of a handing-over certificate, the person taking over shall be liable for any shortages, unless it can be established that the shortages existed prior to their taking over.
- Any losses of and damage to equipment, excluding discrepancies at stocktaking of losses resulting from normal handling or reasonable wear and tear, shall be reported to the **Asset Management Unit**.

- Independent checks from asset records shall be conducted to ensure that the assets physically exist, especially those that could be disposed of without a noticeable effect on operations.
- Yearly physical inspections of assets shall be performed to identify items which are damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, written off or disposed of.
- All newly acquired assets shall be delivered to / received by the procurement section where the assets will be bar-coded before dispatch to the persons who will be the custodians of the assets. Where this is not practicable, the acquired assets must be delivered to the section issuing the requisition and that section must notify the finance section so that bar-coding or asset marking can be arranged.
- Delivery of assets by procurement staff must be to the person requiring the asset and he/she will sign a form accepting responsibility for the asset.

The Asset Management Unit may, on request of a Strategic Executive Director, waive full physical verification and accept written confirmation from the Strategic Executive Director of infrastructure assets being verified during the course of a financial period as part of routine and/or planned maintenance and/or physical inspections. Documentation in this regard must be kept by departments and be available for inspection.

15.2 Insurance of Assets

General

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

Policy

Assets that are material in value and substance shall be insured at least against destruction, fire and theft. All municipal buildings shall be insured at least against fire and allied perils. Land shall not be included for the purpose of insurance.

Procedures and Rules

- The Departments will ensure that all assets are properly insured in terms of the policy.

15.3 Safekeeping of Assets

General

Asset safekeeping is the protection of assets from damage, theft, and safety risks.

Policy

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken. The municipality shall establish and implement the Loss Control Policy for such purpose.

Procedures and Rules

- The **Asset Management Unit** must issue directives that detail the safekeeping of assets.
- Strategic Executive Directors must ensure that safekeeping directives are adhered to.
- Malicious damage, theft, and break-ins must be reported to the CFO and loss control officer within 48 hours of its occurrence or awareness. The CFO will inform the **Asset Management Unit** of such occurrence.
- The Municipal Manager must report criminal activities to the South African Police Service.
- If any biological asset is lost, stolen or destroyed, the matter shall be reported in writing by the Strategic Executive Director concerned in exactly the same manner as though the asset were an ordinary asset.

16. ASSET FINANCIAL CONTROL

16.1 CAPITAL REPLACEMENT RESERVE (CRR)

General

The CRR is a reserve account to set aside funds for the financing of property, plant and equipment. The CRR is therefore an asset financing source that represents an alternative to the other funding sources available to the municipality, namely external loans (interest bearing borrowings) and government grants & subsidies. The value of this reserve is not represented by any values of assets under the municipality's control and shall preferably be cash-backed.

Policy

It is the policy of Council to annually make contributions to the CRR to ensure that the CRR remains a capital funding source for the future. The municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The Integrated Development Plan, the municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR. Whenever an asset is sold by the municipality, the proceeds on the sale of the assets must be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets. All proceeds on the sale of land will be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets. Whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus on the Statement of Changes in Net Assets.

16.2 NON-DISTRIBUTABLE RESERVES (PUBLIC CONTRIBUTIONS AND DONATIONS RESERVE AND CAPITALISATION RESERVE)

General

The Public Contributions and Donations Reserve and the Capitalisation Reserves are reserve accounts dedicated towards funding the future depreciation of assets. The value of these reserves is equal to the carrying values of all depreciable assets under the municipality's control that was funded from Public Contributions / Donations or Internal Advances.

An amount equal to the monthly depreciation expenses and impairment losses recognised is transferred from the non-distributable reserve to the municipality's appropriation account (retained income) on a monthly basis.

For all new assets capitalised which are funded from Public Contributions / Donations, an amount equal to the capitalisation amount is appropriated to the Public Contributions and Donations Reserve from the Appropriation Account.

Since Internal Advances are not allowed anymore, no assets will be acquired from this source with the result that the Capitalisation Reserve will become totally depleted once the assets funded Internal Advances under IMFO standards, are fully depreciated.

Policy

The CFO shall ensure that the asset financing non-distributable reserves are created equal in value to the carrying value of all assets under the municipality's control funded from public contributions / donations and internal advances. The CFO shall thereafter ensure that in the case of depreciable assets, an amount equal to the monthly depreciation expenses and impairment losses recognised of the assets concerned is transferred each month from such non-distributable reserve to the municipality's appropriation account. For acquisitions of depreciable assets funded from public contributions / donations, an amount equal to the capitalisation amount is appropriated to the reserve from the municipality's appropriation account.

16.3 GOVERNMENT GRANTS RESERVE

General

The Government Grants Reserve is a reserve account dedicated towards funding the future depreciation of assets. The value of this reserve is equal to the carrying values of all depreciable assets under the municipality's control that was funded from *Government Grants*.

An amount equal to the value of Government Grants spent on capital assets (conditions met) is recorded as revenue. The amount is then transferred from the accumulated surplus account to the Government Grant Reserve. Monthly depreciation expenses and impairment losses recognised is released from the reserve to the municipality's accumulated surplus.

Policy

The CFO shall ensure that the Government Grant Reserve is created equal in value to the carrying value of all assets under the municipality's control funded from government grants. The CFO shall thereafter ensure that in the case of depreciable assets, an amount equal to the monthly depreciation expenses and impairment losses recognised of the assets concerned is released each month from the government grant reserve to the municipality's accumulated surplus. For acquisitions of depreciable assets funded from government grants, revenue is recorded and an amount equal to the capitalisation amount is transferred from the accumulated surplus to the GGR.

16.4 BORROWING COSTS (GRAP 5)

General

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs. The capitalisation of borrowing costs should take place when borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. During extended periods in which development of an asset is interrupted, the borrowing costs incurred over that time period should be recognised as an expense when incurred. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

It is inappropriate to capitalise borrowing costs when there is clear evidence that it is difficult to link a borrowing requirement directly to the nature of the expenditure to be funded, i.e. Capital or Current.

Policy

Borrowing costs shall be capitalised, if directly attributable to the acquisition construction or production of an asset over a significant period, except when it is inappropriate to do so.

16.5 FUNDING SOURCES

General

The Municipal Finance Management Act (MFMA) provides guidelines on how to utilize funds in financing assets (Section 19 of MFMA). The municipality shall utilise any of the following sources to acquire and / or purchase assets:

- Grants, Subsidies and Public Contributions;
- Revenue Contributions;
- Capital Replacement Reserve;
- Cash Surplus; and / or
- External / Donor Funds.

Policy

The annual capital budget must be funded and the sources of finance must be disclosed as part of the Council's budget.

16.6 DISASTER

General

In terms of the Disaster Management Act, 2002, Disaster means a progressive or sudden, widespread or localised, natural or human – caused occurrence which causes or threatens to cause:

- death, injury or disease;
- damage to property, infrastructure or the environment; or
- disruption of life of community; and
- is of a magnitude that exceeds the ability of those affected by the disaster to cope with its effects using only their own resources.

In terms Section 56 (b) of the Disaster Management Act, 2002 the cost of repairing or replacing public sector infrastructure should be borne by the organ of state responsible for the maintenance of such infrastructure. The National, Provincial and Local organs of state may contribute financially to response efforts and post – disaster recovery and rehabilitation.

Policy

The Municipality will correspond with the Provincial organs to gain funds for repairing assets damaged in disaster events. The municipality must adhere to the disaster

management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster.

17 IMPLEMENTATION AND REVIEW

The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Strategic Executive Director: Budget and Treasury Office once approved by Council.

In terms of section 17(1) (e) of the Municipal Finance Management Act, 2003 this policy shall be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

ANNEXURES

ANNEXURE A

ABBREVIATIONS

AM	Asset Management
AMU	Assets Management Unit
AMS	Asset Management System
CFO	Chief Financial Officer
DM	District Municipality
EPWP	Expanded Public Work Program
GAMAP	Generally Accepted Municipal Accounting Practice
GIS	Geographical Information System
GRAP	Standards of Generally Recognised Accounting Practice
HR	Human Resource
IAM	Infrastructure Asset Management
IAMP	Infrastructure Asset Management Plan
AR	Asset Register
IAR	Infrastructure Asset Register
IAS	International Accounting Standards
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MTREF	Medium Term Revenue and Expenditure Framework
NT	National Treasury
OAG	Office of the Accountant General
LM	Local Municipality
O&M	Operation and Maintenance
SCMP	Supply Chain Management Policy

ANNEXURE B ASSET HIERARCHY

CLASS	MINOR GROUP	EUL (YRS)	EUL (MONTHS)
LAND	LAND	0	0
BUILDINGS	FIXED STRUCTURES	30	360
	MOBILE	10	120
	OFFICE BUILDINGS	25	300
	AIRPORT - BUILDING	25	300
	AIRPORT – SPECIALISED EQUIPMENT	15	180
	AIRPORT – RUNWAY AND TAXIWAY	15	180
INFRASTRUCTURE	ROADS AND PAVING	80	960
	BRIDGES	80	960
	PUBLIC PARKING	25	300
	STORMWATER PIPES & DRAINS & PUMPSTATIONS BUILDINGS	50	600
	WATER BOREHOLES	30	360
	BULK WATER METERS	20	240
	ELECTRICAL SUBSTATIONS	30	360
	HIGH MAST LIGHTS	10	120
	FENCING	20	240
	LAYERING	20	240
	ELECTRICAL MAINS	20	240
	CONTAINERS	10	120
	SEWERAGE PUMPSTATION	30	360
	POWER STATION	60	720
	WATER SUPPLY/RETICULATION	20	240
	ELECTRICITY TRANSFORMERS	30	360
	UNDERGROUND LINES	45	540
	ELECTRICITY PANELS	5	60
	STREET LIGHTING	40	300
	TRAFFIC LIGHTS	15	180
	TELEMETERY	7	84
	OVERHEAD LINES	30	360
	CABLES	45	540
	LANDFILL SITE	55	660
COMMUNITY	CLINIC AND HEALTH FACILITIES	30	360
	STADIUMS	25	300
	SECURITY SYSTEMS	5	60

CLASS	MINOR GROUP	EUL (YRS)	EUL (MONTHS)
	CEMETERY	30	360
	COMMUNITY HALLS	80	960
	FIRE STATIONS	25	300
	LIBRARY	25	300
	TAXI RANK	15	180
	COMMUNITY CENTRES AND PUBLIC ENTERTAINMENT BUILDINGS	25	300
	SPORTS AND RECREATIONAL FACILITIES (TENNIS COURTS, SOCCER FIELDS, PARKS)	25	300
	ABLUTION/ PUBLIC FACILITIES	25	300
OTHER ASSETS	HONEY SUCKER TANKER	10	120
	BINS AND CONTAINERS	5	60
	EMERGENCY EQUIPMENT	5	60
	WASTE COLLECTION VEHICLES	10	120
	MOTOR VEHICLES	5	60
	FURNITURE AND FITTINGS	7	84
	AIRCONDITIONERS	3	36
	PLAYGROUND EQUIPMENT	12	144
	PLANT AND EQUIPMENT	5	60
	COMPUTER EQUIPMENT	5	60
INTANGIBLE ASSETS	SOFTWARE	5	60
LEASED ASSETS	CELLPHONES	2	24
	3G	2	24
	IPad	2	24
HERITAGE ASSETS	MUSEUMS AND ART GALLERIES	25	300

ANNEXURE C: ASSET TYPES NOT CAPITALISED DUE TO BEING UTILISED LESS THAN 12 MONTHS

- Kitchenware, e.g. Kettles, toasters, two-plate stove, etc.
- Stationery equipment, e.g. Punches (not heavy duty), staplers (not heavy duty), etc.
- Garden equipment, e.g. Brooms, rakes, spade, etc.
- Machines (not heavy duty), e.g. Spanners, screw drivers, etc.
- Electrical equipment, e.g. Extension lead, multi plug, etc.
- Mattresses
- Cutlery & crockery
- Other, as may be determined by management



NEWCASTLE MUNICIPALITY

PETTY CASH POLICY

PETTY CASH POLICY

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PETTY CASH POLICY

1. PREAMBLE

- 1.1 Where the need may arise in a department of the municipality to have cash available for payments of a minor and non-recurring nature and it is impracticable to follow Supply Chain Management policies and procedures for every expense, such payments (excluding remuneration for services rendered) may be made by means of petty cash facilities.

2. POLICY OBJECTIVES

The objective is to provide guidelines on the usage and management of petty cash by Newcastle Municipality.

3. SCOPE OF POLICY

This policy applies to all Newcastle Municipal employees, whether full-time or part-time, or paid on a salaried or an hourly individual basis and to duly appointed cashiers.

4. APPLICABLE LEGISLATION

- 4.1 Municipalities must comply with the requirements of the Municipal Finance Management Act, Act 56 of 2003 (MFMA) and Newcastle Municipality has incorporated the applicable principles, objectives and prescripts in its policy on the management and control of petty cash.
- 4.2 The MFMA endeavours “to regulate financial management in the municipalities; to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively; to provide for the responsibilities of persons entrusted with financial management in those municipalities; and to provide for matters connected therewith.”
- 4.3 In particular, Section 78(1)(b) and (c) of the MFMA places the onus on each employee within the municipality to take responsibility for the effective, efficient, economical and transparent use of financial and other resources within that employee’s area of responsibility. In particular, the employee must take effective and appropriate steps to prevent, within that employee’s area of responsibility, any

PETTY CASH POLICY

unauthorised, irregular, fruitless and wasteful expenditure and any under-collection of revenue due.

5. POLICY PRINCIPLES

5.1 Before approving expenditure or incurring a commitment to spend using petty cash, the delegated or authorised official must ensure compliance with any limitations or conditions attached to the delegation or authorisation. All transactions must be supported by authentic documents.

6. POLICY PROCEDURES

6.1 Approval of Petty Cash Float

6.1.1 The Strategic Executive Director: Budget and Treasury Office or delegated official shall be responsible for making application for petty cash facility or for increase of the operational amount of an existing petty cash float to the Accounting Officer for consideration and decision.

6.1.2 The application shall state sound and valid reasons for the need of petty cash float and the amount required for its operation, as well as the cost centre and vote number from which funds are to be applied for petty cash. The amount applied for must be sufficient to cover expenses for approximately one month.

6.1.3 The municipality shall keep petty cash not exceeding R5 000.00 which must be reviewed on annual basis.

6.1.4 The use of petty cash shall be limited to minor requirements for which a single transaction shall not exceed R500.00.

6.1.5 In cases where the municipality has an account with the supplier or can negotiate opening an account, the municipality should avoid at all cost to use petty cash but use the account in terms of the policies of the municipality, in particular Supply Chain Management policy which regulates acquisition and disposal of goods and services.

PETTY CASH POLICY

6.2 Appointment of Petty Cash Officers

- 6.2.1 The Strategic Executive Director: Budget and Treasury Office must appoint in writing one of the Salaries Clerks as a petty cash custodian who shall be assigned the responsibility of managing and controlling petty cash. The custodian of petty cash must acknowledge appointment by appending his or her signature and date as an acceptance of the responsibilities and must abide by the contents of the this policy and MFMA.
- 6.2.2 The Strategic Executive Director: Budget and Treasury Office must appoint in writing one of the Accountants as a relief petty cash custodian who shall be assigned the responsibility of managing and controlling petty cash in the absence of the designated petty cash custodian. The Accountant must acknowledge appointment by appending his or her signature and date as an acceptance of the responsibilities and must abide by the contents of this policy and MFMA.
- 6.2.3 During absence of the designated petty cash custodian, the designated Accountant must assume the responsibilities as a relief petty cash custodian. The petty cash custodian and relief petty cash custodian must ensure that they are familiar with all relevant statutory requirements and institutional responsibilities attached thereto.
- 6.2.4 Should the Strategic Executive Directors wish to keep petty cash float within their departments, the Strategic Executive Director: Budget and Treasury Office must satisfy himself / herself whether there were proper and sound controls within that department and assess the reasons for request for petty cash float.
- 6.2.5 Where petty cash float has been approved by the Accounting Officer for departments or sub-offices and satellite offices, the responsibility for operating petty cash and safe keeping rest with the Strategic Executive Director of that particular department. Strategic Executive Directors must assign to the designated petty cash custodians who have financial acumen only and who have no previous conviction or suspicions relating to commercial crimes (e.g. theft, fraud, corruption, funds embezzlement, forgery, bribery, uttering, extortion etc).
- 6.2.6 Officials who have garnishee orders against their salaries must not be appointed as petty cash custodians.

PETTY CASH POLICY

6.3 Custody & Safe Keeping of Petty Cash

6.3.1 The petty cash custodians are responsible for controlling of petty cash float, together with supporting documentation. Specifically the custodian is responsible for the following:

- 6.3.1.1 Petty cash float (including original receipts and vouchers) must be kept secured in a locked cash box.
- 6.3.1.2 The office and the safe where petty cash float is kept shall at all times be kept locked and the key to the safe where cash float is kept shall be kept by the petty cash custodian.
- 6.3.1.3 The petty cash custodian must sign for the key and must be always kept in a safe place.
- 6.3.1.4 Only petty cash custodian must have access to and disburse petty cash. Handling of petty cash must only take place in secure locations.
- 6.3.1.5 The petty cash custodians must ensure that petty cash is only disbursed to authorised officials when an original requisition signed by a duly delegated official has been produced.
- 6.3.1.6 The petty cash custodian must not process requisitions that is not authorised by the Strategic Executive Director or delegated official.
- 6.3.1.7 The petty cash custodian must not process requisition that has not been checked, signed and dated by the Accountant who is the supervisor of the custodian.
- 6.3.1.8 The petty cash custodians must not put her personal monies or of any other officials in the box and the safe where petty cash is kept.

6.3.2 If petty cash float is lost, the Petty Cash Officer responsible for that petty cash shall be held liable.

6.4 Application for Petty Cash

6.4.1 The department that requires petty cash has to complete a requisition which must be authorized and signed by the Strategic Executive Director. The requisition must be submitted to the Accountant.

6.1.2 In cases where minor expenditure was incurred by officials during official trips e.g. parking and toll fees. Such expenditure may be claimed from petty cash but a requisition must still be completed.

PETTY CASH POLICY

6.5 Issuing of Petty Cash

- 6.5.1 On receipt of requisition the Accountant must check the requisition and be satisfied that it correct in every respect and authentic, sign and date the requisition as evidenced that he/she has checked it. Once checked and signed the Accountant must submit the requisition to petty custodian.
- 6.5.2 The petty cash custodian completes a petty cash voucher using information on the requisition and hand over cash to the official that submitted the requisition.
- 6.5.3 The official receiving such cash must acknowledge receipt by appending his or her signature and date on the petty cash voucher. The requisition is then attached to the petty cash voucher by the petty cash custodian.
- 6.5.4 The official who received petty cash must submit original receipts to the petty cash custodian before the close of business on the date on which petty cash was received.
- 6.5.5 The municipal official receiving petty cash is entirely accountable for the amount.
- 6.5.6 If the official who received petty cash fails to submit the original receipts before the close of business, the petty cash custodian must follow-up the next morning. If no original receipts are submitted on the following day by close of business, the matter must be reported to the Accountant who shall refer the matter to the Manager.

6.6 Recording of Petty Cash

- 6.6.1 The petty cash custodian records the date of petty cash voucher, requisition number, petty cash voucher number, description of what petty cash is required for and the amount on the petty cash register. The petty cash register must be numbered throughout consecutively for control purposes.
- 6.6.2 The expenditure in respect of the petty cash requested will be debited against the vote of the department that requested cash.
- 6.6.3 All entries on the requisition, petty cash voucher, expenditure voucher and petty cash register must be recorded in ink and no correcting fluid or tip-ex must be used.

PETTY CASH POLICY

6.6.4 The petty cash register must be balanced at the end of each month by the petty cash custodian or relief petty cash custodian. All petty cash vouchers and requisitions must be reconciled to the petty cash register at the end of each month.

6.6.5 The petty cash custodian must sign and date the petty cash register as evidence that it was done by him or her.

6.6.6 After the balancing of the petty cash register it must be reviewed by the Accountant. The Accountant must append his or her signature and date on the petty cash register as evidence of review.

6.7 Reimbursements

6.7.1 The petty cash custodian completes the "expenditure voucher" and attaches all requisitions and petty cash vouchers to the expenditure voucher. The expenditure voucher must be signed by the petty cash custodian, Accountant as a checking official and Manager as authorizing official.

6.7.2 Once the expenditure voucher has been processed the cash cheque is presented at the bank in exchange for cash to replenish petty cash.

6.7.3 Petty cash shall be reimbursed on a monthly basis.

7. GENERAL CONTROL MEASURES

7.1 When the petty cash custodian is on leave a proper handing over certificate should be completed with the relief petty cash custodian. The handing over should be done after reconciliation and balancing petty cash. This process should be done under the supervision of the Manager: Expenditure and Financial Accounting. The handing over certificate should be signed by the official handing over and the official taking over petty cash as well as the Manager: Expenditure and Financial Accounting who witnessed the handing over process.

7.2 When the petty cash custodian is on sick leave or any unplanned leave due to circumstances that are beyond control of the official and a proper handing over

PETTY CASH POLICY

cannot be done a key to the safe and cash box must be collected by the Accountant and the Senior Accountant: Payroll if petty cash is urgently required.

- 7.3 The Director: Budget and Financial Reforms must investigate the reasons for non-compliance with this policy and make recommendations. This recommendation will be based on the written explanation submitted by the official who received petty cash.
- 7.4 Should the matter remain unresolved by the attempts by the manager, the manager must refer the matter to the Director and at this level the Strategic Executive Director whose official received petty cash must be involved and be asked to take the necessary disciplinary measures in terms of the code of conduct of the municipality.
- 7.5 Should the Strategic Executive Director whose official received petty cash fail to resolve the matter within that month on which petty cash was received the following must take place:
- 7.5.1 The Strategic Executive Director or delegated official who authorised the requisition shall be held responsible for reimbursement of petty cash should proof of purchase in the form of receipt not be submitted before the close of the same day on which petty cash was handed over or within 24 hours from the date of receipt of petty cash.
- 7.5.2 Should the Strategic Executive Director or delegated official fail to comply with paragraph 7.5.1 above the full amount of petty cash shall be deducted from his/her salary without any further notice.
- 7.6 The Manager: Budget and Financial Accounting must conduct surprise review of petty cash on hand against the petty cash register and petty cash vouchers and requisitions on quarterly basis.
- 7.7 Internal auditors and Auditor-General staff are entitled to conduct any surprise petty cash audit at any time and must not be prevented from doing so.

PETTY CASH POLICY

8. IMPLEMENTATION AND REVIEW OF THIS POLICY

- 8.1 The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Strategic Executive Director: Budget and Treasury Office once approved by Council.
- 8.2 In terms of section 17(1) (e) of the Municipal Finance Management Act, 2003 this policy shall be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.