

**PART THREE**

**FINAL BUDGET RELATED POLICIES**

**2021 2022**

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# NEWCASTLE MUNICIPALITY

## VIREMENT POLICY

# VIREMENT POLICY

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# VIREMENT POLICY

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1. **Definitions**
1. **“Accounting Officer”** The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA.
2. **“Approved budget”** means an annual budget approved by a municipal council.
3. **“Budget-related policy”** means a policy of a municipality affecting or affected by the annual budget of the municipality
4. **“Chief Financial Officer”** means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the Chief Financial Officer.
5. **“Capital Budget”** This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.
6. **“Council”** means the council of a municipality referred to in section 18 of the Municipal Structures Act.
7. **“Financial year”** means a 12-month year ending on 30 June.
8. **“Line Item”** an appropriation that is itemised on a separate line in a budget adopted with the idea of greater control over expenditures.
9. **“Operating Budget”** The Municipality’s financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.
10. **“Ring Fenced”** an exclusive combination of line items grouped for specific purposes for instance salaries and wages.
11. **“Service delivery and budget implementation plan”** means a detailed plan approved by the mayor of a municipality in terms of section 53(1)(c)(ii) for implementing the municipality’s delivery of municipal services and its annual budget.
12. **“Virement”** is the process of transferring an approved budget allocation from one operating line item or capital project to another, with the approval of the relevant Strategic Executive Director. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.
13. **“Vote”** means one of the small segments into which a budget of a municipality is divided for the appropriation of funds for the different items of revenue and expenditure for all departments in the municipality.

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## 2. Abbreviations

1. **C.F.O.** – Chief Financial Officer
2. **IDP** – Integrated Development Plan
3. **MFMA** – Municipal Finance Management Act No. 56 of 2003
4. **SDBIP** – Service Delivery and Budget Implementation Plan
5. **CM** – Council Minute/s

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## 3. Objective

To allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

## 4. Virement Clarification

Virement is the process of transferring budgeted funds from one line item number to another, or from one function to another with the approval of the relevant Strategic Executive Director, Director, Manager or any employee delegated to enable budget managers to amend on approved budgets in terms of (Section 28 (2) (c) (d) of the MFMA). The bottom line of the original approved budget should remain unchanged.

Virement should accommodate all 7 segments that is: project, item, function, funding, region, costing and GFS

## 5. Financial Responsibilities

Strict budgetary control must be maintained throughout the financial year in order that potential overspends and / or income under-recovery within individual vote departments are identified at the earliest possible opportunity. (Section 54 MFMA)

The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. The budget virement process is one of these controls. (Section 27(4) MFMA)

It is the responsibility of each Strategic Executive Director to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78.

## 6. Virement Restrictions

- a) No funds may be transferred between functions without the approval of both heads of departments and the Chief Financial Officer, unless through an adjustment budget as per S28 of the MFMA.
- b) Virements may not exceed a maximum of 20% of the total approved operating expenditure budget, with the exception of line items where virement is implemented in terms of MSCOA compliance.
- c) A virement may not create new policy, significantly vary the current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years. (section 19 and 21 MFMA)

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- d) Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with altered outputs and measurements for approval. (MFMA Circular 13 page 3 paragraph 3)
- e) No virement may commit the municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Council. This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles, photo copier's or fax machines.
- f) No virement may be made where it would result in over expenditure in the vote and in each line item. (section 32 MFMA)
- g) If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- h) Virements in respect of ring-fenced allocations must be made within ring fenced items. These include finance charges, debt impairment, depreciation and employee related costs.
- i) Virements for employee related cost may only be allowed for month end procedures and must be within the employee related costs category.
- j) Virements on fleet budget may only be done within the vote and fleet budget.
- k) Virements should not result in adding 'new' projects to the Capital Budget. Any new projects may only added in compliance with S28 of MFMA or the Budget Policy of the municipality.
- l) Virements due to additional funds from insurance claims are permitted once funds have been deposited to the municipal bank account.
- m) Virements are permitted after three months of the start of the financial year. However virements to correct budget to be MSCOA compliant are permitted at any time of the financial year.
- n) Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 MFMA)
- o) Virements should not be permitted in relation to the revenue side of the budget.
- p) Virements from capital budget to operational should not be permitted as per circular 51 of the MFMA; this may only be permitted via adjustment budget.
- q) Virements from an amount of R200 000 on both operational and capital budget may only be actioned after approval by the Executive Committee of Council.
- r) Virements are not allowed between sources of funding especially if such sources refer to conditional grant funding or funding received for a specific purpose. Approval



# VIREMENT POLICY

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of virements between funding sources will be subject to the authorization of the Chief Financial Officer, accompanied by a motivation.

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## **7. Virement Procedure**

- a) A request for a virement must be in a memorandum format which must be signed by any official delegated in terms of municipal delegations policy and should be endorsed by Director Budget and Financial Reforms or must be in a form of item to EXCO or to council. That item should be confirmed by budget office if such funds are available to be moved.
- b) If the virement is between two different departments or functions both Executive Strategic Directors must sign where funds are moved and where funds are transferred endorsed by the Chief financial officer, otherwise if funds are moved within same functions any senior official may sign and this may be endorsed by a director budget or budget manager.
- c) Any virement with the outcome to correct budget to be MSCOA compliant may be initiated by any senior official to the director budget or manager budget by means of internal emails, otherwise this will be corrected by budget office from time to time.
- d) All virement requests, inclusive of relevant documentation, must be forwarded to the budget office.
- e) Virements relating to employee related costs for the purposes of month-end procedures shall be approved by the Director: Budget and Financial Reports which each vote by means of internal email.
- f) Virements relating to fleet budget for the purpose of month-end and other urgent operational requirement shall be authorized by the Director: Budget and Financial Reporting.
- g) Budget transfers, to and from a particular vote per year, in excess of R200 000.00 with a maximum as determined under section 6(p) requires the approval of the Executive Committee. Such a virements must be accompanied by a full report detailing the compelling reasons that lead to it.
- h) The Municipal Manager must report to the Mayor on a quarterly basis on those virements above R200 000 that have taken place during that quarter.

## VIREMENT POLICY

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- i) Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA Section 28).

### **8. Implementation of the Policy**

- (a) 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.
- (b) 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.
- (c) This policy must be read together with the Budget and the Local Government Municipal Finance Management Act, Act 56 of 2003.

### **9. Commencement**

In terms of section 17(1) (e) of the MFMA this policy must be reviewed our annual basis and the reviewed policy tabled to Council for approval as part of the budget process- to adopt the following proposal as the Virement Policy of Newcastle Municipality as per council resolution number \_\_\_\_\_

This policy will takes effective on the \_\_\_\_\_



**NEWCASTLE MUNICIPALITY**  
**FUNDING & RESERVES POLICY**  
**2021/22 FINANCIAL YEAR**

# FUNDING & RESERVES POLICY

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# FUNDING & RESERVES POLICY

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## 1. PREAMBLE

The funding and reserves policy is aimed at ensuring that the municipality has sufficient and cost-effective funding in order to achieve its objectives through the implementation of its operating and capital budgets.

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

## 2. POLICY OBJECTIVES

2.1 The objectives of the policy are to:

- 2.1.1 Ensure that the Medium Term Expenditure Framework (annual budget) of the municipality is appropriately funded.
- 2.1.2 Ensure that cash resources and reserves are maintained at the required levels to avoid future year unfunded liabilities.
- 2.1.3 To achieve financial sustainability with acceptable levels of service delivery to the community.

## 3. SCOPE OF THE POLICY

This policy shall apply to the Council, Executive Committee, Finance Portfolio Committee, Budget Steering Committee, Accounting Officer, Strategic Executive Directors and all staff of the municipal council. It is, however, specifically applicable to the council and all officials who have a formal, administrative duty to prepare, manage and control the municipal's budget and expenditure.

## 4. APPLICABLE LEGISLATIVE

4.1 The legislative framework governing borrowings are:

- 4.1.1 Local Government Municipal Finance Management Act, Act 56 of 2003; and
- 4.1.2 Local Government Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009.

# FUNDING & RESERVES POLICY

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## 5. FUNDING OF ANNUAL BUDGET

- 5.1 An annual budget may only be funded from:
- (a) cash backed accumulated funds from previous years surpluses and reserves not committed for any other purpose;
  - (b) borrowed funds but only for capital expenditure; and/or
  - (c) Grant funding.
- 5.2 Realistic anticipated revenue projections must take into account:
- (a) projected revenue for the current year based on collection levels to date.
  - (b) actual revenue collected in previous financial years.
- 5.3 Capital expenditure may only be incurred on a capital project only if:
- (a) the funding for the project has been appropriated in the capital budget.
  - (b) the total cost for the project has been approved by Council.
  - (c) the future budgetary implications and projected cost covering all financial year until the project is operational has been considered.
  - (d) the implications of the capital budget on municipal tax and tariff increases.
  - (e) the sources of funding are available and have not been committed for other purposes.

## 6. CASH MANAGEMENT

- 6.1 The availability of cash is one of the most important requirements for working capital management and must be closely monitored to ensure a minimum days cash on hand of forty five (45) days for its daily operations.
- 6.2 Changes in the municipal environment that may have an impact on the municipal cash flow position include:
- (a) changes in revenue levels as a result of consumption patterns (water restrictions, load shedding etc.);
  - (b) reduced growth as a result of economic conditions;
  - (c) increase in non-payment rate as a result of economic conditions;
  - (d) implementation of electricity industry pricing policy (inclining block tariffs).
  - (e) increased debt levels.

## FUNDING & RESERVES POLICY

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- 6.3 Surplus cash not immediately required for operational purposes is invested in terms of the municipality's investment policy to maximize the return on investment.

### 7. DEBT MANAGEMENT

- 7.1 Debt is managed in terms of the municipal credit control and debt collection policy and the writing off of bad debts and impairments of debtors policy.
- 7.2 The provision for revenue that will not be collected are budgeted as an expense and is based on the projected annual non-payment rate for each service.

### 8. OPERATING BUDGET

- 8.1 The operating budget provides funding to departments for their medium term expenditure as planned. The municipality categorises services rendered to the community according to its revenue generating capabilities.
- (a) trading services – services that generate surpluses that can be used for cross subsidization to fund other services.
  - (b) economic services – services that break even with no surpluses.
  - (c) rates and general services – services that are funded by rates, surpluses generated by trading services, and/or other revenues generated such as fines, interest received, grants and subsidies etc.
- 8.2 The operating budget is funded from the following main sources of revenue:
- (a) property rates.
  - (b) surpluses generated from service charges.
  - (c) government grants and subsidies.
  - (d) other revenue, fines, interest received etc.
  - (e) cash backed accumulated surpluses from previous years not committed for any other purposes.
- 8.3 The following guiding principles apply when compiling the operating budget:
- (a) the annual budget must be balanced.
  - (b) growth parameters must be realistic taking into account the current economic conditions.

## FUNDING & RESERVES POLICY

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- (c) tariff adjustments must be realistic, taking into consideration the general inflation, affordability, bulk increases and the demand according to the approved Integrated Development Plan (IDP).
- (d) Revenue from government grants and subsidies must be in line with allocations gazette in the Division of Revenue Act and provincial gazettes.
- (e) Revenue from public contributions, donations or any other grants may only be included in the budget if there are acceptable documentation that guarantees the funds such as:
  - (i) signed service level agreement;
  - (ii) contract or written confirmation; or
  - (iii) any other legally binding document.
- (f) Property rates are levied according to the Municipal Property Rates Act, and property rates policy based on land and improvement values. The budget is compiled using the latest approved valuation and supplementary roll, consistent with current and past trends. Property rates tariffs and rebates are determined annually as part of the tariff setting process.
- (g) Property rates rebates, exemptions and reductions are budgeted either as revenue foregone or a grant as per directive in MFMA Budget Circular 51 depending on the conditions thereof.
- (h) Projected revenue from service charges must be realistic based on current and past trends with expected growth considering the current economic conditions. The following factors must be considered for each service:
  - (i) Metered services comprise of electricity and water:
    - the consumption trends for the previous financial years;
    - envisaged water restrictions or load shedding when applicable; and
    - actual revenue collected in previous financial years.
  - (ii) Refuse removal services:
    - the actual number of erven receiving the service per category; and
    - actual revenue collected in previous financial years.
  - (iii) Sewerage services:
    - the actual number of erven receiving the service and the consumption trends per category; and
    - actual revenue collected in previous financial years.



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- (i) Rebates, exemptions or reductions for service charges are budgeted either as revenue foregone or as a grant as per directive in MFMA Budget Circular 51 depending on the conditions thereof.
- (j) Other projected income is charged in terms of the approved sundry tariffs and fines considering the past trends and expected growth for each category.
- (k) Provision for revenue that will not be collected is made against the expenditure item bad debt and based on actual collection levels for the previous financial year and the projected annual non-payment rate.
- (l) Interest received from actual long-term and or short-term investments are based on the amount reasonably expected to be earned on cash amounts available during the year according to the expected interest rate trends. Transfers from the accumulated surplus to fund operating expenditure will only be allowed for specific once-off projects and with no recurring operating expenditure resulting thereof.
- (m) Transfers from the accumulated surplus to offset the increased depreciation charges as a result of the implementation of GRAP 17 will be phased out over a number of years.
- (n) A detailed salary budget is compiled on an annual basis. All funded positions are budgeted for in total and new and/or funded vacant positions are budgeted for six (6) months only of the total package considering the recruitment process. As a guiding principle the salary budget should not constitute more than 35% of annual operating expenditure.
- (o) Depreciation charges are fully budgeted for according to the asset register and to limit the impact of the implementation of GRAP 17 a transfer from the accumulated surplus is made. However the annual cash flow requirement for the repayment of borrowings must fully be taken into consideration with the setting of tariffs.
- (p) To ensure the health of municipal assets, sufficient provision must be made for the maintenance of existing and infrastructure assets based on affordable levels, resulting that maintenance budgets are normally lower than the recommended levels. Therefore the mere reduction of maintenance budgets to balance annual budgets must carefully be considered. As a guiding principle repair and maintenance should constitute between 5 and 8% of total operating expenditure and should annually be increased incrementally until the required targets are achieved.
- (q) Individual expenditure line items are to be revised each year when compiling the budget to ensure proper control over expenditure. Increases for these line

# FUNDING & RESERVES POLICY

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items must be linked to the average inflation rate and macro-economic indicators unless a signed agreement or contract stipulates otherwise.

## 9. CAPITAL BUDGET

- 9.1 The capital budget provides funding for the municipality's capital programme based on the needs and objectives as identified by the community through the Integrated Development Plan and provides for the eradication of infrastructural backlogs, renewal and upgrading of existing infrastructure, new developments and enlargement of bulk infrastructure.
- 9.2 Provisions on the capital budget will be limited to availability of sources of funding and affordability. The main sources of funding for capital expenditure are:
- (a) accumulated cash backed internal reserves;
  - (b) borrowings;
  - (c) government grants and subsidies; and
  - (d) public donations and contributions,
- 9.3 The following guiding principles applies when considering sources of funding for the capital budget:
- (a) Government grants and subsidies:
    - (i) only gazette allocations or transfers as reflected in the Division of Revenue act or allocations as per provincial gazettes may be used to fund projects;
    - (ii) the conditions of the specific grant must be taken into consideration when allocated to a specific project; and
    - (iii) government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.
  - (b) In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual budget if the funding is guaranteed by means of:
    - (i) signed service level agreement;
    - (ii) contract or written confirmation; and/or
    - (iii) any other legally binding document.

## FUNDING & RESERVES POLICY

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- (c) Public donations, contributions and other grants are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.
- (d) The borrowing requirements as contained in the borrowing policy are used as a basis to determine the affordability of external loans over the Medium Term Income and Expenditure Framework. The ratios to be considered to take up additional borrowings:
  - (i) long-term credit rating of BBB;
  - (ii) interest cost to total expenditure to not exceed 8%;
  - (iii) long-term debt to revenue (excluding grants) not to exceed 50%;
  - (iv) payment rate of above 95%;
  - (v) percentages of capital charges to operating expenditure less than 18%.
- (e) Allocations to capital projects from cash backed internal reserves will be based on the available funding for each ring-fenced reserve according to the conditions of each reserve as follows:
  - (i) infrastructure projects to service new developments and the revenue is received through the sale of erven must be allocated to the capital reserve for services ;
  - (ii) capital projects of a smaller nature such as office equipment, furniture, plant and equipment etc. must be allocated to the capital reserve from revenue which is funding from the revenue budget for that specific year. A general principle is that these types of capital expenditure should not exceed more than 1% of total operating expenditure;
  - (iii) capital projects to replace and/or upgrade existing assets will be allocated to the capital replacement reserve;
  - (iv) capital projects to upgrade bulk services will be allocated to the capital bulk contributions reserve for each service.

9.4 All capital projects have an effect on future operating budget therefore the following cost factors should be considered before approval:

- (a) additional personnel cost to staff new facilities once operational;
- (b) additional contracted services, that is, security, cleaning etc.
- (c) additional general expenditure, that is, services cost, stationery, telephones, material etc.
- (d) additional other capital requirements to the operate facility, that is, vehicles, plant and equipment, furniture and office equipment etc.
- (e) additional costs to maintain the assets;

## FUNDING & RESERVES POLICY

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- (f) additional interest and redemption in the case of borrowings;
- (g) additional depreciation charges;
- (h) additional revenue generation. The impact of expenditure items must be offset by additional revenue generated to determine the real impact on tariffs.

### 10. RESERVES

10.1 All reserves are "ring fenced" as internal reserves within the accumulated surplus, except for provisions as allowed by the General Recognized Accounting Practices (GRAP).

10.2 The following ring fenced reserves exist:

(a) *Housing development reserves*

The reserve is used to fund housing expenses for housing units that previously belonged to the Department of Human Settlements. All rentals are deposited to this fund and only utilised on authorisation by the department. This reserve must be fully cash backed and be not utilised for any other purpose that authorised by the Department of Human Settlements.

(b) *Self-insurance reserve*

Self-insurance reserve exists to selected risks including fire, storm, workmen compensation, public liability and motor vehicles. The service is re-insured externally to cover major losses and excess amounts as approved by the municipal Insurer. The reserve must be cash backed to ensure availability of cash in the event of minor losses or excess amounts subsequent to claims approved by the municipal Insurer.

(c) *Capital replacement reserve*

Funding for capital budgets of future financial years are generated through a combination of methods. Once a municipality has reached its maximum gearing ability no further borrowings can be taken up. This necessitates that the municipality also invests in a capital replacement reserve, however, it must be cash backed.

## FUNDING & RESERVES POLICY

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This reserve once fully established will enable the municipality to provide internal funding for its capital replacement and renewal programme.

In the past, the cash generated from depreciation was used for the redemption payments on borrowings only. The increased asset value as a result of GRAP 17 has resulted that the depreciation charges increased drastically which was not supported by cash.

To limit the tariff increases a non-cash contribution was made from the depreciation reserve to offset the depreciation charge. Depreciation is a method to generate future cash. Therefore it is anticipated to annually incrementally decrease the offset depreciation charge from the depreciation reserve with 2% until the depreciation is fully funded from cash through tariff setting.

Other contributions to the capital replacement reserve through the operating budget are:

- (i) interest received on investments;
- (ii) surface rentals from mines as identified from time to time; and

This reserve must be cash backed to ensure the availability of cash to fund the municipal capital programme.

(d) *Bulk capital contribution reserves*

This reserve is to supplement capital expenditure for the necessary expansions and upgrading of bulk infrastructure due to new developments. Revenue generated through bulk services contributions are allocated to this reserve for each applicable service. This reserve must also be cash backed.

### 11. PROVISIONS

A provision is recognised when the municipality has a present obligation as a result of a past event and it is probable, more likely than not, that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## FUNDING & RESERVES POLICY

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Provisions are revised annually and those estimates to be settled within the next twelve (12) prior to the finalisation of annual financial statements. Only current portion of provision at each balance sheet date should be cash backed as follows:

(a) *Leave provision*

Liabilities for annual leave are recognised as they accrue to employees. An annual provision is made from the operating budget to the leave provision. Due to the fact that not all leave balances are redeemed for cash, only 30% of the leave provision is cash backed.

(b) *Long services awards*

Municipal employees are awarded leave days according to years in service at year end. Due to the fact that not all long service leave balances are redeemed for cash, only 40% of the long service leave provision is cash backed.

(c) *Post employment medical care benefits*

The municipality provides post retirement medical care benefits by subsidizing the medical aid contributions to retired employees and their legitimate spouses. The entitlement to post retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over a period of employment. This provision must be cash backed to ensure the availability of cash for the payment of medical aid payments.

(d) *Landfill rehabilitation provision*

The landfill site rehabilitation provision is created for the current operational site at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the landfill site. This provision will be treated as non-current liability in the municipal financial statements and will not be fully cash backed as the new landfill site will occur at a future date.

### 12. OTHER ITEMS TO BE CASH BACKED

## FUNDING & RESERVES POLICY

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(a) *Donations, public contributions, unspent grant funding*

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Unspent amounts in relation to donations, public contributions and unspent grant funding are therefore retained in cash and are not available to fund any other items on the operating or capital budget other than that for which it was intended for.

(b) *Consumer deposits*

Consumer deposits are partial security for a future payment of an account. Deposits are considered a liability as the deposit is utilised on the account once the service is terminated. Therefore the funds are owed to consumers and can therefore not be utilised to fund the operating or capital budget. Consumer deposits should be retained in cash. Due to the fact that it is not likely to redeem all of the consumer deposits at once, only 30% are cash backed.

### 13. IMPLEMENTATION AND REVIEW OF THIS POLICY

- 13.1 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.
- 13.2 In terms of section 17(1) (e) of the Municipal Finance Management Act, 2003 this policy shall be reviewed on annual basis to ensure that it complies with changes in applicable legislation, regulations and any other directive issued by National Treasury and tabled to Council for approval as part of the budget process.
- 13.3 This policy must be read in-conjunction with the Budget and Borrowing Policies; Local Government Municipal Finance Management Act, Act 56 of 2003; and Local Government Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009.

### 14 COMMENCEMENTS

## FUNDING & RESERVES POLICY

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In terms of section 17(1) (e) of the MFMA this policy must be reviewed our annual basis and the reviewed policy tabled to Council for approval as part of the budget process- to adopt the following proposal as the Cash and Investment Management Policy of Newcastle Municipality as per council resolution number \_\_\_\_\_

This policy will takes effective on the \_\_\_\_\_





**NEWCASTLE MUNICIPALITY**

**LOSS CONTROL POLICY**

# LOSS CONTROL POLICY

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# LOSS CONTROL POLICY

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## 1. INTRODUCTION

Council will bear its own damages and accident risks and be responsible for all claims and losses of Council owned property where these arise from council activities by an official who is liable in law and who is or was employed by council.

Section 78(1)(b-e) of the Municipal Finance Management Act places the onus on each official within the Department to take responsibility for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility. In particular, the official must take effective and appropriate steps to prevent, within that official's area of responsibility, any unauthorised, irregular, fruitless and wasteful expenditure and any under-collection of revenue due.

For the effective management of losses, potential losses and loss control can be divided to the following main functions:

- a) Reporting all claims, losses, and damage
- b) Ensuring the correct format and content of reports with regard to which claims, losses, and damage are registered
- c) Following up and investigating any claims, losses and damage
- d) Keeping a losses register in which particulars of all losses are recorded
- e) Recovery of money and checking of cases to be finalised

The identification of actions or instances of neglect, which may result in potential claims against or losses for Council, is very important for instituting preventative control measures. The accounting officer or his/her assignee must delegate the responsibilities attached to loss control as set out in the Municipal Finance Management Act in terms of section 79. This official can, where necessary, obtain the support of nominated officials on a decentralised basis.

## 2. DEFINITIONS

For the purposes of this policy the following definitions apply:

**“Claim”** - a lawsuit, action, interdict, arbitration, inquest or dispute and also includes an intended lawsuit, action, interdict, arbitration, inquest or dispute.

# LOSS CONTROL POLICY

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**“Losses”** - any material loss or damages or prejudice to Council or a said person and, without derogating from or limiting the concept, also shortages, damages, fruitless or wasteful expenditure and compensations.

## 3. OBJECTIVE

This document informs departmental officials of the policy on loss control within the Department. This policy applies to all departments and officials of the Newcastle Municipality.

## 4. RESPONSIBILITY FOR LOSSES

The Accounting Officer has in terms of departmental financial delegation delegated the acceptance of liability for any loss or damage suffered by another person, as for a claim against council, which arose from an act or omission of an official, to the Strategic Executive Director concerned.

### 4.1 In terms of Newcastle Municipality Assets Management Policy:

#### Paragraph 13.2

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.

#### Paragraph 13.3 – Safekeeping of Assets:

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. This is in view to compliance with the Municipal Finance Management Act and other relevant prescripts

## REPORTING POTENTIAL CLAIMS, LOSSES AND DAMAGE

### 1. LOSS CONTROL OFFICERS AND THEIR DUTIES

a) On account of the organizational composition of the assets & control, a central loss control officer shall be appointed for the purpose of loss control in a regulated and effective manner.

# LOSS CONTROL POLICY

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b) The loss control officer shall be responsible for loss control in all the departments of the municipality.

c) The Accountant: Asset Management in the Budget and Treasury Office shall assume the position and the responsibilities of a central loss control officer.

## 1.1 Appointment of the central loss control officer

1.1.1 The duties attached to loss control shall be sub-delegated by the Chief Financial Officer to the Accountant: Asset Management in terms of delegation. These powers have been delegated to the Chief Financial Officer by the Accounting Officer.

1.1.2. A copy of the letter of appointment must be sent by the Chief Financial Officer to all departments. This also applies when the appointed loss control officer is replaced. The letter of appointment or resolution of a central loss control officer shall contain his or her particulars regarding his or her name, position, office address and telephone number and the responsibilities attached to the appointment.

## 1.2 The duties of the central loss control officer

1.2.1 The following duties must be delegated to the central loss control officer in writing:

- Obtaining all details, statements, etc. in connection with claims and losses in a loss register
- The timely reporting of all claims and losses to the Chief Finance Officer, Asset Management Committee as well as to the Municipal Insurer. Copies of the Departmental Losses must be submitted to the central loss control officer as soon as all documents are attached.
- Liaising with the Legal Office
- Monitoring claims to prevent prescription
- Reminding all employees periodically, by means of departmental directives, instructions, etc. that everything possible must be done on a continuous basis to prevent claims against Council from arising, or to shield the Council against losses.
- If there were no losses for the period, the CFO must be informed quarterly either by e-mail or in writing that there were no losses.
- Following up with Council Insurance broker and settling of such cases
- Regular checking of losses registers and cases recorded therein
- Checking all cases for authorization by Treasury, the accounting officer or directors

# LOSS CONTROL POLICY

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- The reconciliation of written-off items with the respective lost items in the budgeting of expenditures in cases where book entries have been made for the accounting of the written-off items
- Reporting all cases to the office of Auditor –General
- Introducing preventative measures to avoid the recurrence of any losses
- insuring proper accounting entries for all asset loss and replacement either through council reserves or through the Council insurance broker
- ensure proper administration of recovery of losses after officials, where applicable.

## 2. PROCEDURES FOR REPORTING ALL CLAIMS, LOSSES AND DAMAGE

### 2.1 Reporting cases to the loss control officer

2.1.1 Each Strategic Executive Director must see to it that all cases (of the kind mentioned above), which arise in the relevant directorate and offices or institutions under its management, are timeously reported to the loss control officer.

2.1.2 Cases must be reported to the loss control officer through the submission of a properly completed loss report

2.1.3 Upon receipt of the report, the loss control officer must enter the case forthwith in the losses register and assign a unique loss register number to it. A case file must also be opened for each case.

### 2.2 Reporting cases to Chief Finance Officer

2.2.1 The loss control informs the Chief Financial Officer of all cases that have arisen in a particular directorate and in the offices/institutions under its management. The loss report together with any other supporting documentation relevant to the case must be sent to the Chief Financial Officer for noting and monitoring.

2.2.2 The loss report consists of the following sections:

- (a) A loss control form shall be designed and completed by all departments and officials who has suffers loss or damage and submitted to the loss control officer;
- As soon as the forms are received, the loss control officer must allocate a losses register serial number to the case.

# LOSS CONTROL POLICY

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- After it has been completed and signed, the loss control sends the notification report to the Chief Financial Officer.

- The head of the relevant department/section shall complete relevant sections of the form and must see to it that all the required declarations are attached, together with all necessary documents.

## 2.3 General

2.3.1 The loss control officer must ensure that cases as set out above are noted and reported to the Chief Financial Officer and the losses register serial numbers are allocated numerically to cases in the register

2.3.2 No recording of any losses, claims or damage will be dealt with by the departments. Rejections will be dealt with centrally by the loss control officer.

2.3.3 Cases involving more than one item may be reported and entered in the losses register as one case. The number of items and their value must however, be specified separately.

2.3.6 After the cases are recorded by means of the above-mentioned process on the loss control register, the loss control officer must see to it that the cases are followed up and finalized as soon as possible.

## 3. REPORTING TO THE OFFICE OF AUDITOR –GENERAL

If necessary, the loss control officer shall report to the office of the Auditor –General all items written off and all cases of financial crimes committed during the year by officials of the municipality.

## FOLLOWING UP AND INVESTIGATING ANY POTENTIAL CLAIMS, LOSSES AND DAMAGE

### 1. CASE FILES

1.1 The loss control officer shall keep a case file for each case entered in the loss control register. The correspondence concerning the case and final authorisation to write off the loss, deficit or payment shall be kept in a similar case file.

# LOSS CONTROL POLICY

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1.2 The loss control officer shall keep similar case files updated. The loss control officer must therefore as soon as a case has been finalized, provide the official who submitted the case with the relevant authorisation or decision leading to closure of the case. All addenda to the authorisation and/or decision by the Legal Service, if any, must be attached to the authorisation.

1.3 The case file kept by the loss control officer and filed according to the serial number in the loss control register.

## 2. SAFE-KEEPING AND DISPOSAL OF CASE FILES

2.1 In terms of Section 13(4) of the National Archives of South Africa (Act No 43 of 1996), read with paragraph 1.4 of the Archives Instructions, loss control officers must ensure the safe keeping of all case files, registers and records in their care.

2.2 Disposal of the above-mentioned case files, registers and records will be in terms of paragraph 2 of the Archives Instructions.

## 3. FOLLOWING UP AND DEALING WITH CASES

3.1 The loss control officer must ensure that all cases are followed up regularly and, where applicable, handed over to the South African Police Service.

3.2 If a legal opinion must be obtained for a particular case, the loss control officer shall liaise with the legal section of the municipality and ensure that the following information is provided:

- Full particulars concerning the case and the circumstances that led to it,
- Statements containing all relevant information by all persons involved,
- All other documentation related to the case

3.3 The latest progress made with a case must be cleared indicated in the loss control register and be sent for the attention of the Chief Financial Officer.

3.4 The CFO will regularly check departmental losses in order to ensure regular follow-up and full reporting to the Auditor –General or South African Police Services where applicable.



# LOSS CONTROL POLICY

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## 4. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

4.1 According to Chapter 1 of the MFMA:

“Fruitless and wasteful expenditure” means expenditure, which was made in vain and which would have been avoided had reasonable care been exercised.

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

- (a) This Act; or
- (b) The Municipal Systems Act (Act 20 Of 1998)
- (c) The Public Office-Bearer Act, 1998
- (d) Any provincial legislation providing for procurement procedures in that provincial government:

“Unauthorized expenditure,” means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3) and includes-

- (a) Overspending of the total amount appropriate in the municipality's approved budget
- (b) Overspending of the total amount appropriated for a vote of the approved budget
- (c) Expenditure from a vote unrelated to the department or functional area covered by the vote
- (d) Expenditure of money appropriated for a specific purpose, otherwise than for the specific purpose

4.2 The above-mentioned expenditure must be dealt with according to the guidelines for the preparation of annual reports for national and provincial departments, issued by the National Treasury. These guidelines are updated annually and are available on the National Treasury website of the Office of the Accountant General (OAG) under the public link.

4.3 Where the final outcome of the investigation reveals any negligent on the part of the official, any financial loss shall be recovered directly from the official concerned. Any arrangement to recover such costs shall be decided in consultation with the Chief Financial Officer, the legal department and the official concerned.

## LOSS CONTROL POLICY

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4.4 In cases where the Council insurance broker has settled the claim of a loss, however the official is still regarded as negligent, the official concerned shall be personally liable for excess amount payable by the council to the insurance broker.

4.5 In cases where the loss or damage is contravention of the Criminal Procedure Act No.51 of 1977, the cases shall also be reported to the South African Police Services. Such cases must also be followed up to finality in terms of this policy.

### 5 GENERAL

#### 5.1 CLAIMS AGAINST THE MUNICIPALITY THROUGH ACTS OR OMISSIONS

Council shall accept liability for any loss or damage suffered by another person (Third Party), as for a claim against the municipality, arising from an act or omission of an official. Due cognisance must take place to ensure that claim exist and falls within stated regulations

#### 5.2 CLAIMS BY THE MUNICIPALITY AGAINST OTHER PERSONS

The Accounting Officer has delegated the institution of legal action, where the Council suffers a loss or damage and the other person denies liability, to the Manager: Legal Services. Should it be deemed economical, the matter may be referred to one of panel members of attorneys as appointed by the municipality in terms of its Supply Chain Management Policy.

#### 5.3 CLAIMS BY OFFICIALS AGAINST THE MUNICIPALITY

The Accounting Officer has delegated the compensation of an official, who has suffered a loss or damage in the execution of official duties, to the Strategic Executive Director: Corporate Services, who may make good the loss or damage provided that the official can prove such loss or damage.

#### 5.4 LOSSES OR DAMAGES THROUGH CRIMINAL ACTS OR OMISSIONS

The Accounting Officer has delegate the recovery of losses or damages, through criminal acts or possible criminal acts, to the Manager: Legal Services. The matter shall be reported, in writing, to the Accounting Officer and the South African Police Service. In the case of omission, the matter shall be reported, in writing, to the Accounting Officer. Whether or not

## LOSS CONTROL POLICY

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the person is still in the employ of the Municipality, the Department shall recover the value of the loss or damage from the person responsible.

### 5.5 RECOVERY OF LOSSES AND DAMAGES

Losses and damages suffered by the municipality, because of an act committed or omitted by an official, shall be recovered from such an official if that official is liable in law.

Note: The Accounting Officer has delegated the recovery of losses or damages to the Chief Financial Officer.

### 5.6 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

The recovery of losses or damages resulting from unauthorised, irregular or fruitless and wasteful expenditure must be dealt with in accordance with the MFMA Section (5). The writing off in terms of subsection (2) of any unauthorised, irregular or fruitless and wasteful expenditure as irrecoverable is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of this Act relating to such unauthorised, irregular or fruitless and wasteful expenditure.

Section 32 (2) (MFMA) states that a municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure—

- (a) In the case of unauthorised expenditure, is—
  - (i) Certified by the municipal council, after investigation by a council Committee, as irrecoverable and written off by the council; and
- (b) In the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.

## 6. MANAGEMENT REPORTING

The Budget and Treasury Office shall report on all losses and the status of losses to the Municipal Public Accounts Committee on a monthly basis.

The Chief Financial Officer shall include the following particulars with the annual report and audited financial statements:

## LOSS CONTROL POLICY

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- (a) any material losses through criminal conduct, and any unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, that occurred during the financial year;
- (b) any criminal or disciplinary steps taken as a result of such losses, unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure;
- (c) any material losses recovered or written off; and
- (d) any other matters that may be prescribed.

### KEEPING AN UPDATED STANDARDISED LOSSES REGISTER IN WHICH ALL PARTICULARS CAN BE ENTERED

1. The loss control officer keeps a central register in which all claims, losses, etc. which arise in the Departments are entered. This register is known as the Central Loss Control register.
2. The losses registers must indicate the following particulars for each case:
  - 2.1 Date received: The date on which the case was received
  - 2.2 The serial number allocated to the case
  - 2.4 The file number of the department/derectorate where the case arose
  - 2.5 The date on which the claim, loss, etc .arose or was discovered (N.B. This is not the date on which the loss was reported to the loss control officer.)
  - 2.6 A factual description of the claim losses. If known, the place where it happened and the person responsible must also be mentioned
  - 3.7 The estimated amount of the claim or losses.
  - 3.8 The amount authorized to be written off, where applicable.
  - 3.9 The amount to be recovered from a person or an institution, where applicable
  - 3.10 The rank of the person who, in terms of the delegated powers, gave authorization to write off a loss, recovery of loss or to pay out a claim.
  - 3.11 The number allocated to the delegated authority by which it was authorised
  - 3.12 The latest progress made must be indicated briefly. Full details of the progress made with a case must be entered in the relevant case file

### FINALISING OF CASES

#### 1. FINALISING OF LOSSES

When it has been determined after regular follow-ups that certain losses must be written off or where expenditure needs to be condoned, the loss control officer must draw up the relevant submission (see paragraph 3 & 4 of this chapter).

## LOSS CONTROL POLICY

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### 1.1 Writing off losses against the Council and other cases involving monetary transactions

When authorisation has been obtained in accordance with the delegated powers for writing off a loss or deficit, the following procedure is followed:

1.1.1 When authorisation has been obtained, the Chief Financial Officer provides the loss control officer (who must bring items written off to account) with a copy of the authorisation to make the required journal entry.

1.1.2 The loss control officer, who is doing the journal entry, attaches the copy of the authorization to the original journal and enters the authorization number and the date in the journal.

1.1.3 A copy of the numbered journal must be filed in the file of the loss control officer.

### 1.2 Partial writing off of losses against the Council and other cases involving monetary transactions

When responsibility for the specific loss, damage or deficit has been determined, the following procedure must be followed:

1.2.1 The amount of the loss, damage or deficit, as determined by the foregoing investigation, must be recovered from a particular person or institution. The loss control officer enters this amount in the "amount recoverable" column of the losses register.

1.2.2 As soon as the recoverable amount has been recovered in full, it must be noted as such in the "Follow –up" column of the losses register. Proof of full settlement of the amount, such as copy of the receipt, must be kept in the relevant case file and sent to the loss control officer for closure of the case.

1.2.3 If the debt is to be repaid in the monthly instalments, a copy of this decision with particulars regarding the deductions must be kept in the case file and sent to the loss control officer. For recording purposes, the date on which the last instalment is payable must be entered in the "follow- up" column of the loss register. As soon as the final instalment has been received, all substantiating documents must be sent to the loss control officer for closure of that case.

## LOSS CONTROL POLICY

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1.2.4 If the amount cannot for some reason be recovered, the writing off of the outstanding amount must be considered.

### 1.3 Writing off losses or damage to Council property

1.3.1 Authorisation with full particulars, for something must be available in the case file and sent to the loss control officer.

1.3.2 As soon as the appropriate columns in the loss control register dealing with authorisation have been completed, the loss control officer has been supplied with a copy of the authorization, and the loss control officer has checked the submission, the case is regarded as settled.

1.3.3 "Council property" includes, inter alia:

- all stock and equipment issued or held to be issued;
- all buildings or structures, etc. that are property of the Council
- all vehicles or machinery that belong to the Council

### 1.4 Claims against the Council and ex gratia payments

1.4.1 The payment of a claim or an amount in terms of a settlement by the Legal Department, if the Accounting Officer or the Budget and Treasury Officer approves, can be made against the appropriate provision in the vote item if, at the time of the payment, it had already been established that the Council alone was responsible and that the person in question has not forfeited his or her protection.

1.4.2 Full authorisation (together with addenda referred to in submission, if any) must be attached to the payment form used to apply for payment, to serve as documentary evidence.

1.4.3 If finality concerning the liability of an intended person has not been reached by the time of the payment, the payment is made provisionally from an appropriate suspense account.

1.4.4 Should it be found that the Council is solely accountable; the amount will be settled by journal entry to the appropriate provision on the budget vote concerned. Full particulars concerning the finding and authorization are attached to the journal and must be referred to in the journal.

# LOSS CONTROL POLICY

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1.4.5 If it is found that the intended person is solely accountable, or jointly accountable with the Council, that the part of the claim for which the intended person is responsible plus the legal costs will be recovered from that person and credited to the appropriate suspense account. That part of the claim for which the Council is responsible must be dealt with as described in paragraph 1.4.4 above.

## 2. AUTHORISATIONS

2.1 All claims and loss losses must be allocated a unique serial number as stated in the title of the submission.

2.2 The loss control officer must ensure that the authorisations given by incumbents of posts in departments are appropriate and correct in accordance with delegated powers. If not, the case must be referred back to be corrected by the relevant office/institution which made the submission.

2.3 Authorisations granted by the Budget and Treasury Office and Accounting Officer will be sent via the Chief Financial Officer to the loss control officer for distribution among the offices/institutions concerned.

2.4 Authorisations granted by incumbents of posts in departments and offices resorting under them must be dealt with by the loss control officer.

## 4 IMPLEMENTATION

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 MUNICIPALITY**

**SHORT TERM INSURANCE POLICY**



# SHORT TERM INSURANCE POLICY

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# SHORT TERM INSURANCE POLICY

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## 1. Preamble

1.1 It is required of the accounting officer, to take all reasonable steps to ensure that the Council has and implemented policies for effective financial and risk management. The safeguarding of assets and the protection of Council against liabilities, is very important which forms part of a proper assets management system as prescribed by Section 63 and needs annual revision in terms of Section 24(2)(c)(v) of the Municipal Finance Management Act 56 of 2003. This requirement is also embedded in the Asset Management Policy and the Loss Policy of the municipality.

1.2. Insurance brokers active in the municipal environment over years prepared a standard for local authority insurance that takes all circumstances related to a municipal environment into account. There are however aspects in addition to this standard that the Council can decide on policy in order to reduce premium without an increase in risk or where the Council is prepared to accept risk due to a very slim probability of the risk event occurring.

## 2. Property to be insured

The following is recommended as a policy on short term insurance of risk and liabilities:

### 2.1 Asset schedules

Upon the appointment of the new Insurance Broker, the Strategic Executive Director and submit the asset register of assets necessary to be covered in terms of this this policy, where after such assets shall be categorised in terms of insurance schedules in consultation with the insurance broker.

Subsequent to the appointment of the insurance broker, each head of a department shall immediately on acquisition, submit all assets to be insured to the Strategic Executive Director: Budget and Treasury Office which will need cover shall in accordance to this policy.

The Strategic Executive Director shall ensure that the asset register is regularly updated in order to avoid omissions of assets being covered for any risk of loss of damage, where after all new assets shall be submitted to the Council's insurance broker for insurance purposes.

## SHORT TERM INSURANCE POLICY

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Such assets shall accordingly be included in the insurance portfolio through updating of the insurance schedules representing the covers and in category of asset covered in the insurance portfolio.

### 2.2 Property excluded from external insurance

All property owned by or leased to the Council, property held by the Council in trust and/or commission and/or custody and/or under Council's control and/or for which the Council is responsible must be insured **except for the following which are specifically excluded:**

- property more specifically insured by any other firm arrangement.
- dam walls, dam contents, canals, reservoirs and reservoir contents.
- pavilions, sport stadiums, spectator stands, outdoor sports playing or recreational surfaces, athletic tracks.
- loose assets falling within the excess payment of the applicable insurance policy.
- explosives and ammunition.
- bullion.
- precious stones.
- jewellery other than the Mayor's regalia.
- trophies and indexed museum items.
- electrical and communication transmission and distribution lines including cabling and their support structures, other than on or within 150 meters of any insured premises.
- water piping as well as stormwater piping including their supporting structures, other than on or within 150 meters of insured property.
- sewerage piping including their supporting structures other than on or within 150 meters of insured property.
- driveways, pavements, outdoor parking surfaces
- roads, road and railway bridges, road and rail tunnels, manhole covers
- aircraft runways and aprons
- land, topsoil, backfill, drainage or culverts
- accounts receivable
- saving certificates and the like
- property in possession of customers (library books, etc.).
- trees, shrubs and plants
- monuments and statues
- growing timber, growing crops and livestock.

# SHORT TERM INSURANCE POLICY

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## 2.3 Contingencies and risks specifically excluded

- any event of risk where the Council is specifically indemnified.
- contingencies arising from landslides and earthquakes.
- removal of rubble or professional fees resulting from any damaged property or structures except for the Newcastle Civic Centre.
- workmen's compensation for personnel covered under the Workmen's Compensation Act.
- first 24-hours' work on the recovery of lost electronic data information.

## 2.4 Damage and risks to be specifically included to the short term insurance portfolio

- houses under rental and selling schemes administered by the Council.
- all property as contained in the assets schedules.
- contractors all risk for high-risk construction as identified by the relevant Head of departments from time to time.
- full theft cover at all insured property.
- all money on the premises or in transit to a maximum at any stage at any premises in cash and in cheques.
- fidelity insurance based on all positions higher than Task Grade 12 and including, excluding councillors.
- comprehensive motor own damage and third party liability on a motor fleet basis including specifically mentioned high valued vehicles.
- full comprehensive coverage for all emergency vehicles.
- goods in transit up to R200 000 per single load.
- group personal accident insurance on 24-hour basis for all councillors to a maximum of R500 000 per incident.
- stated benefits (workmen's' compensation) insurance on 24-hour basis for the Councillors in terms of Upper Limits Notice as issued from time to time.
- electronic equipment on the mainframe computer, document imaging system and networks.
- incidental damages including consequential damages at high risk electrical and mechanical plants as identified by the Strategic Executive Director: Electrical Services.
- aerodrome owners liability insurance.
- public liability for bodily injury or damage to an amount of R2-million per event and a total annual coverage of R100-million.
- maximum employers liability of R10-million.

# SHORT TERM INSURANCE POLICY

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## **3. Consideration of higher excess payments**

The possibility of paying higher first amounts with claims which might result in lower premiums must constantly be considered by the Strategic Executive Director: Budget and Treasury Office taking into account the best benefit for Council at all times.

## **4. Contribution to insurance reserve**

4.1 The short term insurance portfolio must be administrated on an internal insurance fund principle as contemplated in the Financial Code of Practice.

4.2 Excess payments on claims are allocated to the Budget and Treasury Office department vote under general expenditure.

4.4 All uninsured assets are replaced from the Self-insurance reserve funds.

## **5. Reporting risk, claims and damage**

It shall be the duty of a head of a department to notify the Strategic Executive Director: Budget and Treasury Office without delay of any new insurable risk or of any alteration in an existing insurable risk which has arisen in connection with his or her department.

On the occurrence of any event giving rise or likely to give rise to a claim by or against the Council or against its insurers, the head of the department concerned shall notify the Strategic Executive Director: Budget and Treasury Office of that event which shall immediately notify the Council's insurer thereof.

The Strategic Executive Director: Budget and Treasury Office shall keep a register in which particulars of all insurance policies held by the Council shall be entered and he shall be responsible for the payment of all premiums and shall ensure that claims that arise under such policies are instituted.

## **6. Claims preparation costs**

The Strategic Executive Director: Budget and Treasury Office shall with annual renewal of insurance or otherwise as regular as required negotiate for the inclusion of exceptional claims preparation costs to be included to the related insurance portfolio.

# SHORT TERM INSURANCE POLICY

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## **7. Disputes and arbitration**

The Strategic Executive Director: Budget and Treasury Office shall with the annual renewal of insurance arrange with the insurance brokers that any disputes as to the amount of liability of the insurers under any of the insurance policies be determined by arbitration in accordance with the laws of the Republic of South Africa.

## **8. Appointment of insurance brokers**

The Council shall call for tenders for the appointment of insurance brokers at least once every three (3) years, unless circumstances require deviation here from. Insurance brokers will be appointed according to their ability to administrate the Council's short term insurance portfolio, the professional people in their employment and their record of sound brokerage service in the municipal environment.

The insurance brokers shall specifically indemnify the Council of increased risk because of the incorrect or unprofessional handling of the placement of insurance or the handling of a specific insurance claim. The insurance broker shall revise the Council's insurance policy annually in collaboration with the Strategic Executive Director: Budget and Treasury Office.

## **9. Implementation of this Policy**

The Accounting Officer shall be responsible for the implementation and administration of this policy through the delegation of 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.

This policy must be read in conjunction with the municipality's Asset Management and the Loss Control policies.



**NEWCASTLE MUNICIPALITY**

**COST CONTAINMENT POLICY**

# COST CONTAINMENT POLICY

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# COST CONTAINMENT POLICY

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## 1. INTRODUCTION

1.1 Section 62(1)(a) of the Municipal Finance Management Act No. 56 of 2003 (MFMA) stipulates that the accounting officer of a municipality is responsible for managing the financial administration of a municipality and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

1.2 In terms of the legal framework, the elected councils and accounting officers are required to institute appropriate measures to ensure that the limited resources and public funds are appropriately utilized to ensure value for money is achieved. This policy must be read, understood, practiced and implemented against this legislative background.

## 2. OBJECTIVES OF THE POLICY

2.1 The purpose of this policy is to guide council and officials on cost containment measures that are being implemented in an effort to minimize costs by cutting of unnecessary expenditure, looking at alternative ways to procure goods and services and gradually reduce the deficit.

2.2 This policy is intended to ensure:

2.2.1 That measures are in place to contain operational costs and eliminate all non-essential expenditure.

2.2.2 That excessive and wasteful expenditure has to be reduced, and that increased action be taken to manage unnecessary expenditure

2.2.3 That measures are taken in terms of Section 32 of the MFMA in event of unauthorized, irregular, fruitless and wasteful expenditure.

2.2.4 That the Strategic Executive Directors implemented proper monitoring of non-necessary expenditure

2.2.5 That the Mayor exercise proper general political guidance over the fiscal and financial affairs of the municipality

# COST CONTAINMENT POLICY

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## 3. SCOPE OF THE POLICY

This policy shall apply to the Council, Executive Committee, Finance Portfolio Committee, Budget Steering Committee, Accounting Officer, Strategic Executive Directors and all officials who have a formal and administrative duty to procure goods and services, manage and control the municipality's budget.

## 4. APPLICABLE LEGISLATION

4.1 The budget process and management is regulated in terms of the Municipal Finance Management Act, Act 56 of 2003 (MFMA):-

4.1.1 Chapter 4 of the MFMA deals with the municipal budgets.

4.1.2 Chapter 7 of the MFMA deals with the responsibilities of the Mayor in relation to budget processes and related matters as well as the fiscal and financial affairs of the municipality.

4.1.3 Chapter 8 of the MFMA deals with the responsibilities of the municipal officials in relation, among others, budgeting processes, revenue and expenditure management and reporting.

4.1.4 Chapter 9 of the MFMA deals with the municipal budget and treasury offices.

4.1.5 The Municipal Finance Management Act, Circular 82, published on 7 December 2018

4.1.6 Municipal Cost Containment Regulations, 2019

## 5. COST DRIVERS IDENTIFIED

The municipality has identified various cost drivers where non-essential, fruitless and wasteful expenditure can be curbed and eliminated

### 5.1 Vehicles for Political Office Bearers

5.1.1 The threshold limit for vehicle purchases relating to official use by political office-bearers may not exceed R700,000 or 70% of the total annual remuneration package for different grades, whichever is greater;

5.1.2 The procurement of vehicles must be undertaken using the national government transversal control mechanism;

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- 5.1.3 If any other procurement process is used, the cost may not exceed the threshold limit set out above;
- 5.1.4 Before deciding on another procurement process, the chief financial officer must provide the council with information relating to the following criteria which must be considered:
- a) Status of current vehicles;
  - b) Affordability;
  - c) Extent of service delivery backlogs;
  - d) Terrain for effective usage of vehicle; and
  - e) Any other policy of council
- 5.1.5 Regardless of their usage, vehicles for office use by public office-bearers may only be replaced after completion of 120,000 kilometres;
- 5.1.6 Notwithstanding above, a municipality may replace vehicles for official use by public officebearers before completion of 120,000 kilometres only in instances where the vehicle experiences serious mechanical problems and is in a poor condition and subject to obtaining a detailed mechanical report by the vehicle manufacturer or approved dealer.

### **5.2 Engagement of consultants**

- 5.2.1 The municipality may only appoint consultants if an assessment of the needs and requirements confirms that the municipality does not have the requisite skills or resources in its full time employ to perform the function.
- 5.2.2 The accounting officer must adopt a fair and reasonable remuneration framework for consultants taking into account the rates:
- 5.2.2.1 Determined in the “guidelines on fees for audits undertaken on behalf of the Auditor-General of South Africa”, issued by the South African Institute of Chartered Accountants;
  - 5.2.1.2 Set out in the 'guide on hourly fee rates for consultants,' issued by the Department of Public Service and Administration;
  - 5.2.2.3 As prescribed by the body regulating the profession of the consultant
- 5.2.2 The tender documentation for the appointment of consultants must include a clause that the remuneration rates will be subject to negotiation, not exceeding the applicable rates mentioned above

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- 5.2.3 When negotiating cost-effective consultancy rates for international consultants, the accounting officer may take into account the relevant international and market-determined rates
- 5.2.4 When consultants are appointed, the accounting officer must:
- a) Appoint consultants on a time and cost basis with specific start and end dates;
  - b) Where practical, appoint consultants on an output-specific basis, subject to a clear specification of deliverables and associated remuneration;
  - c) Ensure that contracts with consultants include overall cost ceilings by specifying whether the contract price is inclusive or exclusive of travel and subsistence disbursements;
  - d) Develop consultancy reduction plans; and
  - e) Undertake all engagements of consultants in accordance with the Municipal Supply Chain Management Policy;
  - f) All contracts with consultants must include fee retention or penalty clause for poor performance;
  - g) The municipality must ensure that the specifications and performance, are used as a monitoring tool for the work to be undertaken and is appropriately recorded and monitored;
  - h) The travel and subsistence costs of consultants must be in accordance with the travel policy issued by the National Department of Transport, as updated from time to time;
  - i) The contract price must specify all travel and subsistence cost and, if the travel and subsistence costs for appointed consultants are excluded from the contract price, such costs must be reimbursed in accordance with the travel policy of the National Department of Transport.

### 5.3 Catering, refreshments and entertainment

- 5.3.1 The municipality may not incur catering expenses for internal meetings, i.e. for meetings attended only by persons in its employ, except where a meeting will be in excess of 5 hours. These include meetings such as workshops, courses, committees, forums, recruitment interviews, trainings, hearings, meetings hosted by the Management Committee and governance structures.
- 5.3.2 The municipality may not incur expenses on alcoholic beverages.
- 5.3.3 Standard price for catering services must be introduced.

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5.3.4 Entertainment allowance shall be limited to the Accounting Officer and the Strategic Executive Directors, with the annual budget not exceeding R5000 for the Accounting Officer and R2000 for each Strategic Executive Director.

5.3.5 The Accounting Officer must ensure that team building exercises and social functions, including year-end functions, are not financed from the budgets of their respective establishments or by any suppliers or sponsors;

5.3.6 Apart from tea, coffee and muffins, limited catering and refreshments may be provided at Council workshops, retreats, strategic sessions, internal training sessions, official meetings (Standing Committees and other Council committees), Council and Management meetings provided prior approval is to be obtained from the Accounting Officer;

5.3.7 At the discretion of the Accounting Officer, catering and refreshments may only be provided at meetings with overseas visitors and other spheres of government, after budget availability has been confirmed by the Budget & Treasury Office;

### **5.4 Telephone Costs**

5.4.1 Review and introduce limits on municipal staff telephones and limiting private call to a reasonable amount.

5.4.2 Any costs for abuse of telephone or private calls must recovered from the employee's salary through the payroll office.

5.4.3 Review of cell phone contracts and introduction of cell phone allowance, depending on the level for and the need analysis

### **5.5 Events, advertising and sponsorships**

5.5.1 Eliminate wasteful expenditure on events, advertising in magazines, television, newspapers etc. where the municipality can use other cost effective means such as websites to market the institution or properly publicize the matters or events under consideration.

5.5.2 Limit or stop all unnecessary expenditure on matters such as printing of shirts, hosting of sporting events, festivals and other associated events, lavish functions, and extraordinary costs associated with visits of dignitaries or induction of new councilors.

### **5.6 Travel and subsistence**

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The accounting officer:

- 5.6.1 May only approve purchase of economy class tickets for employees and Councillors where the flying time for the flights is five hours or less;
- 5.6.2 May approve the purchase of business class tickets for employees and Councillors with disabilities or for those with special needs, where the flying time is five hours or less;
- 5.6.2 Purchasing of air tickets for first class travel is not permitted under any circumstances;
- 5.6.3 For flights exceeding five hours, may purchase business class tickets only for accounting officer and Councillors;
- 5.6.4 This policy limits international travel to meetings or events that are considered critical and the number of officials attending such meetings or events is limited to the officials directly involved in the subject matter related to such meetings or events;
- 5.6.5 Domestic hotel accommodation linked to travel and subsistence may not exceed R1,370 per night. This amount can be reviewed by National Treasury periodically;
- 5.6.6 The amount of R1,370 may be exceeded with the approval of the accounting officer in instances
  - 5.6.6.1 such as peak holiday periods, and
  - 5.6.6.2 when South Africa is hosting an event in the country or in a particular geographical area that results in an abnormal increase in the number of local/international guests in the country or in that particular geographical area;
- 5.6.7 Hiring of vehicles for travelling must be undertaken in terms of the Council approved Subsistence and Travelling policy as it relates to vehicle groupings that can be hired as per the level of employees or councillors;
- 5.6.8 Sharing of the mode of transport when employees or councillors travel to the same destination must be implemented;
- 5.6.9 Overnight accommodation must be limited to instances where the distance by road exceeds 500 kilometres to and from the destination (return journey);
- 5.6.10 When a vehicle is hired, it must be shared between the employees or councillors attending the same workshop, conference, seminar, etc (one vehicle to be hired per occasion);
- 5.6.11 Flight bookings must be made timeously, to prevent unnecessary overnight stay costs
- 5.6.12 Strategic Executive Directors must implement systems in their respective departments to ensure cost effective and time efficient travelling;

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5.6.13 Travelling must be pre-authorised by the Accounting Officer or the Strategic Executive Director of the respective department who must implement systems to ensure cost-effective and time efficient travelling

### **5.7 Protective Clothing**

- 5.7.1 A policy must be developed stipulating the guidelines, including the type of clothing, shoes and frequency of issue in line with the working environment of the employees;
- 5.7.2 A monthly reconciliation of the clothing purchased, issued and on stock must be performed by the Stores unit;
- 5.7.3 Introduce turnaround period time for the procurement of protective clothing.
- 5.7.4 Number of Personal Protective Clothing issued to the employee must be limited.

### **5.8 Conferences, meetings, study tours**

- 5.8.1 Employees may attend conferences hosted by professional bodies or non-governmental institutions (external conferences) held within the borders of South Africa provided that expenses related to their attendance do not exceed two thousand five hundred rand (R2 500) per person per day. The number of municipal officials attending such conferences and workshops must be limited, see below. The National Treasury may periodically review this amount.
- 5.8.2 Employees must make every effort to take advantage of early registration in order to avoid additional costs of late registration.
- 5.8.3 Conferences abroad must be limited to its ultimate minimum or none at all.
- 5.8.4 Utilise municipal and/or provincial office facilities for conferences, meetings, strategic planning sessions etc. where an appropriate venue exists within the municipal jurisdiction.
- 5.8.5 Limit or stop overseas trips and the delegations going on such trips unless a tangible and clear benefit to the local community and performance of essential service provision can be established beforehand
- 5.8.6 The number of employees travelling to conferences or meetings on official duty for the same matter is limited to three (3) employees, unless otherwise approved in advance by the relevant Strategic Executive Director or the Accounting Officer.

### **5.9 Office Furnishing**

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- 5.9.1 When new persons are elected or appointed, use of existing facilities and equipment must be considered.
- 5.9.2 Office furnishing when required, should be contained to minimal costs, avoiding elaborate and expensive furniture or equipment.
- 5.9.3 Buying of laptop should be discouraged unless it is need for the official mobility is established beyond doubt and duly authorized to attend meetings where such equipment might be required.
- 5.9.4 Buying of laptops for interns and junior personnel should be eliminated, unless where prior approval is obtained from the relevant Strategic Executive Director of his delegate.

### **5.10 Staff study, perks and suspension costs**

- 5.10.1 Training attended by employees and councillors of municipalities must be organized on site.
- 5.10.2 Expenditure associated with overseas study tours by councillors or officials must be reduced and preferably stopped.
- 5.10.3 Overtime policy and measures must be reviewed to ensure that overtime is limited to the budget
- 5.10.4 Encourage staff to take time off to make up for overtime worked.
- 5.10.5 Planned overtime must be submitted to management for consideration on a monthly basis and no payment should be made if planned overtime is not motivated by the Strategic Executive Director.
- 5.10.6 Unplanned overtime worked must be motivated and approved by management, and no payment should be made if unplanned overtime is not motivated by the Strategic Executive Director.
- 5.10.7 Costs associated with long-standing staff suspensions and legal costs associated with not following due processes when suspending and dismissing staff must be eliminated otherwise S32 of the MFMA should be implemented if it is established that a supervisor did not consider reasonable steps in suspending the subordinate.
- 5.10.8 Constant management of staff, improvements in productivity levels and feedback must be provided to all staff.

### **5.11 Credit cards**

- 5.11.1 The Municipal Manager must ensure that no credit or debit cards linked to a bank account of the municipality is issued to any employee or councillor;



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5.11.2 Where employees or councillors incur expenditure in relation to official municipal activities, the employee or councillor must use their personal credit/debit card or cash or arrangements made by the municipality and request reimbursement from the municipality in accordance with the relevant policies and processes

### **5.12 Budget provision**

5.12.1 Each Strategic Executive Director shall, prior to providing for any expenditure in respect of any items in the budget or the adjustments budget, prepare and submit to the Strategic Executive Director: Budget and Treasury Office a business plan relating to such item, which business plan shall contain the following information regarding such item:

- 5.12.1.1 A full description;
- 5.12.1.2 Its purpose;
- 5.12.1.3 The expected beneficiaries ;
- 5.12.1.4 Alternative means of providing the same benefits;
- 5.12.1.5 An acquisition, construction and implementation plan ( as applicable);
- 5.12.1.6 The expected useful life;
- 5.12.1.7 The principal cost;
- 5.12.1.8 The sources of funding;
- 5.12.1.9 A schedule of financing costs;
- 5.12.1.10 A maintenance plan;
- 5.12.1.11 A schedule of maintenance costs;
- 5.12.1.12 A depreciation schedule; and
- 5.12.1.13 Insurance costs.

### **5.13 General measure to be implemented**

- 5.13.1 Introduce measure to control budget for stores items in relating to the requirement and affordability
- 5.13.2 Municipal funds may not be used to fund election campaign activities. No expenditure may be incurred by the municipality to support campaign of any political party;
- 5.13.3 Printing of documents must be back-to-back and use of color printing be avoided at all costs, unless in the cases of graphs and necessary documents. Use of electronic files must be encouraged;

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- 5.13.4 Where practical, the warranties on vehicle and computer equipment should be extended instead in order to save on maintenance costs and new assets. Purchasing of computers is recommended compared to lab tops due to the life span and risk associate with the movement of asset;
- 5.13.5 Purchasing of newspapers and other publications for municipal employees must be discouraged. Use of internet must be encouraged;
- 5.13.6 Municipalities should ensure that awareness is raised with municipal staff so that a high degree of energy saving measures can be introduced, e.g. air-conditioning and lights in buildings are switched off at night and when offices are not in use.
- 5.13.7 Every effort must be made to recover debt from consumers before write-off. Municipalities to avoid the excessive usage of debt collectors and improve its internal capacity for debt collection.
- 5.13.8 Ensure synergy between municipal divisions or departments to avoid duplication of processes and efforts.( dropbox, DRMS, printing of copies while sent as soft copies)
- 5.13.9 In order to curb wastage on petrol, the vehicle tracking system should be utilized to monitor usage in order to curb abuse of municipal vehicles and excessive petrol consumption.
- 5.13.10 Telephone and/or video conferencing facilities must be encouraged, where possible, to avoid unnecessary traveling and subsistence costs.
- 5.13.11 Bulk purchases and negotiated discounts must be considered for regularly consumed inventory.
- 5.13.12 All commodities, services and products covered by Transversal contract concluded by the National Treasury must be procured through that transversal contract before approaching the market, in order to benefit from savings where lower prices or rates have been negotiated.

### **6 ENFORCEMENT PROCEDURES**

- 6.1 Failure to implement or comply with this policy may result in any official of the municipality or political bearer that has authorized or incurred any expenditure contrary to those stipulated herein being held liable for financial misconduct as set out in chapter 15 of the MFMA.

### **7 DICLOSURES OF COST CONTAINMENT MEASURES**

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- 7.1 Cost containment measures applied by the municipality must be included in the in- year budget report.
- 7.2 The measures implemented and the aggregate amount saved per quarter, together with the report of reprioritization of cost savings on the implementation of the cost containment measure must be submitted to the municipal council for review.
- 7.3 Such reports must be placed to municipal website within 5 days after council meeting.

### **8 IMPLEMENTATION & REVIEW PROCESS**

- 8.1 The policy will be implemented with immediate effect after approval by the municipal council.
- 8.2 The policy will be reviewed at least annually and will be part of budget related policies, it will also be reviewed when an update is issued by National or Provincial Treasury.

### **9 SHORT TITLE**

- 9.1 This policy shall be called the “Cost Containment Policy of the Newcastle Municipality”