FETAKGOMO – TUBATSE
LOCAL MUNICIPALITY

PRINCIPLES AND POLICY ON CREDIT CONTROL AND DEBT COLLECTION

2018/2019

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1. PREAMBLE

WHEREAS section 152 (1) (b) of the Constitution of the Republic of South Africa Act 108 of 1996 (*'the Constitution'*) provides that one of the objects of local government is to ensure that the provision of services to communities occurs in a sustainable manner;

AND WHEREAS section 153 (a) of the Constitution provides that a municipality must structure its administration, budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community;

AND WHEREAS section 195 (1) of the Constitution provides that the public administration must be governed by the democratic values and principles enshrined in the Constitution, including-

- The promotion of the efficient, economic and effective use of resources;
- The provision of services impartially, fairly, equitably and without bias; and
- The fact that people's needs must be responded to.

AND WHEREAS section 4 (1) (c) of the Local Government: Municipal Systems Act 33 of 2000 (*'the Systems Act')* provides that the Council of a municipality has the right to finance the affairs of the municipality by charging fees for services, imposing surcharges on fees, rates on property and, to the extent authorised by national legislation, other taxes, levies and duties;

AND WHEREAS section 5 (1) (g), read with subsection (2) (b) of the Systems Act provides that members of the local community have the right to have access to municipal services which the municipality provides provided that, where applicable and subject to the policy for indigent debtors, pay promptly for services fees, surcharges on fees, other taxes, levies and duties imposed by the municipality;

AND WHEREAS section 6 (2) (c), (e) and (f) of the Systems Act provides that the administration of a municipality must take measures to prevent corruption; give members of a local community full and accurate information about the level and standard of municipal services that they are entitled to receive; and inform the local community about how the municipality is managed, of the costs involved and the persons in charge;

AND WHEREAS Chapter 9, sections 95, 96, 97, 98, 99 and 100, of the Systems Act provides for Customer Care Management, Debt Collection responsibility of the Municipality, contents of the policy, by-laws that give effect to the policy, Supervisory authority and Implementing authority, respectively.

2. DEFINITIONS

In this policy any word or expression to which a meaning has been assigned in the Local Government: Municipal Systems Act, has that meaning, unless the context, indicates otherwise-

"Arrangement" means a written agreement entered into between the municipality and the debtor where specific repayment parameters are agreed to.

"Arrears" means those rates and service charges that have not been paid by the due date and for which no arrangement has been made.

"Account" means an account rendered specifying charges for services provided by the municipality, or any authorised and contracted service provider, and which account may or may not include assessment rates levies;

"Authorised Representative" means a person or instance legally appointed by the municipality to act or to fulfill a duty on its behalf.

"Billing date" means the date upon which the monthly statement is generated and debited to the customer's account.

"Business premises" means premises utilised for purposes other than residential and excludes the following: -

(a) hospitals, clinics and institutions for mentally ill persons which are not operated for gain;

(b) museums, art galleries, libraries and botanical gardens which are registered in the names of private persons and are open to the public, whether admission fees are charged or not;

(c) sports grounds used for the purpose of amateur sports and any social activities which are connected with such sports;

(d) any property registered in the name of an institution or organisation which, in the opinion of the municipality performs charitable work;

(e) any property utilised for bona fide church or religious purposes.

"Chief Financial Officer" means the person appointed as the Chief Financial Officer of the municipality, or his or her nominee.

"Credit Control" means all the functions relating to the collection of monies owed by ratepayers and the users of municipal services.

"Council" means the Council of the Greater Tubatse Municipality.

"Customer" means any occupier of any premises to which the Council has agreed to supply or is actually supplying services, or if there is no occupier, then the owner of the premises and includes any debtor of the municipality.

"day/days" means calendar days, inclusive of Saturdays, Sundays and public holidays.

"Defaulter" means any person owing the municipality arrear monies in respect of taxes and/or service charges without an arrangement.

"Due date" in relation to –

(a) rates due in respect of any immovable property, means the thirtieth(30) day of September of the financial year for which such rate is made, or any other date determined by council by notice in the Provincial Gazette, and

(b) in respect of service charges due in respect of any immovable property, means the date for payment indicated on the account.

(c) should such day fall on a Saturday, Sunday or public holiday the due date shall be the next working day.

"Immovable property" includes –

(a) an undivided share in immovable property, and

(b) any right in immovable property.

"Implementing Authority" means the Municipal Manager or his or her nominee, acting in terms of section 100 of the Local Government: Municipal Systems Act No. 32 of 2000.

"Indigent debtor" means:

(a) the head of an indigent household:

(i) who applied for and has been declared indigent in terms of Council's Indigent Support Policy for the provision of services from the municipality; and

(ii) who makes application for indigent support in terms of Council's Indigent Support Policy on behalf of all members of his or her household;

(b) orphaned minor children duly represented by their legal and/or de facto guardians.

"Indigent Support Programme" means a structured program for the provision of indigent support subsidies to qualifying indigent debtors in terms of the Council's Indigent Support Policy.

"Indigent Support Policy" means the Indigent Support Policy adopted by the Council of the municipality.

"Interest" Means a charge levied on all arrear monies for more than 30days with the same legal priority as service fees and calculated at a rate determined by Council from time to time;

"Manager Income" Means the official of the municipality responsible for the collection of monies owed to the municipality and/or any other official to whom he/she has delegated duties and responsibilities in terms of this policy.

"Month" means a calendar month.

"Monthly average consumption" means the monthly average consumption in respect of that property calculated on the basis of consumption over the preceding or succeeding twelve months.

'Municipality" means the Municipal Council of the Greater Tubatse Municipality or any duly authorised Committee, political office bearer or official.

"Municipal pay point" means any municipal office in the area of jurisdiction of the municipality designated by Council for such purposes, or any such other places as the Chief Financial Officer may from time to time designate.

"Municipal services" means services provided either by the municipality, or by an external agent on behalf of the municipality in terms of a service delivery agreement.

"Municipal Manager" means the Municipal Manager of the Greater Tubatse municipality or his or her nominee acting in terms of power delegated to him or her by the said Municipal Manager with the concurrence of the Council.

"Occupier" means the person who controls and resides on or controls and otherwise uses immovable property, provided that –

(a) the husband or wife of the owner of immovable property which is at any time used by such owner and husband or wife as a dwelling, shall be deemed to be the occupier thereof;

(b) where a husband and wife both reside on immovable property and one of them is an occupier thereof; the other shall also be deemed to be an occupier thereof.

"Owner" in relation to immovable property means -

(a) the person in whom is vested the legal title thereto provided that -

  (i) the lessee of immovable property which is leased for a period of not less than thirty years, whether the lease is registered or not, shall be deemed to be the owner thereof;

  (ii) the occupier of immovable property occupied under a service servitude or right analogous thereto, shall be deemed to be the owner thereof;

(b) if the owner is dead or insolvent or has assigned his or her estate for the benefit of his creditors, has been placed under curator ship by order of court or is a company being wound up or under judicial management, the person in whom the administration of such property is vested as executor, administrator, trustee, assignee, curator, liquidator or judicial manager, as the case may be, shall be deemed to be the owner thereof;

(c) if the owner is absent from the Republic or if his address is unknown to the municipality, any person who as agent or otherwise receives or is entitled to receive the rent in respect of such property, or

(i) if the municipality is unable to determine who such person is, the person who is entitled to the beneficial use of such property.

"Premises" includes any piece of land, the external surface boundaries of which are delineated on:

(a) A general plan or diagram registered in terms of the Land Survey Act, (9 of 1927) or in terms of the Deed Registry Act, 47 of 1937; or

(b) A sectional plan registered in terms of the Sectional Titles Act, 95 of 1986, which is situated within the area of jurisdiction of the municipality.

(c) A register held by a tribal authority.

"Prescribed" means prescribed by this policy and where applicable by Council or the Municipal Manager.

"Prescribed debt" means debt that becomes extinguished by prescription in terms of the Prescription Act 68 of 1969.

"Person" means a natural and juristic person, including any department of state, statutory bodies or foreign embassies.

"Rates" means any tax, duty or levy imposed on property by the municipality.

"Registered owner" means that person, natural or juristic, in whose name the property is registered in terms of the Deeds Registry Act, no. 47 of 1937.

"Responsible person" means any person other than the registered owner of an immovable property who is legally responsible for the payment of municipal service charges.

"Service charges" means the fees levied by the municipality in terms of its tariff policy for any municipal services rendered in respect of an immovable property and includes any penalties, interest or surcharges levied or imposed in terms of this policy.

"Service delivery agreement" means an agreement between the municipality and an institution or persons mentioned in section 76(b) of the Local Government: Municipal Systems Act 32 of 2000.

"Sundry debtor accounts" means accounts raised for miscellaneous charges for services provided by the municipality or charges that were raised against a person as a result of an action by a person, and were raised in terms of Council's policies, bylaws and decisions

"Supervisory authority" means the Executive Committee of the municipality or his or her nominee, acting in terms of Section 99 of the Municipal Systems Act 32 of 2000.

"**Tariff**" means any rate, tax, duty and levy or fee which may be imposed by the municipality for services provided either by the municipality or in terms of a service delivery agreement.

"**Tariff Policy**" means a Tariff Policy adopted by the Council in terms of Section 74 of the Local Government: Municipal Systems Act 32 of 2000.

"User" means the owner or occupier of a property in respect of which municipal services are being rendered.

3. PRINCIPLES

The principles supported in this policy are: -

(1) The administrative integrity of the municipality must be maintained at all times.

(2) This policy must have the full support of Councillors.

(3) Councillors must have full knowledge of the implementation and enforcement of the policy.

(4) The Executive Committee oversees and monitors the implementation and enforcement of this policy.

(5) The Municipal Manager implements and enforces this policy.

(6) The Municipal Manager may delegate the implementation and enforcement of this policy to the Chief Financial Officer who may in turn delegate duties and responsibilities in terms of this policy to the Manager Income.

(7) Consumers must be informed of the contents of this policy.

(8) Consumers must apply for services from the municipality by the completion of the prescribed application form.

(9) Consumers **must receive regular and accurate accounts** that indicate the basis for calculating the amounts due. The consumer is entitled to have the details of the account explained upon request.

(10) Consumers must pay their accounts regularly by the due date.

(11) Consumers are entitled to reasonable access to pay points and to a variety of reliable payment methods.

(12) Consumers are entitled to an efficient, effective and reasonable response to appeals, and should not suffer any disadvantage during the processing of a reasonable appeal.

(13) Debt collection action will be instituted promptly, consistently, and effectively without exception and with the intention of proceeding until the debt is collected.

4. SUPERVISORY AUTHORITY

(1) The Executive Committee oversees and monitors –

(a) The implementation and enforcement of the municipality's credit control and debt collection policy.

(b) The performance of the Municipal Manager in implementing the credit control and debt collection policy.

(2) The Executive Committee shall at least once a year cause an evaluation or review of the credit control and debt collection policy to be performed, in order to improve the efficiency of the municipality's credit control and debt collection mechanisms, processes and procedures, as well as the implementation of this policy

(3) The Executive Committee shall submit a report to Council regarding the implementation of the credit control & debt collection policy at such intervals as Council may determine.

5. IMPLEMENTING AUTHORITY

(1) The Municipal Manager: -

(a) Implements and enforces the credit control and debt collection policy.

(b) Is accountable to the Executive Committee for the enforcement of the policy and shall submit a report to the Executive Committee regarding the implementation and enforcement of the credit control and debt collection policy at such intervals as may be determined by Council.

(c) Must establish effective administration mechanisms, processes and procedures to collect money that is due and payable to the municipality.

(d) Where necessary make recommendations to the Executive Committee with the aim of improving the efficiency of the credit control and debt collection mechanisms, processes and procedures.

(e) Establish effective communication between the municipality and account holders with the aim of keeping account holders abreast of all decisions by Council that my affect account holders.

(f) Establish customer service centers, located in such communities as determined by the municipal manager.

(g) Convey to account holders information relating to the costs involved in service provision, and how funds received for the payment of services are utilised, and may where necessary employ the services of local media to convey such information.

(2) The Municipal Manager may, in writing, delegate any of the powers entrusted or delegated to him or her in terms of Council's credit control and debt collection by-law to the Chief Financial Officer.

(3) A delegation in terms of subsection (2) –

(a) Is subject to any limitations or conditions that the Municipal Manager may impose;

(b) May authorise the Chief Financial Officer in writing, to sub-delegate duties and responsibilities to the Manager Income.

(c) The delegation does not divest the Municipal Manager of the responsibility concerning the exercise of the delegated power.

(d) The Chief Financial Officer is accountable to the Municipal Manager for the implementation, enforcement and administration of this policy, and the general exercise of his powers in terms of this policy.

(4) The Manager Income shall be accountable to the Chief Financial Officer for the sections of this policy delegated to the Manager Income in terms of the MFMA section 82.

6. UNSATISFACTORY LEVELS OF INDEBTEDNESS

(1) If the level of indebtedness in a particular ward or part of the Municipality exceeds the level of the acceptable norm as determined in the Municipality's budget guidelines, the supervisory authority (Executive Committee) must, without delay, advise the Councillor for that ward or part.

(2) The Councillor concerned:-

Must without delay convene a meeting of the ward committee, if there is one, or convene a public meeting and report the matter to the committee or meeting for discussion and advice; and may make any appropriate recommendations to the supervisory authority.

7. APPLICATION FOR THE PROVISION OF MUNICIPAL SERVICES

(1) A consumer who requires the provision of municipal services must apply for the service from the municipality.

(2) The application for the provision of municipal services must be made by the registered owner of an immovable property.

(3) The municipality will not entertain an application for the provision of municipal services from a tenant of a property, or any other person who is not the owner of the property

(4) The only exception to (3) above is that individuals and businesses with lease agreements to lease properties from the municipality and government departments will be allowed to open an account in the name of the lessee of the property

(5) **An agent** may with a proxy open an account in the name of the owner.

(6) The application for the provision of municipal services must be made in writing on the prescribed application form that is provided by the municipality.

(7) By completing the prescribed application form for the provision of municipal services the consumer of services enters into an agreement with the municipality.

(8) The agreement with the municipality makes provision for the following: -

(a) An undertaking by the owner that he or she will be liable for collection costs including administration fees, interest, disconnection and reconnection costs, and any other legal costs occasioned by his or her failure to settle accounts by the due date;

(b) An acknowledgement by the owner that accounts will become due and payable by the due date notwithstanding the fact that the owner did not receive the account; and

(c) That the onus will be on the owner to ensure that he or she is in possession of an account before the due date.

(d) An undertaking by the municipality that it shall do everything in its power to deliver accounts timeously.

(9) The application for the provision of municipal services shall be made at least ten (10) days prior to the date on which the services are required to be connected.

(10) On receipt of the application for provision of municipal services, the municipality will cause the reading of metered services linked to the property to be taken on the working day preceding the date of occupation.

(11) The first account for services will be rendered after the first meter reading cycle to be billed following the date of signing the service agreement.

(12) No re-connection will be considered with any outstanding accounts linked to this specific stand.

8. DEPOSITS AND GUARANTEES

(1) On application for the provision of municipal services the prescribed consumer deposit shall be paid.

(2) A guarantee in lieu of a deposit may be accepted on application for the provision of municipal services by a business in terms of the prevailing conditions determined by the Municipal Manager at the time of the application.

(3) Existing consumers moving to a new address are required to pay the prescribed consumer deposit on application for the provision of municipal services at the new address.

(4) The minimum deposit payable is determined annually by Council and is contained in the tariff book produced annually.

(5) The consumer deposit paid on application for the provision of municipal services must be reviewed at least annually and **may** be increased or decreased upon written notice to consumers. The deposit will be the equivalent of at least one months charge for all municipal services supplied; however this maybe increased if it is determined that the consumer is a credit risk.

(6) On termination of the supply of services the amount of the deposit less any payment due to the municipality will be refunded to an account holder, provided that payments due are less than the deposit paid, and that the account holder has provided a forwarding address.

(7) Section 118 of the Municipal Systems Act is currently being amended so that a person transferring immovable property must deposit with the municipality the equivalent amount equal to sixty (90) days value of municipal rates and services.

9. ACCOUNTS AND BILLING

(1) Council provides all consumers of municipal services with a monthly consolidated account for rates and refuse removal

(2) The consolidated account can include property rates charges. Accounts are produced on a monthly basis in cycles of approximately 30 days.

(3) All accounts rendered by the municipality shall be payable on the due date as indicated on the account.

(4) Account balances which remain unpaid after 30 days shall attract interest on arrears irrespective of the reason for non-payment. The interest rate is the Prime Bank interest rate plus 1%.

(5) All accounts are payable by the due date regardless of the fact that the person responsible for the payment of the account has not received the account. The onus is on the account holder to obtain a copy of the account before the due date.

(6) The municipality bills an owner of a property for the following rates and service charges:-

(a) Property Rates Charges

(i) Property rates charges are billed annually or monthly as preferred by customers. Currently Government Properties and farms are levied annually

(ii) Council's preference is that property rates charges be charged monthly. Due to historical legislation and the absence of a Property Rates Policy these charges are being charged monthly and annually.

(iii) Property rates charges charged annually are billed on the July account of each year and the due date for the payment of these charges is 30 **December** of each year where after interest will be added

(iv) Property rates charges charged monthly are billed on the monthly accounts and the due date for the payment of the charges is as indicated on the accounts.

(v) The tariffs to calculate the property rates charges are determined annually and approved by the Council and are contained in the tariff book produced by the municipality.

(c) Refuse Removal

(i) Refuse removal are billed in terms of a fixed monthly tariff based on the **valuation in case of residential properties and per square meter in case of business premises**

(ii) Monthly accounts are rendered for refuse removal and the due date for payment of the accounts is as indicated on each of the accounts.

(iii) The tariffs to calculate for refuse removal charges are determined annually and approved by Council and are contained in the tariff book produced by the municipality.

(d) Sundry Debtor Accounts

(i) Sundry debtor accounts are raised for miscellaneous charges for services provided by the municipality, or charges that are raised against a debtor as a result of an action by a debtor or person which necessitate a charge to be raised by Council against the debtor or person in terms of Council's policies, by-laws and decisions.

(ii) The sundry debtor account is included in the monthly consolidated account produced by the municipality.

(7) Due Date

The due date for the payment of accounts in the various areas of the Greater Tubatse Municipality is the date as indicated on the account.

10. PAYMENT OF ACCOUNTS

(1) All accounts rendered by the municipality are due and payable on or before the due date as indicated on the account.

(2) All payments, whether made by cash, stop order, electronic payments or payments made through agents must be receipted by the municipality by the close of business on the due date. Cheques will be accepted as payment of an account (except in the case of payment to obtain a clearance certificate as provided for in terms of Section 118 of the Municipal System Act in which case payment must be made in cash or a bank guarantee cheque or a cheque from the trust account of an attorney). Where a cheque has been dishonoured the person issuing the cheque shall not be allowed to pay by cheque in future.

(3) Accounts rendered by the municipality can be paid at any municipal cashier office and any other pay point as determined by the Municipal Manager from time to time.

(4) The payment methods and facilities supported by the municipality can be used to make payments on accounts.

(5) Payments received in respect of rates and service charges will be allocated by the municipality entirely within its discretion, on the account of the debtor.

(6) Part payment received on an account shall be allocated firstly to reduce any penalty charges that may have accrued on the account ,then Assessment Rates ,then Refuse, then sewerage and lastly water

(7) An official receipt issued by the municipality will be the only proof of payments made.

11. INTEREST ON ARREAR DEBT

(1) Account balances which remain unpaid after 30 days after the due date shall attract interest irrespective of the reason for non-payment. The interest rate shall be **the Prime Bank interest rate plus 1%.**

(2) The following categories of arrear debt shall not attract interest on arrears: -

- (a) Indigent debt
- (b) Closed accounts
- (c) Deceased estates
- (d) Insolvent estates
- (e) Debtors under administration (administration portion only)

(3) Interest on arrear debt shall be calculated for each month for which such payment remains unpaid and part of a month shall be deemed to be a month.

(4) Interest shall be charged on any outstanding amounts in respect of which an agreement had been concluded for the payment by way of installment thereof.

13. ENQUIRIES AND APPEALS

(1) Any aggrieved person may address a grievance or query regarding charges for municipal services to the Chief Financial Officer in writing or may visit any customer care office provided by the municipality.

(2) Every consumer has the right to ask and to be provided with a clear explanation as to the services being charged and a breakdown of all amounts shown on their account.

(3) The aggrieved person shall clearly state the basis of his or her dissatisfaction and the desired resolution.

(4) The lodging of an inquiry **shall not** relieve the aggrieved person of the responsibility to settle his or her account. An interim payment similar to an average account must be paid by the due date pending finalisation of the enquiry.

(5) The municipality will respond to all inquiries from consumers in writing within twenty days from the lodging of the enquiry.

(6) The Manager Income will keep custody of the Enquiries and Appeals Register and will carry out a weekly check on all enquiries and appeals yet to be resolved.

14. DEBT COLLECTION AND CREDIT CONTROL MEASURES

(1) The Chief Financial Officer is authorised to institute agreed upon debt collection mechanisms without exception and with the intention to proceed until the debt is collected.

(2) All accounts rendered by the municipality shall be paid on the due date as indicated on the account.

(3) Account balances which remain unpaid after 30 days of the due date shall attract interest irrespective of the reason for non-payment.

(4) Account balances which remain unpaid after the due date will be subject to debt collection action.

(5) Debt collection action will be taken on the total amount outstanding on the account after the due date. The total amount outstanding includes property rates, refuse and sundry debtor charges.

(6) The debt collection action to be taken will be as follows: -

a). WARNING LETTERS

- Warning Letters
  - ✓ Municipality will issue warning letters to be consumers once their accounts is days outstanding, and the account of the consumer will be debited with the cost of such reminder at the approved tariff of the municipality;
  - ✓ Warning letter will be hand-delivered to the debtors' physical address;
  - ✓ This reminder clearly states that a period of days is allowed for payment and arrangement for payment;
- FINAL DEMAND LETTER
  - ✓ Final Demand Letter will be issued once the consumer has failed to comply with the arrangement and the account of the consumer will be debited with the cost of such reminder at the approved tariff of the municipality:
  - ✓ Final demand letter will be posted or hand-delivered to the debtors' physical address;

b). APPROVAL OF BUILDING PLANS

Before any building plans pertaining to the alteration, improvement or erection of the building or structure on a property can be considered for approval or any permission to proceed with such construction can be given, all arrears associated with the relevant property are to be paid.

c). SUPPLIERS OF GOODS AND SERVICES TO THE MUNICIPALITY

All suppliers of goods and services to the municipality are required to provide proof that all their accounts are paid in paid in full upon application for the registration as vendors and every six months where applicable.

d). CLEARANCE CERTIFICATES

Before any property can be transferred from one owner to another, all arrears are payable, where after the chief Financial Officer issues a certificate to that effect, No certificate can take place without such a certificate.

f). PERMISSION TO OCCUPY.

Permission to occupy will be granted upon the payment of outstanding debts if there is any

(d) Handover of debt to attorneys appointed by Council

(i) Debt that are 90 days old may be handed over to debt collectors or attorneys

(ii) Only the Municipal Manager or his delegated official will hand debt over to attorneys for legal collection.

(iii) All the legal costs of this processes are for the account of the consumer and will be recovered from debtors by debt collectors as quitted by standard rates of law society.

(iv) The account may be taken over from debt collectors if no process is made to recover the debt at no additional cost to the council within the agreed period upon by both parties,

(v) **The following types of debt will not be handed over to the attorneys**

- Debts of indigent debtors that are registered as indigent at the date of handover.
- Debt that is being paid off as per an arrangement with the debtor.
- A debt that has not been under a query for more than two months.
- Government Debt

The process of legal collection includes:-

- Final demands for payment to debtors.
- Emolument attachment orders on debtor's salaries.
- Summons issued for debt to be paid.
- Default judgment be obtained against the debtor.
- The attachment of moveable properties and sale in execution of moveable property
- The attachment of immoveable property and the sale of immoveable property.

(i) **The following types of debt will not be handed over to attorneys**:-

- Debt of approved indigent debtors that has not yet been written off by the council.
- Debt that is being paid off as per an arrangement with the debtor.
- A debt that has not been under a query for more than two months.
- Government Debts

(g) Section 118 of the Local Government: Municipal Systems Act No 32 of 2000.

(i) The municipality will issue a certificate required for the transfer of immovable property in terms of Section 118 of the Local Government: Municipal Systems Act No 32 of 2000, which is lodged with the municipality in the prescribed manner. This is subject to all amounts that became due in connection with that property for municipal service fees, surcharges on fees, property rates and other municipal taxes, levies and duties during the two years preceding the date of application for the certificate have been fully paid.

(ii) Debt older than two years on the property irrespective of whether the owner of the property accumulated the debt will also have to be paid by the owner before the transfer of the property can be affected.

(iii) If the owner refuses to pay the debt which is older than two years then the municipality will apply to a competent Court for an order in the following terms: -

- In the case where there is no judgment debt, for an order staying transfer of the property pending the finalisation of a civil action to be instituted against the person who is in law liable for the payment of the outstanding debt.

In the case where there is already a judgment for the payment of the amount, an order that the judgment debt be paid out of the proceeds of the sale, before the mortgage debt is settled.

- The above action must be taken before the property is transferred as the statutory lien created by Section 118(3) of the Act only endures until the property has been transferred and in terms of Section 118(5) of the Act the new owner of the property cannot be held liable for the debt that became due before a transfer of a residential property took place
- In the case of insolvency or where the property is bought by auction the outstanding amount not covered by the two year clause when issued a clearance certificate will be transferred to the new owner rates account

(h) Other debt collection methods

The debt collection methods mentioned in paragraph (a) to (g) above are not an exhaustive list of methods that can be applied to collect debts and any other methods that can be initiated will be implemented with the approval of Council.

(7) Debt Collection Costs

The commission paid to the attorneys on the amount collected will not be debited to the debtors account but any other legal cost will be recovered from the debtor

15. ARRANGEMENTS TO PAY ARREAR DEBT

Arrangements to Pay Outstanding and Due Amounts in Consecutive Installments – Residential Households

(1) One of the key objectives of debt collection is to encourage debtors to start paying their monthly accounts in full. In addition it is also necessary to ensure that arrear debt is addressed. The current average balances on consumer accounts necessitates that innovative ideas be implemented to encourage consumers to pay off their arrears. At the same time it is also of utmost importance that regular payers not be discouraged through the implementation of any possible incentives.

(2) The main aim of an agreement will be to promote full payment of the current account and to address the arrears on a consistent basis.

(3) A debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the Municipality under the following conditions:-

(a) The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly installments;

(b) The current monthly amount must be paid in full; and

(c) The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.

(4) In order to determine monthly installments a comprehensive statement of assets and liabilities of the debtor must be compiled by a treasury official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer, taking into account that payment of the monthly current account is a prerequisite for concluding an arrangement.

(11) Arrangements

(a) At the date of the arrangement a minimum of 25% households and 50% business of the capital arrear debt must be paid immediately.

(b) If 100% of the debt is paid then all the interest outstanding on that date will be written off against the provision for bad debts

(c) The balance of the debt which includes the capital amount and interest must be paid over a period not exceeding six months and twelve months should be a discretion of the chief financial officer or a delegated officer.

(d) The total monthly installment must include the current monthly charges plus the amount to pay off arrear debt.

(e) Arrangement by businesses to pay off arrear debt will only be entertained for debt on which debt collection actions have been taken and which actions are in an advanced stage.

(f) Failure to maintain the arrangement will result in interest being reversed and full debt collection being implemented, with no possibility of reprieve.

(g) Any arrangement outside of the foregoing must be approved by the Municipal Manager. This function cannot be delegated.

16. INDIGENT DEBTORS

(1) An account holder (consumer) may apply, in the prescribed manner, to be regarded as an indigent debtor as defined in the Indigent Policy approved by the council.

(2) Any person who has been declared indigent shall be entitled to indigent subsidies for basic services on a basis determined by Council from time to time.

(3) The approved account holder shall remain responsible for any outstanding amount at the date of application as well as for future charges.

(4) The arrears on the accounts of households, approved as indigent, will be submitted to Council to be written off in full (including any interest charged) after the approval by Council as an indigent. This submission will only be valid as a once-off exercise after approval and will not be applicable for future consumption in excess of the approved subsidy accumulated.

17. DEBT OF ABSCONDED OWNERS

(1) The occupant of the property must sign an agreement in which the occupant agrees to pay all property rates and service charges that are to be raised on the property of the absconded registered owner's property.

18. STAFF AND COUNCILLORS – PAYMENT OF ARREARS

(1) All staff joining the municipality must within thirty (30) days sign an agreement to pay arrears.

(2) All existing staff and councillors who have not entered into an agreement to pay arrears must do so within thirty (30) days of the approval of this policy by council.

(3) The repayment period for staff is not to exceed twelve (12) months and for Councilors not to exceed 3 months

(4) All agreements with councillors must not exceed the expiry date of the term of office.

19. ADMINISTRATION ORDERS – PAYMENT OF ARREARS

(1) A person can apply for the administration of its estate in terms of section 74 of the Magistrates Court Act, 1944.

(2) On notification that the order has been granted, Council will manage the debt that is part of the administration order separately to the current account.

(3) The debtor will be responsible for the payment of the current monthly account and if the debtor defaults on the payment of the account, debt collection action will be implemented.

20. WRITE OFF OF IRRECOVERABLE DEBT

(1) The objective to write off irrecoverable debt is to have a debt book that does not reflect irrecoverable debt.

(2) For this purpose Council should adopt and implement a write off policy to formalise the processes for writing off such debts.

21. PROVISION FOR DOUBTFUL DEBTS

21.1. Impairment of debtors

Consumer debtors, long term receivables and other debtors are stated at cost less provision for bad debt. Provision for impairment is made on an individual basis or based on expected payment.

In accordance with GRAP 104 (Financial Instruments), an objective assessment of financial assets is made at year end to determine possible impairment. Impairment loss is recognised as an expense in the Statement of Financial Performance. The determination of the impairment loss is guidede by the following principles as per GRAP 104 :

The municipality assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. (Individual Debtors' balances that constitute at least 5 percent of the total debtors book are considered to be individually significant by the municipality).

Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), the municipality includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment.

As soon as information becomes available that specifically identifies losses on individually impaired assets in a group (that are collectively assessed for impairment), those assets are removed from the group and assessed individually for impairment.

For collective assessment of impairment, as indicated above, assets with similar credit risk characteristics are grouped together. The credit risk characteristics should be indicative of the debtors" ability to pay all amounts due according to the contractual terms.

The method used in determining the group of assets to be assessed for impairment, is a grading process that considers the:
· debtor type;
· industry;
· past due status (e.g. days/months that the accounts are in arrears);

21.2. Consumer debtors

Consumer debtors are evaluated at the end of the reporting date and impaired as follows:

Category of Debtor		Percentage of debt provided for as irrecoverable
Negative Amounts		0%
Current account		0%
Debt owing between 30 to 90 days		50%
Debt in excess of 90 days		100%
Business and Industrial - always pay		0%
Government Organization		0%
Mines - always pay		0%
Indigent Debtors		100%
Municipal		0%
Handed Over		100%

21.3. Sundry Debtors

Sundry debtors are classified as financial instruments with debit balances at year end. Sundry debtors are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

22. CERTIFICATES REQUIRED FOR TENDERS

(1) A person or an institution reacting to a tender published by the municipality or wishing to enter into a contract to either provide services or goods to the municipality must produce a certificate, on the prescribed form, which states that regular payment **of rates and services accounts are maintained and that the account is currently up to date.**

(2) A person who fails to provide such a certificate shall be disqualified from the tendering process.

23. THEFT AND FRAUD

(1) The municipality does not condone theft and fraud of municipal services and will monitor the service networks for signs of tampering or irregularities.

(2) The Council may approve specific penalties and distinguish between cases of vandalism and theft.

(3) Subsequent acts of tampering may lead to a refusal to supply certain services for determined periods.

24. REPORTING AND PERFORMANCE MANAGEMENT

i. The Chief Financial Officer shall report monthly to the Municipal Manager in a suitable format to enable the Municipal Manager to report to the Executive Committee as supervisory authority in terms of section 99 of the Systems Act, read with section 100(c).

ii. The Executive Committee as Supervisory Authority shall, at intervals of three (3) months, report to Council as contemplated in section 99(c) of the Systems Act.

iii. This report shall contain particulars on cash collection statistics, showing high-level debt recovery information (numbers of customers; enquires; arrangements; default arrangements; growth or reduction of arrear debt).

iv. Where possible, the statistics should ideally be divided into wards, business (commerce and industry), domestic, state, institutional and other such divisions.

v. If in the opinion of the Chief Financial Officer, the municipality will not achieve cash receipt income equivalent of the income projected in the annual budget as approved by Council, the Chief Financial Officer will report this with motivation to the Municipal Manager who will, if in agreement with the Chief Financial Officer, immediately move for a revision of the budget according to realistically realisable income levels.

25. INCOME COLLECTION TARGET

(1) Income collection targets will be set by the Chief Financial Officer to achieve the optimum debt collection ratio i.e. receipt / billing, that will satisfy the municipalities IDP objectives.

26. PROPERTY MANAGEMENT LEASES

(1) The procedure for the recovery of arrears on leases will be in accordance with the conditions contained in the relevant lease contract.

27 TEMPORARY WORKERS

(1) Where the municipality provides temporary employment to members of the community who are in arrears with payments for municipal rates and services they will be required to enter an agreement to pay 20% of their gross remuneration towards these arrears of debt.

28. PROVISION FOR BAD DEBT

(1) The provision for bad debt is based on the likelihood of non-payment. In order to determine this likelihood of payment or not, each debtor needs to be evaluated separately and categorised based on the degree of payment expectancy.

(2) The evaluation of a debtor is firstly based on payment history, prior to the effective date of provision and secondly on the payment history during the period immediately after the effective date of provision.

(3) The evaluation process is discussed below:-

(a) Historical review

i. **Likely payers** - All debtors, regardless of age or amount, who have made payments during each of the three payment periods/months prior to the effective date of provision, will be categorised as **debtors likely to pay** and no provision for bad debts will be made on these accounts.

ii. **Possible payers** – All debtors, regardless of age or amount, who have made at least one payment within the three payment periods/months prior to the effective date of provision, will be categorised as **possible payers** and no provision for bad debts will be made on these accounts.

iii. **Likely not to pay** – All debtors, regardless of age or amount, who have not made any payments during any of the three payment periods/months prior to the effective date of provision, will be categorised as **debtors unlikely to pay** and the full amount of the outstanding debt will be provided under the provision for bad debts.

(b) Current review

i. Likely payers – All debtors, regardless of the categorization under the historical review, who have made payments during each of the payment periods/months after the effective date of provision, will be categorised as **debtors likely to pay** and no provision for bad debts will be made on these accounts.

ii. **Possible payers** – All debtors previously categorised under A or B, who has made payments during any of the payment periods/months after the effective date of provision, will be categorised as **possible payers** and no provision for bad debts will be made on these accounts.

iii. **Likely not to pay** (1) – All debtors previously categorised under C, who have not made payments during each of the payment periods/months after the effective date of provision, will still be categorised as **debtors unlikely to pay** and the full amount outstanding on their accounts will be provided under the provision for bad debts.

iv. **Likely not to pay (2)** –All debtors previously categorised under A or B, who has made no payments during any of the payment periods/months after the effective date of provision, will also be categorised as **debtors unlikely to pay** and the full amount outstanding on their accounts will be provided under the provision for bad debts.

29 UNALLOCATED RECEIPTS

(1) It happens that because of wrong reference numbers or no reference number at all, that some direct banking can not be allocate to the right vote or debtor account.

(2) If the Revenue Section tried there utmost best without success it will be advertised during may of each year in the local newspapers requesting all debtors to come to the Council if they did make any payments that do not reflect on there accounts. This will be opened for 30 days.

(3) After this window period the unallocated receipts up to the end of June of the previous year, with the approval of the CFO, will be taken to the accumulated surplus account of the Municipality. A list with all this amounts taken to the accumulated account will be attached to the journal for audit purposes.

(4) Even if a person bring later a proof of his/her payment it can still be remove from the accumulated surplus account and credited to the debtors account

30. PUBLICATION OF POLICY

(1) The Municipal Manager shall, within 14 days from the date of adoption of this Policy by the Council, by public note draw the attention of the public to its broad contents and method of application.

31. APPLICATION OF THE POLICY

(1) The Council reserves the right to differentiate between different categories of consumers, debtors, services or service standards when applying this Policy. The Council will on application of the credit control policy avoid discrimination as forbidden by the Constitution unless it is established that the discrimination is fair as allowed by the Constitution.

32. IMPLEMENTATION AND REVIEW OF THIS POLICY

(1) This policy shall be implemented once approved by Council. All future investments must be made in accordance with this policy.

(2) In terms of section 17(1)(e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

FETAKGOMO – TUBATSE
LOCAL MUNICIPALITY

PRINCIPLES AND POLICY ON INDIGENT CONSUMERS 2018/2019

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FETAKGOMO-GREATER TUBATSE LOCAL MUNICIPALITY

PRINCIPLES AND POLICY ON SUBSIDY SCHEME FOR INDIGENT HOUSEHOLDS

1. INTRODUCTION

1.1 The Municipal Council must give priority to the basic needs of the community, promote the social and economical development of the community and ensure that all residents and communities in the municipality have access to at least the minimum level of basic municipal services in terms of Section 152(1) (b) and 153(b) of the Constitution.

1.2 Basic services are generally regarded to be access to electricity, access to clean water within a reasonable distance of one's dwelling, basic sanitation, solid waste removal and access to and availability of roads.

1.3 The Constitution recognises Local Government as a distinct sphere of Government and as such also entitles Local Government to a share of nationally raised revenue, which will enable it to perform their basic function of providing essential services to the community within their boundaries.

1.4 The key purpose of an indigent subsidy policy is to ensure that households with no or lower income are not denied a reasonable service, and on the contrary the Municipality is not financially burdened with non-payment of services. Provided that grants are received and funds are available, the indigent subsidy policy should remain intact.

1.5 To achieve the purpose it is important to set a fair threshold level, and then to provide a fair subsidy of tariffs.

1.6 The consumer, in order to qualify as an indigent, needs to complete the necessary documentation as required and agree to regulations and restrictions stipulated by Fetakgomo-Greater Tubatse Municipality.

2. PURPOSE OF THE POLICY

2.1 The purpose of this policy is to ensure that the subsidy scheme for indigent households forms part of the financial management system of Fetakgomo-Greater Tubatse Municipality and to ensure that the same procedure is followed for each individual case.

3. CRITERIA USED FOR IDENTIFICATION TO QUALIFY FOR INDIGENT SUPPORT

3.1 Grants-in-aid may, within the financial ability of the Municipality, be allocated to household owners or tenants of premises who receive electricity (directly from Eskom), refuse removal, water and sewer (rendered per service level agreement for Greater Sekhukhune DM) and assessment rate services, in respect of charges payable to the Municipality for such services.

3.2 These grants may be allocated if such a person or any other occupier of the property concerned can submit proof or declare under oath that all occupants over 18 years of age or in the case of child headed household consumers had no income or a verified total gross monthly income of less than the amount indicated in terms of the definitions below for the preceding three consecutive months.

3.2.1 Definition of an Indigent.

3.2.1.1 If the total monthly income of all occupants is not more than an amount as determined by Council from time to time. These amounts will be determined at the beginning of every financial year and will be applied for the duration of that particular financial year. Currently the income amount is deemed to be **equal to 3(three) times the social pension.**

3.2.1.2 Must only have one property in the country and the property must be occupied as his/ her normal residence. Property value of the property must not be more than R400 000-00 . If a house is built for the parents with a valuation more than R400 000-00 the parents will not qualify to be seen as indigent

3.2.2 Definition of Child Headed Families. Families headed by children qualify for special rebates according to monthly household income. To qualify for the rebate the head of the family must:-

a. **Only have one property in the Country and the property must be occupied as his/her normal residence. Property value must not be more than R400 000-00**

b. Not be older than 18 years of age.

c. Still be a student or jobless.

d. Be in receipt of a total monthly income from all sources not exceeding an amount to be determined annually by the Municipality.

e. Entry level amount for the 2017/2018 financial year is determined as equal to two times the social pension.

3.3 Only one application per person (household consumer) in respect of one property shall qualify for consideration. A business, school, body association, club or governing body shall not qualify for consideration.

3.4 The subsidy will apply to the owner or tenant of the property concerned.

3.5 The subsidy will not apply in respect of households owning more than one property and will therefore not be classified as indigent.

4.1 APPLICATION AND AUDIT FORM

4.1 An application form for Indigent Household Subsidy must be completed by all consumers who qualify in terms of this policy.

4.2 The account holder must apply in person and must present the following documents upon application:-

4.2.1 The latest Municipal account in his/her possession.

4.2.2 The accountholder's identity document.

4.2.3 An application form indicating the names and identity numbers of all occupants/residents over the age of 18 years, who reside at the property.

4.2.4 Documentary proof of income where possible or an affidavit of financial status.

4.2.5 Statement of monthly income and expenditure.

4.3 All applications must be verified by an official or municipal agent appointed by Council. The relevant Ward Councillor must be involved during the evaluation process and must verify the application together with the relevant officials and local community leaders or ward committee members appointed by Council in this regard.

4.4 Application forms must be read in conjunction with the policy proposed and form part of Council's indigent policy.

4.5 The list of indigent households may be made available at any time to the Information Trust Corporation (ITC) for the purpose of exchanging credit information. Households qualifying for consumer credit elsewhere will not be regarded as indigents. Indigents with pensioner status are excluded.

4.6 If an application is favourably considered, a subsidy will only be granted during that municipal financial year and the subsequent twelve (12) month budget cycle. The onus will rest on the approved account holders to apply for relief on an annual basis.

4.7 Any aggrieved person who was not successful in the application to be recognised as indigent may lodge an appeal with the Chief Financial Officer within a period of ten (10) days from the date on which the aforesaid decision was communicated to the applicant.

4.7.1 The Appeals Board whose composition shall be approved by council shall review all appeals within thirty (30) days from receipt of the appeal.

4.8 For the purposes of transparency, on an annual basis, the following key information of the recipient's indigent support will be made available to the public for scrutiny:-

- Names of household consumers receiving relief for the prescribed period;
- Stand number where services are rendered to the recipients; and
- Number of dependants residing on the property.

4.9 Any resident may query the qualification of a recipient in writing, within 30 days from the date of publication, to the Council.

5. DRAFTING AND MAINTENANCE OF AN INDIGENT REGISTER

5.1 The Chief Financial Officer will be responsible to compile and administer the database for households registered in terms of this policy.

5.2 Registration will take place on dates and at times and places determined by the Council, but shall generally be undertaken during February and /or March each year. The Municipal Manager or his/her delegate will provide assistance to persons who cannot read or write, at such times and places as are specified in the notices published to indicate that the registration programme is to take place.

5.3 Council reserves the right to send officials or its agents to premises/households receiving relief from time to time for the purpose of conducting an on-site audit of the details supplied.

6. PENALTIES AND DISQUALIFICATION FOR FALSE INFORMATION

6.1 Applicants will be required to sign and submit a sworn affidavit, to the effect that all information supplied is true and that all income, i.e. from formal and/or informal sources, is declared.

6.2 Any person **who supplies false information will be disqualified** from further participation in the subsidy scheme. He/she will also be liable for the immediate repayment of all subsidies received and all debts including arrears that have previously been written off, and the institution of criminal proceedings, as Council may deem fit.

6.3 The onus also rests on indigent support recipients to immediately notify Council of any changes in their indigence status.

7. SERVICES TO BE SUBSIDISED

7.1 Water

7.1.1 Not function of the Municipality and therefore applicants have to registered as indigent with the Sekhukhune District Municipality as well

7.2 Sewerage

7.2.1 Not a function of the Municipality therefore the applicants have to registered as indigent with the Sekhukhune District Municipality

7.3 Refuse Removal

7.3.1 All registered indigents shall be subsidised for refuse removal services as determined and provided for by the Council in the annual budget from time to time. A subsidy, determined at the beginning of every financial year and not more than the applicable tariff for that year, will be applied for the duration of that particular financial year. The amount of the subsidy will be determined and approved as part of the tariff policy applicable for the financial year.

7.4 Electricity

7.4.1 This service is not rendered by the Municipality but by Escom directly

7.5 Property Rates

7.4.1 All registered indigents shall be subsidised for property rates services as determined and provided for by the Council in the annual budget from time to time. A subsidy, determined at the beginning of every financial year and not more than the applicable tariff for that year, will be applied for the duration of that particular financial year. The amount of the subsidy will be determined and approved as part of the tariff policy applicable for the financial year.

8. TARIFF POLICY

8.1 The Local Government Municipal Systems Amendment Act (MSA), 2003, Act No 44 of 2003 stipulates that a Municipal Council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements and which complies with the provisions of the Act and with any other applicable legislation.

8.2 A tariff policy must reflect, amongst others, at least the following principles, namely that:-

8.2.1 The amount individual users pay for their services should generally be in proportion to their use of that service;

8.2.2 Poor households must have access to at least basic services through-

- tariffs that cover only operating and maintenance costs;
- special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of service; or
- any other direct or indirect method of subsidisation of tariffs for poor households; and

8.2.3 The extent of subsidisation of tariffs for poor households and other categories of users should be fully disclosed.

9 SOURCES OF FUNDING

9.1 The amount of subsidisation will be limited to the amount of the equitable share received on an annual basis. This amount may be varied on a yearly basis according to the new allocation for a particular financial year.

9.2 If approved as part of the tariff policy the amount of subsidisation may at any time be increased through cross subsidisation, i.e. step tariff system in which case paragraph 8.2.3 shall apply.

10 METHOD OF TRANSFER AND THE VALUE OF THE SUBSIDY

10.1 No amount shall be paid to any person or body, but shall be transferred on a monthly basis as a credit towards the approved account holder's municipal services account in respect of the property concerned.

10.2 Arrear amounts shall not qualify for any assistance and shall not be taken into consideration. Calculations shall be based on the monthly current accounts only and in accordance with the approved tariff policy.

11 ARREAR ACCOUNTS

11.1 The approved account holder shall remain responsible for any outstanding amount at the date of application as well as for future charges.

11.2 **The arrears on the accounts of households, approved as indigent, will be submitted to the CFO(for amounts less than R20000-00) to be written off in full (including any interest charged) or to the Municipal Manger if the amount is between R20001 and R50000 or to Council if the amount is more than R50000 to be written off in full. This will be done after the expiry of 3 months from the date of being registered as an indigent.**

This submission will only be valid as a once-off exercise after approval and will not be applicable for future consumption in excess of the approved subsidy accumulated.

12 RESTORING SERVICES TO QUALIFIED HOUSEHOLDS

12.1 If an application is approved services will be restored free of charge. If services are to be suspended thereafter in terms of the approved credit control policy the approved tariff for reconnection will be payable.

13 SERVICES IN EXTENT TO AVAILABLE FUNDING

13.1 Not function of the Municipality.

14 CREDIT CONTROL POLICY TO BE APPLIED FOR INDIGENT HOUSEHOLDS

14.1 Aim of the Credit Control Policy

14.1.1 The credit control policy aims to achieve the following:-

- To distinguish between those who can and cannot genuinely pay for services;
- To get those who cannot pay to register with the municipality so that they are given subsidies;
- To enable the municipality to determine and identify defaulters to ensure appropriate credit control procedures; and
- To establish an indigent directory of all persons who comply with the policy.

14.2 Obligation to Pay

14.2.1 The policy on provision of services should endeavour to provide services in accordance with the amount available for subsidisation.

14.2.2 It is however important to note that if the subsidy received does not cover the full account the consumer is still responsible for the balance between the full account and the subsidy received.

14.2.3 Where applicable, credit control must still be applied, in accordance with the approved credit control policy, for these outstanding amounts.

15. REPORTING REQUIREMENTS

15.1 The municipal manager shall report on a monthly basis to the Executive Committee for the month concerned and by municipal ward:-

15.1.1 The number of households registered as indigents and a brief explanation of any movements in such numbers;

15.1.2 The monetary value of the actual subsidies and rebates granted; and

15.1.3 The budgeted value of the actual subsidies and rebates concerned; and the above information cumulatively for the financial year to date.

15.2 The Executive Committee shall submit the above reports on a quarterly basis to Council and to the municipalities ward committees if so requested.

16 IMPLEMENTATION AND REVIEW OF THIS POLICY

16.1 This policy shall be implemented once approved by Council. All future applications for indigent registrations must be considered in accordance with this policy.

16.2 In terms of section 17(1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

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FETAKGOMO – TUBATSE

LOCAL MUNICIPALITY

ASSET MANAGEMENT POLICY

2018/2019

FETAKGOMO TUBATSE LOCAL MUNICIPALITY

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Contents

1. GENERAL INFORMATION

1.1 Introduction

The purpose of the Asset Management Policy is to govern the management of assets controlled by the Municipality to ensure that they are procured, managed, controlled, safeguarded and used in an efficient and effective manner.

Asset Management encompasses planning/demand management, acquisitions, use, repairs and maintenance, and disposal of assets. The Municipality shall use assets to effect efficient and effective service delivery to the community within the Municipality.

This policy provides guidance to Management and officials of the Municipality on asset related issues and to ensure consistent, effective and efficient asset management principles.

1.2 Objectives

The objectives of the Asset Management Policy are:

- To ensure that a formal set of procedures are implemented to ensure that efficient and effective management of fixed assets is achieved in compliance with the MFMA.
- To prescribe the accounting treatment of assets acquired and used in accordance with the applicable accounting standards approved by National Treasury.
- To prescribe the administrative guidelines and internal control procedures to be followed by persons in control of assets with regard to management of those assets.
- To ensure the effective and efficient control, utilization, optimization of usage, safeguarding and management of The Municipality's assets.
- To ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the municipality.
- To emphasizes a culture of accountability over fixed assets.
- To ensure accuracy of the depreciation charge.
- To ensure the accurate recording of asset movements.
- To ensure accurate recording of asset information.
- To ensure compliance with Council's Insurance Policy, Supply Chain Management Policy.
- To comply with current legislation.
- To ensure that fixed assets are not written off and disposed of without proper authorization.
- To ensure that preventative measures are in place to eliminate theft, loss and misuse.
- To establish the procedures that must be followed before expenditure can be incurred on acquisition of assets.
- To establish the criteria that must be met before capital expenditure can be capitalised as an asset in the Balance Sheet.
- To classify the different categories of assets according to the asset's nature, use and location.
- To set rules for establishing the useful life of the category of assets.
- To set criteria for the future revaluation of assets.

Failure to comply with this policy will result in the institution of disciplinary procedures in terms of the stipulated conditions of employment of The Municipality.

1.3 Glossary of terms

AC:	Standard reference for South African Generally Recognised Accounting Statement
AMP:	Asset Management Policy
AM:	Asset Manager
AO:	Accounting Officer (i.e. Municipal Manager)
CFO:	Chief Financial Officer
GRAP:	Generally Recognised Accounting Practice
HOD:	Head of Department
IAS	International Accounting Practice
MFMA:	Municipal Finance Management Act (No. 56 of 2003)
MM:	Municipal Manager (i.e. Accounting Officer)
MSA:	Municipal Systems Act (No. 32 of 2000)
PPE:	Property, Plant and Equipment
SAPS:	South African Police Service

1.4 Regulatory requirements

The Municipality is required to comply with the MFMA, MSA, and circulars, memorandum and other guidelines issued by National Treasury.

Effective standards of GRAP relating to Assets are to be complied with by all municipalities. The financial statements should be prepared in compliance with the standards of GRAP.

ISO 55000 provides additional guidance to facilitate for the management of fixed Assets controlled by the Municipality.

1.5 Updating the policy

This policy replaces / supersedes all asset management policy instructions that have previously been issued, drafted, approved and communicated.

The CFO and the Budget and Treasury Division: Asset Management is responsible for updating this policy on an annual basis. All departments are welcome to submit requests to change, enhance or improve the existing policy.

Requests should be submitted to the Asset Management division throughout the year. The requests will be evaluated by the Manager: Assets on an annual basis and any changes deemed desirable will be effected by the Asset Management Division and presented to the Council for approval on an annual basis.

Advice on recommended internal control procedures and interpretation of this document may be obtained from the Asset Management Division. All changes made to the policy and procedures are to be properly and timeously communicated to all staff members.

2. POLICY AUTHORITY AND RESPONSIBILITY

Any departures from the approved policies stated in this policy will require the prior written approval from the following authority and persons:

MOTIVATION BY:	MANAGER: ASSETS
RECCOMENDATION BY:	CHIEF FINANCIAL OFFICER
APPROVAL BY:	MUNICIPAL MANAGER
OVERSIGHT BY:	FINANCE PORTFOLIO AND COUNCIL

3. ACCOUNTING POLICY

3.1 Definitions

Consistent definitions are essential for good asset management and reporting. These definitions were taken from the GRAP standards and guidelines regarding assets:

TERM	STANDARD	DETAILS
Asset	GRAP 1 and 3	An asset is defined in terms of GRAP 1.06 and GRAP 3.04 as follows: "Assets are resources **controlled** by an entity as a result of past events and from which **future economic benefits** or service potential are expected to flow to the entity." The Framework provides the following explanations. •**Future economic benefits:** The potential to contribute, directly or indirectly, to the flow of cash equivalents of the operating activities. •**Control:** The ability to control the benefits which are expected to flow. It's not limited to legal title.
Asset Management	Not applicable	Asset Management encompasses planning/demand management, acquisitions, use, repairs and maintenance, and disposal of assets.
Biological assets	GRAP 27	A biological asset is a living animal or plant.
Carrying amount	GRAP 17	Carrying amount is the amount at which an asset is included in the Balance Sheet after deducting any accumulated depreciation and any impairment losses thereon.
Community Assets	Not applicable	Community assets that contribute to the community's well-being. Examples are parks, libraries and fire stations, taxi ranks, etc.

Cost	GRAP 17	Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.
Depreciable amount	GRAP 17	Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
Depreciation	GRAP 17	Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.
Development	GRAP 31	Development is the application of research findings or other knowledge to a plan or design for the production of new substantially improved materials, devices products, processes or services prior to the commencement of commercial production or use. Development will only constitute a capital expense if it can be linked to an asset.
Fair value	GRAP 17	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.
Finance Lease	GRAP 13	Finance lease is a lease which in effect transfers substantially all the risks and rewards associated with ownership of an asset from the lessor to the lessee.
Head of Department	Not applicable	All incumbents of post level 1 in the different directorates.
Heritage Assets	GRAP 103	Heritage Assets are cultural significant resources. Examples are works of art, historical buildings and statutes.
Infrastructure Assets	GRAP 17	Infrastructure assets are part of a network of similar assets. Examples are roads, water reticulation schemes sewerage purification works.
Investment property	GRAP 16	Investment property is property (land or a building-or part of a building-or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) Sale in the ordinary course of business.
Owner-occupied property	GRAP 17	Owner-occupied property is property 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
Property, Plant and Equipment	GRAP 17	PPE are tangible assets that are held by an entity 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 reporting period. A fixed asset is thus an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits,

		or reasonably expects to use in service delivery, over a period extending beyond one financial year.
Recoverable amount	GRAP 21 & 26	**Cash generating asset** The recoverable amount is the higher of its fair valueless costs to sell and its value in use. **Non-cash generating asset** Recoverable amount is the amount that the entity expects to recover from the future use of an asset, including residual value on disposal.
Research	GRAP 31	Is an original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding Research will only constitute a capital expense when it can be linked to an asset.
Residual value	GRAP 17	Residual value is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
Useful life	GRAP 17	Useful life is either: (a)the period of time over which an asset is expected to be used by the entity, or (b) The number of production or similar units expected to be obtained from the asset by the entity.

3.2 Roles and Responsibilities

3.2.1 Overview

	Municipal Manager (Accounting Officer)		
Responsibilities	Asset Management Division	Supports	All other Department and /or Divisions
	• Responsible for Asset Management • Technical Department supports Assets Management Division with expertise and implementation • IT Departments provides expertise and inputs to Assets Management Division regarding IT related assets.	Departments Assets Custodians	• Implements the Asset Management Policy. • Assets Manager oversees the execution of the Asset Management Policy by all other departments.

The diagram above depicts an overview of the key role players involved in asset management. The Technical Department supports Budget and Treasury: Asset Management Division. All departments are accountable to Budget and Treasury for execution of the Asset Management Policy. Each department is supported by Asset Custodians in various divisions, locations, sites and offices.

3.2.2 Municipal Manager

Responsibilities

The MM is the AO of the Municipality in terms of section 60 of the MFMA is the ultimate authority for Asset management. Section 63 of the MFMA prescribes the following responsibilities for the AO:

• Safeguarding and maintenance of assets.

• Implementation of an information system that accounts for the assets.

• Ensuring that assets are valued in terms of generally recognised accounting practice.

• Maintaining a system of internal control of assets (e.g. an asset register).

Delegations

The AO may delegate to a member of the municipality's top management (chief financial officer; senior managers responsible for managing votes; other senior officials) or any other official of the municipality in terms of section 79 (1) (b) of the MFMA:

• Any powers or duties assigned to an AO in terms of the Act relating to Asset Management are henceforth delegated to the CFO by this policy.

3.2.3 Chief Financial Officer

The CFO shall be the asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date asset register is maintained.

No amendments, deletions or additions to the asset register shall be made other than by the CFO or by an official acting under the instruction of the CFO.
The following duties are delegated to the CFO by this policy:

- To ensure that Council assets are accounted for in accordance with generally recognised accounting practice.

- To ensure that the general ledger is reconciled to the asset register.

- To review the reconciliation between the general ledger and the asset register

- To provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.

- To manage and provide guidance to Asset Management Division staff.

3.2.4 Heads of Department

This policy prescribes the following duties of responsibility for senior managers (also referred to as HOD's) relating to asset management.

"Each senior manager of the municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure –

- That the assets of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;
- That all information required for compliance with the provisions of this policy is timeously submitted to the Chief Financial Officer.; and
- That all provisions of this policy, to the extent applicable to the respective department, are complied with.

The HOD's are responsible to ensure that all employees within their respective department adhere to this Asset Management Policy and Procedures.

3.2.5 Assets Manager

The Assets Manager is responsible for the Asset Management Division within the Budget and Treasury Department and shall assist the CFO in carrying out the duties listed above. The Asset Manager shall:

- Manage, update and maintain municipal assets to ensure compliance with this policy.
- Coordinate asset verification monthly and annually and prepare reconciliation between asset register and trial balance.
- Manage moveable and immoveable assets.
- Manage and control specific accounting procedures associated with acquisition, movement and disposal of municipal assets.

- Ensure that the Municipal Assets register is up to date and the valuation and depreciation recording complies with MFMA and GRAP.
- Ensure that assets are adequately secured and insured after acquisition.
- Develop and maintain the municipal strategic asset management plan.
- Develop asset need assessment, acquisition management, operation and disposal plans.
- Control the key performance areas and critical outputs of personnel within the Asset Management Unit.

3.2.6 Asset Custodians

The Assets Division shall ensure that adequate procedures for regular independent checks of fixed assets are in place to monitor changes in the status of the Assets. Each employee shall implement and maintain asset control in each office, location or area. For each office, location or area, the Asset Division must be notified and record at least one as the "Assets Custodian" for that particular office, location or area.

It is the responsibility of the Asset Custodians to ensure that all changes in the status of the fixed assets under their custodianship are promptly communicated to the Assets Division **at the earliest possible opportunity to do so.**

The Asset Custodian shall ensure that:

- All information needed by the Assets Division to compile and update the Asset Register, is communicated to the Asset Management Division.

- The Assets Division is notified of any changes in the status of the assets under the control of the Custodian at the earliest possible opportunity to do so (e.g. asset transfers, asset impairments, losses and asset disposals, etc.).

- **All transfers/movement of assets are signed off by the Assets Division before such a transfer or movement takes place.**

- Any change in the status of a fixed asset under their custodianship is updated on the inventory control sheet and signed off by an Asset Management Division official.

- The inventory and/or assets of the Municipality are not used for private purposes and gain by any employee/Councillor.

- Control is exercised over the assets under his/her custodianship and shall report any enhancement/improvement, damage, loss, transfer or disposal of the assets to the Assets Division.

- Relevant reports on damage/breakage and the theft/loss of any asset under his/her custodianship are submitted to the Assets Division **within two (2) working days of the incident.**

- Any discrepancies in the asset stock take report are followed up.

- All assets within under his/her custodianship are recorded on the inventory list and are bar coded.

3.3 Accounting Policy Framework

3.3.1 Format of the Asset Register

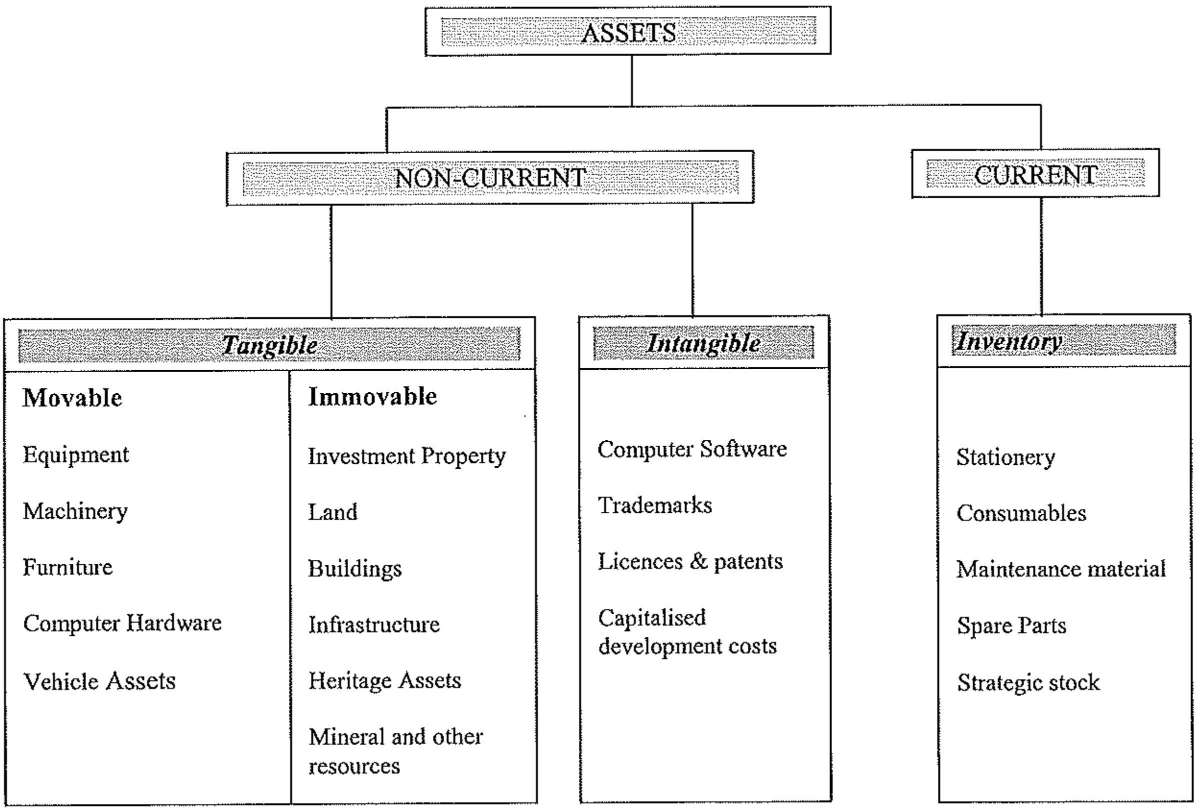
The asset register shall be maintained in the format determined by the CFO. The format must comply with the requirements of GRAP, and any other applicable accounting requirements.

3.3.2 Classification of Assets

The CFO must ensure that all assets are, as prescribed by the current standards, classified under the following headings in the asset register and Statement of Financial Position:

- PPE (Infrastructure, Land, Building, IT Equipment, etc.)
- Investment property
- Inventory
- Intangible Assets
- Heritage Assets
- Biological Assets

The classification of Assets shall be further sub-classified as follows:



3.3.3 Property, Plant and Equipment treated as Inventory

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included as either PPE or investment property in the municipality's Statement of Financial Position.

3.3.4 Property, Plant and Equipment

3.3.4.1 Recognition criteria

PPE shall be recognised as an asset when:

- It is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- The cost or fair value of the asset can be measured reliably.

3.3.4.2 Initial measurement

Purchased assets

An item of PPE which qualifies for recognition as an asset shall initially be measured at its cost.

Donated assets

Where an asset is acquired at no cost, or for a nominal cost, its deemed cost is its fair value as at the date of acquisition, if it not possible to obtain such a fair value, the carrying amount of a similar item of a similar age and condition may be used as the deemed cost of the donated asset.

3.3.4.3 Capitalisation exemptions

Capitalisation threshold shall be as follows.

All assets of the municipality meeting the definition of an asset as per the various GRAP standards shall be recorded in the asset register. The following exemptions shall apply and any cost related to these items shall be expensed to printing and stationary votes:

- Letter trays or similar items.
- Staplers.
- Punchers.
- Calculators
- Any other item issued through stores as an inventory item.

3.3.4.4 *Components of Cost/Valuation of assets*

General

The cost of an item of PPE comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use.
Any trade discounts and rebates are deducted in arriving at the purchase price.
Examples of directly attributable costs are:

(a) The cost of site preparation,

(b) Initial delivery and handling costs,

(c) Installation costs,

(d) Professional fees such as for architects and engineers, and

(e) The estimated cost of dismantling the asset and restoring the site, to the extent that it is recognised as a provision. Guidance on accounting for provisions is found in GRAP on Provisions, Contingent liabilities and Contingent assets.

Administration and other general overhead costs **are not** a component of the cost of PPE unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset achieving planned performance are recognised as an expense. ***Recoverable indirect costs*** (e.g. VAT etc.) are not a component of the cost of PPE.

Self-constructed assets

The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of producing the assets for sale (refer to GRAP 12 on Inventories). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour or other resources incurred in the production of a self-constructed asset is not included in the cost of the asset.

Repairs and Improvements to fixed assets

Where improvement costs are incurred to improve a specific asset (i.e. the improvement will increase capacity or extend the useful life of the assets), the cost of the improvement must be capitalised against the fixed asset affected, and written off over the remaining life of the asset.

Where repairs and maintenance expenses are incurred to repair or service a specific asset and it does not extend the life span or increase the capacity of an asset, the cost thereof are expensed to repairs and maintenance in the income statement.

Finance lease assets

At the commencement of the lease term, the municipality shall recognise assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statement of financial position. The assets and liabilities shall be recognised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the municipality's incremental borrowing rate shall be used. Any initial direct costs of the municipality are added to the amount recognised as an asset.

Deferred payments

When payment for an item of PPE 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.

3.3.4.5 Exchange of assets

In accordance with GRAP 17 the accounting treatment relating to the exchange of dissimilar and similar assets as follows:

Dissimilar exchange

PPE may be acquired in **exchange or part exchange for a dissimilar item of PPE or other asset.** The cost is measured at the fair value of the asset received which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred.

Similar exchange

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.

The cost of the new asset is the carrying amount of the asset given up.

The fair value of the asset received may provide evidence of impairment in the asset given up. Therefore, the asset given up is written down and this written-down value is assigned to the new asset
If other assets such as cash are included as parts of the exchange transaction this may indicate that the items exchanged do not have a similar value.

3.3.4.6 Subsequent expenditure

Subsequent expenditure relating to PPE should be added to the carrying amount of the asset when it is probable that:

- Future economic benefits or service potential
- Over the total life of the asset
- In excess of the most recently assessed standard of performance of the existing asset,
- will flow to the entity.

Otherwise, all other subsequent expenditure not meeting the definition above will be accounted for as repairs and maintenance expense.

Major components of some items of PPE that require replacement at regular intervals must be accounted for as separate assets as they have different useful lives. Therefore, the expenditure incurred in replacing or renewing the component should be accounted for as an acquisition of a separate asset and the replaced asset should be written off.

For example, a reservoir may require relining after a specified number of hours of usage or components of a sewerage purification works may need replacing during the lifetime of the works, or a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of usage.

3.3.4.7 Measurement subsequent to initial recognition

Subsequent to the initial recognition as an asset, and item of PPE shall be measured as follows in terms of GRAP 17.

PPE (excluding Land)	Land(Excluding quarries and landfill sites)
Carried at its cost less any accumulated depreciation and any accumulated impairment losses.	Carried at cost.

3.3.4.8 Depreciation

All depreciable PPE shall be depreciated.

In accordance with the GRAP 17 the accounting treatment of depreciation is summarised below.

Depreciation method

The CFO shall depreciate all depreciable assets on the straight-line method of depreciation over the assessed useful operating life of the asset in question. (See useful lifes in **Appendix A)**

Commencement date

Depreciation shall be calculated from the day in which an asset is acquired for moveable assets (i.e. the invoice date). The Municipality will calculate depreciation from the beginning of the month following the month in which the asset was completed for constructed/immovable assets such as roads, buildings and infrastructure assets.

Useful life

The Manager: Assets shall assign a useful life to each depreciable asset recorded on the municipality's asset register. In determining such a useful life the Manager: Assets shall adhere to the useful lives set out in the **Appendix A** to this document.

In the case of a fixed asset which is not listed in **Appendix A**, the Manager: Assets shall determine a useful life, if necessary in consultation with the HOD who shall use the asset in question, 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.

Lost, stolen or irreparable damaged assets must be fully written off when the event occurs.

Review of the useful life

The useful life of an item of PPE shall be reviewed periodically. Where the expectations are significantly different from previous estimates, the depreciation charge for the current and future periods shall be adjusted.

The useful life must be amended where assets are materially impaired, improperly maintained or any event occurs affecting the rate at which economic benefits or service potential is consumed. Depreciation shall be calculated starting from the beginning of the year using the reviewed useful life as determined at year end. The change shall be treated as a change in estimate.

Review of the depreciation method

The depreciation method applied to PPE shall be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits or service potential from those assets, the method shall be changed to reflect the changed pattern. When such a change in depreciation method is necessary, depreciation shall be calculated starting from the beginning of the year using the new depreciation method. The change shall be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods shall be adjusted.

Accounting treatment

Depreciation shall generally 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.

Land and buildings

Land and buildings are dealt with separately for accounting purposes even when they are acquired together. Land normally has an unlimited lifespan and will not be depreciated. Buildings have a limited life and are depreciated.

3.3.4.9 Impairment losses

The following procedures need to be performed to determine whether a cash-generating asset and a non-cash generating asset are impaired. GRAP 26 (Impairment of assets) shall be applied to cash-generating assets and GRAP 21 shall be applied to non-cash generating assets.

Cash-generating assets

GRAP 26 (Impairment of assets) shall be applied to determine whether a cash generating asset is impaired.

A cash generating asset (unit) is the smallest identifiable group of assets that generates cash flows that are independent of the cash inflows from other assets or group of assets.
The cash generating asset is impaired if its carrying amount is higher than its recoverable amount.

Recoverable amount

The recoverable amount is the higher of its fair value less costs to sell and its value in use.

- *Fair value less costs to sell*: Amount obtainable in an arm's length transaction less costs of disposal.
- *Value in use:* Discounted future net cash flows from the continuing use and ultimate disposal of the asset.

Frequency of impairment test

An annual impairment test should be performed to determine whether the carrying amount exceeds the recoverable amount by assessing the indicators of impairment at each reporting date.

Reversal of impairment

The reversal of the impairment should be recognised in the Statement of Financial Performance unless the asset is carried at the revalued amount when there are indicators that the asset may no longer be impaired.

Non-cash generating asset

In accordance with GRAP standard relating to instances where non-cash generating assets are impaired is as follows:

- The non-cash generating asset is impaired if its carrying amount is higher than its recoverable amount.
- The carrying amount shall be reviewed periodically in order to assess whether or not he recoverable amount has declined below the carrying amount.

Accounting treatment

The amount of the reduction shall be recognised as an expense immediately, unless it reverses a previous revaluation in which case it shall be charged to the non-distributable reserve headed "Revaluation Surplus".

3.3.4.10 Retirements and disposals

In accordance with GRAP 17 PPE shall be eliminated from the Statement of Financial Position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Any gains or losses from the retirement or disposal of an item of PPE are calculated as follows:

Gain/loss = Estimated net disposal proceeds – carrying amount of the asset.

The gain or (loss) shall be included in the statement of financial performance as an item of revenue or (expense), whichever is applicable.

PPE retired from active use and held for disposal should be recorded at its carrying amount at the date it is retired from active use. At each reporting date the asset must be tested for impairment and record any impairment loss in terms of **section 3.3.4.9**

3.3.5 Heritage Assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

In order to meet the definition of an asset, it must be controlled by the municipality as a result of past events and future economic benefits or service potential are expected to flow to the entity from holding it..

A heritage asset shall be recognised as an asset if, and only if:
(a) It is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and

(b) The cost or fair value of the asset can be measured reliably.

If the municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

3.3.6 Investment Property

Investment property 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.

The following are examples of investment property:
(a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation which may be sold at a beneficial time in the future;

(b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land either as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation.);
(c) A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties;
(d) A property owned by the entity and leased out at a below market rental; and
(e) Property that is being constructed or developed for future use as investment property.

Recognition criteria

GRAP 16 states that investment property shall be recognised as an asset when and only when:

(a) It is ***probable*** that the ***future economic benefits*** that are associated with the investment property will flow to the entity; and

(b) The ***cost*** of the investment property ***can be measured reliably***.

Measurement at initial recognition

GRAP 16 states that:

An investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).

Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

Measurement subsequent to initial recognition

All investment property shall be measured at its fair value. Investment property shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value.

Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

A qualified valuer, with knowledge of local conditions and experience in valuing similar types of assets, shall be engaged by the municipality to undertake such valuations.

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 an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

3.3.7 Inventory

Recognition of spare parts and servicing equipment

GRAP 17 states that most spare parts and servicing equipment are usually carried as inventory and recognised as an expense as consumed. However, major spare parts and stand-by equipment qualify as PPE when the entity expects to use them during more than one period or when their use is expected to be irregular.
Spare parts and land/property held for sale are accounted for as inventory in terms of GRAP 12 unless the spare parts meet the requirements to be recognised as PPE in terms of GRAP 17.

Depreciation of spare parts and stand-by equipment qualifying as PPE

Depreciation will be over the time period not exceeding the useful life of the related asset.

3.3.8 Biological Assets

Accounting for biological assets (living animals or plants) shall take place in accordance with the requirements of GRAP 27.

The CFO, in consultation with the head(s) of department concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs.

Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the HOD concerned in exactly the same manner as though the asset were an ordinary asset.

Records of the details of biological assets shall be kept in a separate section of the asset register or in a separate accounting record altogether and such details shall reflect the information which the CFO, in consultation with the HOD concerned and the internal auditor, deems necessary for accounting and control purposes.

The CFO shall annually insure the municipality's biological assets, in consultation with the HOD's concerned, provided the Council of the municipality considers such insurance desirable and affordable.

3.3.9Research and development

Accounting for expenditure incurred on research and development shall take place in accordance with the requirements of GRAP 31.

Research or development expenditure that:
(a) Relates to an in-process research or development project acquired separately and recognised as an intangible asset; and
(b) is incurred after the acquisition of that project shall be accounted for in accordance with paragraphs .49 to .58 of GRAP 31.

Applying the requirements in paragraphs .49 to .58 means that subsequent expenditure on an in-process research or development project acquired separately and recognised as an intangible asset is:
(a) recognised as an expense when incurred if it is research expenditure;
(b) recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph .52; and
(c) added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph .52.

3.3.10 Disclosures

3.3.10.1 ***Property, plant and equipment***

GRAP standards details the disclosure requirements for accounting purposes relating to various types of Assets covered by such standards. In general, the following aspects need to be disclosed:

- The measurement bases.
- Depreciation method/(s) used.
- Useful lives or depreciation rates.
- Gross carrying amount and accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
- Reconciliation of the carrying amount at the beginning and end of the period showing:
  - ➢ additions,
  - ➢ disposals,
  - ➢ acquisitions through business combinations,
  - ➢ increases or decreases during the period resulting from revaluations,
  - ➢ reductions in the carrying amount (impairment losses),
  - ➢ impairment losses (if any) reversed,
  - ➢ depreciation, and
  - ➢ other movements.
- Existence and amounts of restrictions on the title for PPE pledged as security for liabilities.
- The amount of commitments for the acquisition of PPE.
- The accounting policy for estimated costs of restoring the site of PPE.
- When property is stated at revalued amount, the following shall be disclosed:
  - ➢ the basis used to revalue property,
  - ➢ the effective date of the revaluation,
  - ➢ whether an independent valuer was involved,
  - ➢ the nature of any indices used to determine replacement cost, and
  - ➢ the revaluation surplus, indicating the movement for the period.

3.3.10.2 Investment property

GRAP 16 details the disclosure requirements for accounting purposes relating to investment property.

4 ACCOUNTING POLICY IMPLEMENTATION GUIDE

4.1 Format of the Asset Register

The asset register shall reflect the following information:

- Description of each asset
- Date of acquisition/brought into use
- Unique asset number (barcode)
- Title deed number (for property)
- Erf and portion number (for property)
- Location of asset (e.g. physical address, GPRS co-ordinates and description, unique location number)
- Original cost
- Revalue amount (if applicable)
- Fair value (if no costs are available)
- Last revaluation date of assets subject to revaluation
- Who performed the last valuation?
- Accumulated depreciation to the beginning of the current year
- Depreciation charge for the current year
- Accumulated depreciation at year end
- Carrying value of the asset
- Method and rate of depreciation.
- Impairment losses incurred during the financial year (and reversal of such losses, where applicable)
- Department(s) or vote(s) within which the assets will be used
- Source of financing
- Current insurance arrangements
- Use of the asset e.g. to perform basic municipal services
- Nature and duration of assets secured for debt and other encumbrances
- Disposal date/date of retirement from use
- Disposal price (proceeds)
- Responsible official
- Condition of the Asset
- Status of the Asset

Investment property shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

PPE treated as inventories shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

Major spare parts and stand-by equipment should be bar-coded and recorded in the asset register.
An asset shall be capitalised, that is, recorded in the asset register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately classified an asset.
An asset shall remain in the asset register for as long as it is in physical existence.

4.2 Classification of Assets

The CFO must ensure that all assets are, as prescribed by the current standards, classified under the following headings in the asset register.

4.2.1 Property, plant and equipment

PPE shall be classified as follows:

Classification	Description	Example
Infrastructure assets	Infrastructure assets are any assets that are part of a network of similar assets. Some assets are commonly described as infrastructure assets. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics: (a) They are part of a system or network, (b) They are specialised in nature and do not have alternative uses, (c) They are immovable, and/or (d) They may be subject to constraints on disposal.	Roads, water and reticulation schemes, sewerage purification, electricity assets and trunk mains.
Buildings	Assets that that require to be constructed.	Offices, libraries and fire stations.
Heritage assets	Heritage assets are culturally significant resources.	Works of art, historical buildings and statues.
Land	Land that is controlled by the municipality for use by the municipality, whether there are structures thereon or not.	Land on which the municipal offices lie on.

Other assets	Other assets are assets utilised in operations **except** for assets referred to in **section 3.3.3.**	Plant and equipment, motor vehicles and furniture and fittings. Property classified as investment property.

Where the municipality acts as agents and construct assets on behalf of Provincial Government, and such assets are not under the control of The Municipality, such costs are expensed. Only the infrastructure that will be under the control of the municipality will be capitalised.

4.2.2 Investment property

Investment property 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. Refer to **section 3.3.6.**

4.2.3 Inventory

Major spare parts and stand-by equipment qualify as PPE when the entity expects to use them during more than one period or when their use is expected to be irregular in terms of GRAP 17. Refer to **section 3.3.7.**

4.2.4 Intangible assets

Accounting for intangible shall take place in accordance with the requirements of GRAP 31.

4.3 Property, Plant and Equipment

4.3.1 Components of Cost/Valuation of assets

Deferred payments

Where the municipality defer payment for an asset, such deferred payment shall be accounted for in terms of GRAP 17

4.3.2 Subsequent expenditure

In accordance with GRAP the requirements relating to subsequent expenditure are as follows:

Recognising subsequent expenditure as an asset

- Subsequent expenditure on PPE is only recognised as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance.
- Examples of improvements that result in increased future economic benefits or service potential include the following:

(a) Modification of an item of plant to extend its useful life, including an increase in its capacity,
(b) Upgrading machine parts to achieve a substantial improvement in the quality of output, and

(c) Rehabilitation of a road enabling a substantial reduction in previously assessed maintenance costs.

Recognising subsequent expenditure as an expense

- Expenditure related to repairs or maintenance of PPE are made to restore or maintain the future economic benefits or service potential that an entity can expect from the most recently assessed standard of performance of the asset.

- Therefore, they are usually recognised as an expense when incurred.

- The cost of servicing or overhauling plant and equipment is usually an expense since it restores, rather than increases, the most recently assessed standard of performance.

Other considerations

GRAP 17 states that:

The **appropriate accounting treatment** for **expenditure incurred subsequent to** the **acquisition** of an item of property, plant and equipment **depends on the circumstances**, which were **taken into account** on the **initial measurement and recognition** of the related item of property, plant and equipment **and whether** the subsequent **expenditure is recoverable.**

For instance, **when** the **carrying amount** of the item of property, plant and equipment already **takes into account a loss in economic benefits or service potential**, the **subsequent expenditure to restore** the future economic benefits or service potential expected from the asset **is capitalised, provided** that the **carrying amount does not exceed the total economic benefits or service potential** that the entity expects to recover from the continued use and ultimate disposal of the item.

This is also the case when the purchase price of an asset already reflects the entity's obligation to incur expenditure in the future, which is necessary to bring the asset to its working condition.
An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount of the asset to the extent that it can be recovered from future use of the asset.

4.3.3 Revaluations of land and buildings

Determination of the fair value

For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land and non-specialised buildings.

Frequency of revaluations

The frequency of revaluations depends upon the purpose for revaluation. The CFO and the Manager Assets shall use their discretion and judgment to determine the frequency of the valuation.

Classes of property

A class is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

(a) Land,
(b) Operational buildings,
(c) Office buildings,
(d) Roads,
(e) Machinery,
(f) Electricity transmission networks,
(g) Motor vehicles,
(h) Furniture and fixtures, and
(i) Office equipment.

The CFO and the Manager assets shall apply their professional judgment to determine which classes to include in the Fixed Assets Register and are not necessarily confined to the list above.

4.3.4 Depreciation

In addition to the definition of depreciation explained in **section 3.1**, depreciation is also understood to be the monetary quantification of the extent to which PPE is used or consumed in the provision of economic benefits or the delivery of services.

Useful life

The useful life of an asset is defined in terms of the asset's expected utility to the entity. It reflects the amount of time the municipality is expecting to consume economic benefits or service potential embodied in the asset.

Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of an item of property, plant and equipment is a matter of judgement based on the experience of the municipality with similar assets.

4.3.5 Impairment losses

Indicators of impairment for cash-generating assets

Internal indicators	External indicators
• Evidence of obsolescence or physical damage • Discontinuance, disposal or restructuring plans	• Significant decline in the market value • Changes in technological, market, economic or legal environment • Changes in interest rates

• Declining asset performance	• Low market capitalisation

Indicators of a reversal of the impairment for cash-generating assets

The reversal of impairment may occur due to the following:

Internal indicators	External indicators
• Changes in the way the asset is used or expected to be used • Evidence from internal reporting indicates that economic performance of the asset will be better than expected	• Significant increase in market value • Changes in technological, market, economic or legal environment • Changes in interest rates • Market interest rates have decreased

4.4 Heritage Assets

Examples of heritage assets

Include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

(a) Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price,
(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale,

(c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates, and
(d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

5 ASSET MANAGEMENT PROCEDURES

5.1 Summary of asset management responsibilities

The table below summarises the departments, specific employee designations and structure's referred to (explicitly or implied) in the various sections.

Department	Human Resources	Technical	Budget & Treasury	All departments	HOD	CFO	MM	Council
5.2 Budget process		✓	✓	✓	✓	✓	✓	✓
5.3 Acquisition of assets			✓	✓	✓	✓	✓	
5.4 Methodology of Valuation of assets		✓	✓		✓	✓	✓	
5.5 Disposal of assets		✓	✓	✓	✓	✓	✓	✓
5.6 Departmental transfers of assets		✓	✓	✓	✓			
5.7 Resignations	✓		✓	✓	✓			
5.8 Identification of assets			✓	✓	✓	✓	✓	✓
5.9 Verification of assets		✓	✓	✓				
5.10 Safekeeping of assets				✓	✓			
5.11 Alienation of assets	✓	✓	✓	✓	✓	✓	✓	✓
5.12 Reporting write-offs of assets			✓		✓	✓		
5.13 Maintenance			✓		✓		✓	
5.14 Private use of municipal assets				✓	✓			
5.15 Replacement norms			✓	✓	✓	✓	✓	
5.16 Insurance of assets			✓	✓		✓	✓	
5.17 Disposal of fire arms			✓	✓				
5.18 Biological assets					✓	✓		

5.2 Budget Process

Each HOD, acting in consultation with the Budget Manager and Manager: Assets, shall:

- Prepare an annual budget for the acquisition of assets and the maintenance of assets under their departments.
- Ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.
- Ensure that the Asset Management Plan that outlines the Assets to be acquired and/or maintained, the estimated costs and the timing of such acquisition and/or maintenance, and the votes funding the acquisition or the maintenance includes assets under their department and is in line the budget.

5.3 Acquisition of Assets

All assets to be purchased should be in terms of the approved budget. Depending on the type of the asset to be purchased and after the necessary authorisation has been obtained the following procedure for purchasing an asset must be followed:

Moveable Assets

- The user/user department shall submit a request for acquisition of an asset to the Assets Division. The Asset Manager shall confirm that the acquisition is in line with the Asset Management Plan.
- The Asset Manager confirms that the acquisition is as per Asset Management Plan or is necessary for continued operations of the municipality and proceeds with the process to acquire the asset(s).
- Requisition form is completed by the Asset Manager and submitted for authorization.
- Quotations must be obtained in terms of the Supply Chain Management Policy.
- The bidding process procedures will apply in terms of the MFMA Municipal SCM Regulations and the municipality SCM Policy where the amount of the asset will likely exceed the three quotation threshold.
- The Assets Division receives the asset and together with the user department inspect the asset. Once satisfied that the asset received is as per the specification requested, endorse the delivery note or invoice and forward it to the Creditors Office for payment. If not satisfied delivery of the asset is rejected and returned.
- The Asset Division barcodes the asset, updates the Asset Register and transfer the Asset to the user department.

- The Asset Division ensures that the Insurers provides immediate insurance cover for the asset.

- The recipient's asset inventory list is updated and a signed copy be kept by the Assets Division.

- The invoice should be endorsed with the bar code number before payment can be made to the supplier.

- The Assets Division conducts a monthly verification report to the CFO on asset movements. The report must also include the following:

  - Donations.
  - Loss or damage.
  - Transfers.
  - Write-offs.
  - Additions.
  - Depreciation

Immoveable Assets

The user/user department shall submit a request for acquisition of an asset to the Supply Chain Division. The Supply Chain Manager shall confirm with the Asset Manager that the acquisition is in line with the Asset Management Plan. The Supply Chain Manager will then proceed with the acquisition in accordance with the Council's Supply Chain Management Policy and Manual and Procedures. This user department together with the technical department shall be responsible for the specification, monitoring and inspection of construction of the asset.

Progress certificates shall be provided to the Asset division on a monthly basis for purposes of updating the Fixed Assets Register during the construction stage of the Asset.
Once the construction is complete, a copy of the completion certificate shall be provided to the Asset Management Division for inclusion in the Fixed Asset Register.

The Assets Manager shall ensure through confirmation of a budget stamp that:

- At all times that there are enough funds in the budget before approval of any requisitions for both moveable and immoveable assets.

- That the correct vote and descriptions are being used before authorization of the requisition.

5.4 Methodology of Valuation of Assets

The municipality may consider the following methods of valuation when updating the asset register.

Historical Depreciable Net Book Value Calculation

The starting point will be to determine a depreciable net (historical) book value of an asset and adjust this to reflect

- its current market price or
- its current replacement cost

The asset record should reflect what has been spent on an asset (i.e. historical records) in terms of

- The original cost of buying or constructing the asset;
- Any maintenance cost to date; and
- Any improvements or additions to the asset to date.

This analysis will help the municipality determine whether for example assumptions relating to the life of the asset are still applicable. Lack of maintenance might mean adjusting the original life of the asset and this would affect the future deprecation and depreciable net book value of the asset.

Any additional maintenance or improvements might lengthen the original life of the asset, and therefore, the future depreciation calculations would have to reflect this.

Proxy Method

In the case of the municipality, this method might be useful if some historical data is not available. The idea is to base the value of the asset on a similar asset as maintained by the municipality or another utility if such other utility has been keeping proper records. The adoption of the proxy method entails benchmarking against a similar asset as maintained by complete records.

Replacement Cost Method

In rare circumstances and should historical figures not be available, the municipality may have to resort to valuing an asset based on what it would take to buy or construct a similar asset. This method might work for some assets such as buildings if the methodology to construct a dam has remained almost the same except for prices of material such as cement. It is, therefore, highly unlikely that Replacement Cost Method would be used in this regard though it is very important to reflect it.

Market Value of an Asset

Buildings or any other assets that have a market value will be valued at market values if such value differs significantly from the depreciable historical net book value.

5.5 Disposal of Assets

All assets are to be disposed of in one of the following ways:

Asset Management Policy	Link to Supply Chain Management Policy (Disposal Management)
1. By dumping at a landfill site after approval by Council concerned if the item is damaged beyond repair	• Destroying the asset
2. Public tender for the disposal of property or letting of assets (including unserviceable, redundant or obsolete assets subject to section 14 and 90 of the MFMA) after approval by Council	• Selling the asset
3. Auctioning after approval by Council	• Selling the asset
4. Donation after approval by Council	• Transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets • Transferring the asset to another organ of state at market related value or, when appropriate, free of charge

The Manager: Assets in conjunction with the Supply Chain Manager should direct the disposal process.

Regards must be had for the following provisions of the Municipal Finance Management Act requirements for the disposal of capital assets

The ***disposal of capital assets***, in terms of section 14 of Municipal Finance Management Act (No. 56 of 2003), specify the following requirements:

1) Capital assets needed to provide the minimum level of basic municipal services may not be disposed of.
2) Capital assets (other than those mentioned in 1) may only be disposed of after the municipal council in a meeting open to the public:

    a. Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service, and

    b. Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
3) Any decision made by the municipal council that the specific capital asset is not needed to provide the minimum level of basic municipal service may not be reversed by the municipality after the asset has been disposed of.
4) The municipal council may delegate its power to make the decision in 2(a) and (b) for movable capital assets to the MM subject to limits (e.g. R5 000) prescribed by the municipal council.

5) Any transfer of ownership (disposal) must be fair, equitable, transparent, competitive and consistent with the supply chain management policy.
6) The above does not apply to transfers of capital assets to another municipality, municipal entity, national or provincial organ of state provided that the transfers are in accordance with the prescribed framework.

Disposal procedures

The following procedure for disposing of an asset must be followed:

Disposal procedure	Type of disposal
• The Assets Division identifies the asset(s) to be disposed of (obsolete, redundant, damaged beyond repair, etc.) and recommends to the CFO to submit the list to the Accounting Officer for disposal.	All
• The Accounting Officer should inspect/delegate the inspection of the redundant items and provide recommendations to Council to approve the disposal.	All
• The Council approves the disposal and write-off of the concerned items from the asset register.	All
• The asset disposal form must be attached to a memorandum signed by the Accounting Officer and forwarded to Budget and Treasury for processing.	All
• Manager Assets consider the means of disposal and recommend method for approval by the CFO.	All
• If the method of disposal approved by the CFO is donation or dumping, identified beneficiaries shall be informed to come select the items to be donated. Items not selected for donation shall be dumped at the landfill site.	Disposal of unserviceable, redundant, obsolete and damaged assets by donation/dumping.
• If the method of disposal approved by the CFO auction, a public notice in the local newspaper is made inviting the public to the auction.	Disposal by auction
• If deemed necessary the Supply Chain processes shall be followed to appoint an Auctioneer.	Disposal by auction
• If disposal of unserviceable, redundant, obsolete and damaged assets by donation or sale is deemed impossible due to the nature of the assets of the extent of the damage/redundancy of the concerned assets, the assets may be dumped at a landfill site.	Dumping at a landfill site

Beneficiaries to be invited for donation shall be identified Manager: Assets from non-profit organisations within the borders of the municipality.

The following additional disposal procedures shall apply in the case of land and buildings.

Land and Buildings shall be auctioned at the reserved prevailing market prices as indicated by the valuators at the time of disposal.

The Council shall give fourteen (14) days' notice in the newspaper circulating within its area. Notice shall be both in English and North Sotho. Such notice shall also be affixed to all Notice Boards at the Council's office and website.

Council may resolve to donate any of its assets to organisations / individuals and persons within its area of jurisdiction.

5.6 Transfers/movement of assets

The HOD's shall approve all asset movements, which relate to the transfer of assets from one department to the other or within the department.

When a directorate or department transfers an asset or an inventory item interdepartmentally or within its department, the Asset Transfer Form **(see appendices)** must be forwarded to the Assets division for authorization of the movement. A signed copy of this form is to remain with the Asset Division for the update of the asset register.

Where a department no longer requires the use of an asset it should be transferred to the Asset Division's safe house for storage until it is required by another department. The Asset Transfer Form must be completed and forwarded to the Asset Division.

A signed Asset Transfer Form must be obtained from the Asset Division by the department/division transferring the asset and returned by the department/location receiving the asset to the Assets Division after satisfying themselves that the asset is in good working condition.

No asset of the municipality is to be removed from its location without an Asset Transfer Form signed by an Asset Division staff. Security at all Municipal entry points are to be informed that all Municipal Assets leaving or entering municipal premises are accompanied by a duly completed Asset Transfer Form signed by the Asset Division.

5.7 Resignations

At the resignation of an employee the applicable Director or his/her duly delegated representative must complete the relevant asset form and forward it to the Human Resources Department for their further attention. This form is a statement that the inventory and asset items entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary (refer **to Asset Clearance Form in Appendices**).

5.8 Identification of Assets

The following applies relating to the identification of assets:

- The MM is responsible for ensuring that the municipality maintains an asset identification system.
- The fixed asset identification system should operate in conjunction with the asset register.
- The MM in consultation with the CFO and manager: Assets should prescribe the identification system.
- The identification system should comply with any legal prescriptions and recommendations of the Auditor-General.
- The CFO and Manager: Assets should ensure that the asset identification system is applied.

5.9 Verification of Assets

Listing of assets

The Assets Division must distribute to each Asset Custodian an asset register/listing of all assets under his/her custodianship. All assets must be recorded on the standard Asset Record form, which shall be used for reporting purposes and updating asset register.

The Assets Division shall:

- Perform monthly counts of all municipal assets.
- Provide the CFO with a monthly report on movements, condition and status of all Assets belonging to the municipality.
- Ensure that the existence of items recorded on the inventory lists is verified and any amendments which are made to the Asset record form are processed in the Asset Register.
- In consultation with the CFO, ensure that the asset register of the Council is reconciled with the trial balance of the Municipality on a monthly basis.

Listing of assets

Every employee shall:

- Report the presence of personal assets that are kept in their offices for personal use to the Asset division.
- Complete a Personal Asset Declaration form **(see appendices)** and submit the form to assets division.
- This clause does not apply to cosmetic products, items that are regularly carried in handbags/pockets by all employees such as cellphones. However the discretion of whether an item must be declared or not remains with the Manager: Assets.

5.10 Safekeeping of Assets

Every Custodian shall be directly responsible for the physical safekeeping of any asset controlled or used by the department/office in question.

In exercising this responsibility, every Custodian shall adhere to any written directives issued by the Manager: Assets to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality's assets.

In addition, any visitors to a department/office shall be accompanied by an employee of the department.

5.11 Alienation of Assets

Every HOD shall inform in writing the Manager: Assets on 31 November and 30 April of each financial year on all assets controlled or used by the department concerned which such HOD wishes to alienate by public auction or public tender.

The Manager: Assets shall consolidate the requests received from the departments and promptly report such consolidated information to the CFO or the Municipal Manager of the municipality, as the case may be recommending the process of alienation to be adopted.

The Council delegates to the Municipal Manager the authority to approve the alienation of any asset with a carrying value less than R 5000-00 (five thousand rand).

The Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R5000-00 (five thousands rand) takes place in compliance with Section 14 of the MFMA.

Once the assets are alienated, the CFO may delete the relevant records from the asset register.

If the proceeds of the alienation are less than the carrying value recorded in the asset register, such difference shall be recognised as a loss in the Statement of Financial Performance of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain in the Statement of Financial Performance of the department or vote concerned.

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.

5.12 Reporting Write-Offs of Assets

All assets to be written off are to be reported to Council for approval.

Loss, theft, destruction, or impairment

Every Custodian shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by his/her department is promptly reported in writing (refer to **section 6.5**) to the Manager: Assets, and – in cases of suspected theft or malicious damage – also to the South African Police Service. The Manager: Assets shall promptly report to the CFO in writing the above events and follow the necessary steps to claim the loss from the insurer.

Other write-offs
A fully depreciated fixed asset shall be written off only on the recommendation of the Manager: Assets, and with the approval of the user of the asset.

The Manager: Assets shall report to the CFO after every verification on any assets which have to be written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall submit a recommendation to the Council of the municipality on the assets to be written off.

The only other reasons for writing off assets, other than the alienation of such assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question.

In every instance where a not fully depreciated fixed asset is written off, the CFO shall immediately debit to such department or vote, as additional expenses, the full carrying value of the asset concerned.

5.13 Maintenance

General maintenance

The Assets Manager shall be directly responsible for ensuring that ***all assets*** are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

Planned Maintenance

The CFO shall ensure that an Asset Management Plan in respect of all ***infrastructure assets*** with a value of R50 000 (fifty thousand rand) or more is promptly prepared and submitted to the Council of the municipality for approval.

The MM may direct that the maintenance plan be submitted to the Council prior to any approval for the acquisition or construction of infrastructure asset concerned.

Annual reports should be submitted by the CFO's to the Council each year on the progress in complying with the maintenance plan. The effect of any non-compliance on the useful operating life of the asset should also be reported.

The Manager: Assets is responsible for the implementation of the maintenance plan and shall report to the CFO on a monthly basis on the progress thereof. The Manager: Assets may commission other departments (e.g. Technical Department) to assist with the implementation of the maintenance plan.

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan, the CFO shall report such extra expenses to council for noting and a possible request for adjustment of the budget.

Unplanned maintenance/repairs

Every Custodian shall ensure that any incident of material impairment to any fixed asset of the Municipality used by their department is promptly reported to the Manager: Assets. The Manager: Assets shall promptly follow the necessary steps to claim the loss from the insurer and/or effect repairs to the Asset.

The Manager: Assets may seek assistance from other departments (e.g. technical) in order to assess the loss/damage and/or to effect the repairs. Where such assistance is sought by the Manager: Assets, such other department(s) shall promptly offer such assistance without reserve.

Subsequent to repairs on any fixed asset, the Manager: Assets shall re-determine the useful life of the fixed asset in question, if necessary, recalculate the annual depreciation expense accordingly.

Reports for all repairs and/or maintenance carried out shall be prepared on a monthly basis by the responsible division/department (e.g. roads and stormwater, infrastructure development, etc.) and submitted to the Assets Manager on or before the7th of each month.

5.14 Private Use of Municipal Assets

Each department should ensure that the removal of assets from municipal premises is monitored. Temporary Asset Removal Form should be completed and authorised by the HOD each time any asset is removed from municipal premises for private use. Items that are regularly used by employees when performing their duties, e.g. laptops, cameras, calculators, tape recorders, two way radios, guns, and other similar items are exempted from this requirement.

5.15 Replacement Norms

The replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items shall be provided for in the Asset Management Plan. The replacement of assets which are required for service delivery but which have become uneconomical to maintain shall also be considered in the Asset Management Plan.

5.16 Insurance of Assets

All assets shall be insured as agreed with the Insurance Brokers/Insurance company. The MM should ensure that all assets are insured. The CFO should recommend the basis of insurance to be applied to each type of fixed asset (e.g. carrying value or replacement value).

For all assets acquired, the Manager: Asset should notify the Insurance brokers/ company on delivery to provide immediate cover. It is the responsibility of the Manager: Assets to ensure that all new assets have been covered by insurance before they are issued for use by the respective department.

The CFO shall, in conjunction with the HOD of the user department, consider whether all assets require insurance and where insurance is deemed undesirable and/or unaffordable for particular assets, seek Council approval to exclude such assets from the insurance portfolio.

5.17 Fleet Management

The management of Fleet Assets (Council's vehicles, plant and earth moving equipment as defined) shall be in terms of the "Fleet Management Policy." The Fleet Management Office shall provide a report to the Manager: Assets as to the condition, status and maintenance/repairs requirements of all fleet on a monthly basis for inclusion in the Assets Reports **(see 5.9)**

5.18 Disposal of Firearms

The procedures for the legal disposing of firearms in terms of the Firearms Control Act of 2000 are not included in this policy. The Chief Traffic Officer shall be engaged to facilitate any process dealing with firearms.

5.19 Biological Assets

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported to the Manager Assets in exactly the same manner as though the asset were an ordinary asset.

Records of the details of biological assets shall be kept in a separate section of the asset register or in a separate asset register altogether and such details shall reflect the information which the CFO, in consultation with the Manager: Assets, deems necessary for accounting and control purposes.

6. POLICY ADOPTION

This policy has been considered and approved by the Council of Fetakgomo/Greater Tubatse Local Municipality on this day ______________________ at ______________________

APPENDICES

A. Useful lifes of Assets

The useful life of infrastructure-, buildings, recreational- and other assets are categorised below.

Heritage Assets are not reflected in the asset life schedule below because no useful life can be established for heritage assets as there is no way to determine the lifespan of painting or statue etc.

Useful lives - Estimated useful lives per category of asset are as follows:

CATEGORY	USEFUL LIFE
<u>Infrastructure Assets</u>:	
Electricity	
Highmast lights	15-30 years
Meters	15-25 years
Load Control Equipment	20-30 years
Switchgear Equipment	20-30 years
Supply/reticulation	20-30 years
Mains	20-30 years
Roads	
Motorways	15-30 years
Other Roads	10-30 years
Traffic signage and markings	2-10 years
Traffic Lights	5-25 years
Street Lighting	10-30 years
Overhead Bridges	10-30 years
Storm Water Drains	10-30 years
Bridges, Subway & Culverts	10-30 years
Car Parks	10-20 years
Bus Terminals	5-20 years
<u>Community Assets</u>	
Buildings:	
Ambulance Stations	10-30 years
Cemeteries	3-30 years
Community Centres/halls	10-30 years
Traffic Stations	5-30
Indoor Sport stadiums	10-30 years
Parks	5-30 years
Recreation Centres	5-30 years

CATEGORY	USEFUL LIFE
Stadiums Taxi Ranks Office Buildings	5-30 years 10-30 years 5-30 years
<u>Recreational Assets</u>: **Facilities:** Netball/Tennis Courts Swimming Pool Golf Course Outdoor Sport Facilities Fountains Floodlighting Soccer Field	 5-20 years 5-20 years 5-20 years 5-20 years 5-25 years 5-30 years 5-20 years
<u>Security Measures:</u> Fencing Security Systems Access Control	 3-10 years 3-15 years 3-15 years
Office Equipment: Computer Hardware Computer Software Office Machines Air Conditioners Photocopy Machines Faxes	 3-20 years 3-20 years 3-20 years 3-30years 3-20 years 3-15 years
Furniture and Fittings: Chairs Tables Desks Cabinets Cupboards Fire Cabinets Miscellaneous	 4-20 years 4-20 years 4-20 years 4-20 years 4-20 years 4-20 years 4-20 years
Bins and Containers: Bulk Containers	 3-15years
Motor Vehicles: Fire Engines Motor Vehicles	 5-25 years 5-15 years

CATEGORY	USEFUL LIFE
Motor Cycles Trucks	5-25years 5-25 years
Plant and Equipment: Graders Tractors Mechanical Horses Lawnmowers Brush Cutters Compressors Radio Equipment Fire Arms Telecommunication Equipment Tippers Other Office Equipment	 5-25 years 5-25 years 5-25 years 2-15 years 2-15 years 2-15 years 3-15 years 5-50 years 5-15 years 5-25 years 2-30 years

B. Asset Disposal Form

ASSET DISPOSAL FORM

Date requested	
Department	
Asset barcode	
Asset description	
Asset location	
Classification of asset	
Suggested method of disposal	
Condition of asset	
Reason for request for disposal	
Requesting official	
Name and surname	
Signature	
Date	
HOD recommendation	
Name and surname	
Signature	
Date	
Municipal Managers Approval	
Name and surname	
Signature	
Date	

C. Asset Transfer Form

ASSET TRANSFER FORM

Date requested	
Asset barcode	
Asset description	
Classification of asset	
Reason for transfer	
Condition of asset	
Current location	*Approval for the transfer of asset*
Department/location	
Name of building	
Floor number	
Room number	
Room barcode	
User	
Transferring official	
Signature	
New location	*Verifying and receiving of asset*
Department/location	
Name of building	
Floor number	
Room number	
Room barcode	
User	
Receiving official	
Signature	
Assets Division Authorisation	
Name and Surname	
Date Authorised	

D. Specimen Asset Clearance Form

ASSET CLEARANCE FORM

Inventory items:

Movable Assets

Resigning Official:

Name and Surname --

Signature --

Date --

HOD:

Name and Surname --

Signature --

Date --

E. Temporary Asset Removal form

TEMPORARY ASSET REMOVAL FORM

Date requested	
Department	
Asset barcode	
Asset description	
Asset location	
Classification of asset	
Reason for temporary removal	
Condition on removal	
Date to be returned	
Date returned	
Condition on returning	
Requesting official	
Name and surname	
Position	
Signature	
Date	
Asset Management Authorisation	
Name and surname	
Position	
Signature	
Date	

F. Personal Asset Declaration Form

PERSONAL ASSET DECLARATION FORM

Asset Description ______________________________

Serial number/Barcode ______________________________

Name of User ______________________________

Asset Location ______________________________

Room/Floor number ______________________________

Reason for Bringing the Asset onto the Premises

____

____

____

Estimated Removal date ___/___/______

Owner Details

Name and Surname ______________________________

Address

____

Signature ______________________________

Date ___/___/______

DECLARATION: I ...., the owner agree not to hold the Municipality liable for any theft, loss or damage incurred relating to the use of the abovementioned asset.

Asset Division

Name and Surname ______________________________

Signature ______________________________

Date ___/___/______

DECLARATION: I ...., the Manager: Assets, agree that the Municipality is not the owner of the abovementioned asset.

G. Asset record form

ASSET RECORD FORM

BUILDING NAME ____________________

FLOOR NUMBER ____________________

OFFICE NUMBER ____________________

OFFICE BARCODE ____________________

I ______________________________ WILL KEEP THE ASSETS REFLECTED ON **THE ATTACHED PAGE** SAFE AND REPORT TO ASSET OFFICE ANY LOSS, DAMAGE OR MOVEMENT IF ANY. I FURTHER AGREE AND UNDERSTAND THAT REMOVAL OR FAILURE TO REPORT ANY SUCH REMOVAL EFFECTED BY ANY PERSON OF ANY ASSETS LISTED ON THE ATTACHED PAGE WITHOUT COMPLETION OF THE ASSET TRANSFER FORM DULY AUTHORISED BY THE ASSET DIVISION IS A CONTRAVENTION OF AN APPROVED POLICY OF THE COUNCIL AND MAY LEAD TO DISCIPLINARY ACTION AGAINST THE PERPETRATOR.

ASSET HOLDER ____________________

SIGNATURE ____________________ DATE ____/____/________

ASSET OFFICER ____________________

SIGNATURE ____________________ DATE ____/____/________

FETAKGOMO – TUBATSE

LOCAL MUNICIPALITY

TARIFF POLICY

2018/2019

FETAKGOMO TUBATSE LOCAL MUNICIPALITY

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PART 1: GENERAL INTRODUCTION AND OBJECTIVE

A tariff policy must be compiled, adopted and implemented in terms of Section 74 of the Local Government: Municipal Systems Act 2000, such policy to cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.

The tariffs policy has been compiled taking into account, where applicable, the guidelines set out in Section 74 (see part 9 of this policy).

In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic' region, and of the impact which its own tariffs may have on local economic development.

PART 2: GENERAL PRINCIPLES

Service tariffs imposed by the local municipality shall be viewed as user charges and shall not be viewed as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigency relief measures approved by the municipality from time to time).

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

Tariffs for the services rendered by the municipality, namely:

- Refuse Removal

***shall as far as possible recover the expenses associated with the rendering of each service concerned. The tariff which a particular consumer or user pays shall therefore be directly related to the standard of service received and the quantity of the particular service used or consumed.

The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate an operating surplus each financial year of 10% or such lesser percentage as the council of the municipality may determine at the time that the annual operating budget is approved. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.

The municipality shall develop, approve and at least annually review an indigency

support programme for the municipal area. This programme shall set out clearly the municipality's cost recovery policy in respect of the tariffs which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and consumers in the municipal region.

In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the municipality may differentiate between different categories of users and consumers in regard to the tariffs which it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each annual budget.

The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be evident to all consumers or users of the service in question.

The municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users affected by the tariff policy concerned.

The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.

In the case of directly measurable services, namely electricity and water, the consumption of such services shall be properly metered by the municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.

In addition, the municipality shall levy monthly availability charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with the detailed policies set out below. Generally, consumers of water and electricity shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and another directly related to the consumption of the service in question.

PART 3: CALCULATION OF TARIFFS FOR MAJOR SERVICES

In order to determine the tariffs which must be charged for the supply of the refuse removal service, the 'municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:

- Cost of maintaining the landfill site
- Collection Cost
- Depreciation expenses.
- Maintenance of fixed assets.

- Administration and service costs, including:
    - o service charges levied by other departments such as finance, human resources and legal services;
    - o reasonable general overheads, such as the costs associated with the office of the municipal manager;
    - o adequate contributions to the provisions for bad debts and obsolescence of stock;
    - o all other ordinary operating expenses associated with the service concerned including, (note: the costs of the democratic process in the municipality - that is, all expenses associated with the political structures of the municipality - shall form part of the expenses to be financed from property rates and general revenues, and shall not be included in the costing of the major services of the municipality).

- The intended surplus to be generated for the financial year, such surplus to be applied: as an appropriation to capital reserves; and/or generally in relief of rates and general services.

- The cost of approved indigency relief measures.

The municipality shall consider relief in respect of the tariffs for refuse removal for such registered indigents to the extent that the council deems such relief affordable in terms of each annual budget, but on the understanding that such relief shall not be less than a discount of 100% on the monthly amount billed for the service concerned.

PART 4: REFUSE REMOVAL

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

Tariff adjustments shall be effective from 1 July each year.

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

*Domestic and other users (once weekly removal) Business and other users (twice weekly removal) Business and other users (thrice weekly removal) Business (Malls) and other (bulk consumers) every day

Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 100% of the monthly amount billed as a refuse removal charge. '

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

PART 5: MINOR TARIFFS

All minor tariffs shall be standardised within the municipal region.

All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidised by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.

All minor tariffs over which the municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.

The following services shall be considered as **subsidised services**, and the tariffs levied shall cover or as near as possible to 100% of the annual operating expenses budgeted for the service concerned:

- burials and cemeteries

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

- municipal libraries

The following services shall be considered as **economic services**, and the tariffs levied shall cover 100% or as near as possible to 100% of the budgeted annual operating expenses of the service concerned:

- maintenance of graves and garden
- housing rentals
- rentals for the use of municipal halls and other premises (subject to the proviso set out below)
- building plan fees
- cleaning of stands
- photostat copies and fees
- clearance certificates.

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

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

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

In the case of rentals for the use of municipal halls and premises, if the municipal manager is satisfied that the halls or premises are required for non-profit making purposes and for the provision of a service to the community, the municipal manager may waive 50% of the applicable rental.

The municipal manager shall determine whether an indemnity or guarantee must in each instance be lodged for the rental of municipal halls, premises and in so determining shall be guided by the likelihood of the municipality's sustaining damages as a result of the use of the facilities concerned.

PART 9: ANNEXURE: LEGAL REQUIREMENTS

SECTION II: LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT NO. 32 OF 2000

SECTION 74: TARIFF POLICY

The council of a municipality must adopt and implement a tariff policy on the levying of fees for the services provided by the municipality itself or by way of service delivery agreements.

Such policy must comply with the provisions of the present Act and any other applicable legislation.

Such tariff policy must reflect at least the following principles:

- that users of municipal services must be treated equitably in the application of the municipality's tariffs;
- that the amount individual users pay for services must generally be in proportion to the use of such services;
- that poor households must have access to-at least basic services through

tariffs which cover only operating and maintenance costs, special tariffs or lifeline tariffs for low levels of use. or consumption of services or for basic levels of services, or any other direct or indirect method of subsidisation of tariffs for poor households;

- that tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- that tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned;
- that provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
- that provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- that the economic, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
- that the extent of subsidisation of tariffs for poor households and other categories of users must be fully disclosed.

The tariff policy may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas.

If the policy entails such differentiation, the municipality must ensure that this does not amount to unfair discrimination.

SECTION 73: GENERAL DUTY

The municipality must give effect to the provisions of the Constitution, and in doing so give priority to the basic needs of the local community, promote the development of the local community, and ensure that all members of the local community have access to at least the minimum level of basic municipal services.

The services provided by the municipality must be: equitable and accessible; provided in a manner conducive to the prudent, economic, efficient and effective use of available resources, and the improvement of standards of quality over time; financially sustainable; environmentally sustainable; and regularly reviewed with a view to upgrading, extension and improvement.

SECTION 75: BY-LAWS TO GIVE EFFECT TO POLICY

The council of the municipality must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.

Such by-laws may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas, but in a manner which does not amount to unfair discrimination.

FETAKGOMO TUBATSE
LOCAL MUNICIPALITY

BORROWING POLICY

2018/2019

FETAKGOMO TUBATSE LOCAL MUNICIPALITY

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1. DEFINITIONS

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

"Disclosure statements" means a statement issued or to be issued by:

- a municipality which intends to incur debt by issuing municipal debt instructions; and
- A person who intends to incur debt by issuing securities backed by municipal debts.

"Financing agreement" means any loan agreement, lease, instalment, purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time.

"Lender" means a person who provides debt finance to the municipality.

"Long term debt" means debt repayable by the municipality over a period exceeding one (1) year.

"Municipal debt" means:

a) A monetary liability or obligation on a municipality by:
   - A financing agreement , note, debenture, bond or overdraft; and
   - The assurance of municipal debt instruments.

b) A contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

"Security" means any mechanism intended to secure the interest of a lender or investor and includes any of the mechanisms mentioned.

"Short term debt" means debt that is repayable over a period not exceeding one (1) year.

2. INTRODUCTION

Considering the large demand for municipality infrastructure, borrowing is an important element to obtain additional funding sources to fund the municipal capital programme over the medium term.

The purpose of the policy is to govern the taking up of short-term debt according to the legislative framework.

3. OBJECTIVES OF POLICY

The objectives of the policy are to:

3.1 Enable the municipality to exercise their obligation to ensure sufficient cash resources to implement their capital programme is the most cost effective manner.

3.2 Ensure compliance with the relevant legal and statutory requirements relating to municipal borrowing.

3.3 Manage interest rate and credit risk exposure.

3.4 Maintain debt with specified limits and ensure adequate provision for the repayment of debt.

3.5 To maintain financial sustainability.

4. LEGISLATIVE

The legislative framework governing borrowings are:

4.1 Local Government Municipal Finance Management Act, Act 56 of 2003; and

4.2 Local Government Municipal Regulations and Debt Disclosure, Regulation R492, published under Government Gazette 29966, 15 June 2007.

5. COMPULSORY DISCLOSURES WHEN INCURRING MUNICIPAL DEBT

5.1 When entering into discussions with prospective lender with a view to incur municipal debt, the municipality must indicate in writing to the prospective lender whether it intends to incur short-term or long-term debt.

5.2 In the case of short-term debt it must be disclosed whether the debt is to bridge:

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

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

5.3 In the case of long-term debt, whether the purposes of the debt is for:

a) Capital expenditure on property, plant or equipment to be used for the purpose of achieving the objectives of local government, subject to section 46(4) of the Act.

b) Refinancing of existing long-term debt, subject to section 46(5) of the Act.

6. PROCESS

The process as required by the Act is as follows:

Short- term debt

6.1 A municipality may incur short-term debt only if:

a) A resolution of the municipal council , signed by the executive mayor , has approved the debt agreement; and

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

6.2 A short term debt transaction may be:

a) Approve individually; or

b) Approve an agreement with a lender for short-term credit facility to be accessed as and when required , including a line of credit or bank overdraft facility, provided that:

I. The credit limit must be specified in the resolution of the council.

II. In terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and

III. If the council approves a credit facility that is limited to emergency use, the accounting officer must notify the council in writing as soon as practical of the amount , duration and cost of any debt incurred in terms of such a credit facility, as well as options for repaying such debt.

6.3 A municipality:

(a) Must pay off short-term debt within the financial year; and

(b) May not renew or refinance short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

6.4 No lender may wilfully extend credit to a municipality in contravention of renewing or refinancing short-term debt that must be paid off in terms of subsection 6.3(a)

6.5 If a lender wilfully extends credit to a municipality in contravention of paragraph 6.4, the municipality is not bound to repay the loan or interest on the loan.

6.6 Subsection 6.5 does not apply if the lender:

a) Relied in good faith on written representations of the municipality as to the purpose of the borrowing; and

b) Did not know and had no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt.

Long –term debt

6.7 A municipality may incur long-term debt only if:

a) A resolution of the municipal council, signed by executive mayor; has approved the debt agreement, and

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

6.8 A municipal may incur long –term debt only if the accounting officer of the municipality:

a) Has, in accordance with section 21A of the Municipal System Act:

i. At least twenty one(210 days prior to the meeting the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided,; and

ii. Invite the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt; and

b) Has submitted a copy of the information statement of the municipality council at least twenty one (21) days prior to the meeting of the council , together with particulars of:

I. The essential repayment terms, including the anticipated debt repayment schedule; and

II. The anticipated total cost in connection with such debt over the repayment period.

6.9 Capital expenditure contemplated in 5.3(a) may include:

a) Financing costs, including :

I. Capitalised interest for a reasonable initial period.
II. Costs associated with security arrangements in accordance with section 48 of the Act;
III. Discount and fees in connection with the financing;
IV. Fees for legal, financial, advisory, trustee, credit rating and other services directly connected to the financing; and
V. Costs connected to the sale or placement of debt, and costs for printing and publication directly connected to the financing.

b) Cost of professional service directly related to the capital expenditure; and

c) Such other cost may be prescribed.

6.10 A municipality may borrow money for the purpose of refinancing existing long-term debt, provided that:

a) The existing long-term debt was lawfully incurred;

b) The refinancing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;

c) The net present value of projected future payments (including principal and interest payments) after refinancing is less than the net present value of projected future payments before refinancing;

d) The discount rate used in projecting net present value referred to in paragraph ©, and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed.

6.11 A municipality's long-term debt must be consistent with its capital budget referred to in section 17(2) of the Act.

7. CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONG-TERM DEBT

7.1 a municipality may incur debt only if:

a) the debt is denominated in rand and is not indexed to, or affected by fluctuations in the value of rand against any foreign currency; and

b) Section 48(3) of the Act has been complied with, if security is to be provided by the municipality.

8. SECURITIES

8.1 A municipality may by resolution of its council provide security for:

a) Any of its obligation; and

b) Contractual obligation of the municipality undertaken in connection with capital expenditure by the person of the property, plant or equipment to be used by the municipality or such other person for the purpose of achieving the objectives of local government in terms of section 152 of the constitution.

8.2 Appropriate security is contemplated in section 48(2) of the Act.

8.3 Other additional conditions to be complied with the contemplated in section 48(3) to (5) of the Act.

9. DISCLOSURE

9.1 Any person involved in the borrowing of money by a municipality must, when interacting with a prospective lender or when preparing documentation by a prospective investor

a) Disclose all information in that person 's possession or which that person's knowledge that may be material to the decision of that prospective lender or investor; and

b) Take reasonable care to ensure the accuracy of any information disclosed.

9.2 A lender or investor may rely on written representations of the municipality signed by the accounting officer, if the lender or investor did not know and had no reason to believe that those representations were false or misleading.

10. GUARANTEES

10.1 A municipality may not issue any guarantee for any commitment or debt of any organ of state or person, except on the following condition:

a) The guarantee must be within limits specified in the municipality's approved budget.

10.2 Neither the national nor provincial government may guarantee the debt of a municipality expect to the extent that chapter 8 of the public finance Management Act provides for such guarantees

11. SUBMISSION OF DOCUMENTS

11.1 When entering into discussion with a prospective lender with a view to incur short-term debt, the following information must be made available to the prospective lender.

a) Audited financial statements for the preceding three (3) financial years with audited outcomes;

b) Approved annual budget;

c) The municipal integrated development plan;

d) Repayment schedules pertaining to existing short-term or long-term debt.

12. NOTIFICATION TO NATIONAL TREASURY

12.1 The following information must be provided to National Treasury with respect to a long-term debt proposal:

	Details	MFMA
a)	A copy of the information statement required by section 46(3), containing particulars of the proposed borrowing (Debt) instrument: ▪ The name of the municipality; ▪ Where the municipality is located; ▪ Particulars of the proposed debts;	46(3)(a)(i)
	Details ▪ Amount of proposed debt; ▪ Purposes for which the debt is to be incurred; and ▪ Particulars of any security to be provided.	
b)	If not already incorporated in the information statement, the following information is provided separately:	46(3)(b)(i), (ii)

- Amount of debt to be raised through borrowing or other means;
- Issue date;
- Purposes for which the borrowing (debt) is to be incurred;
- Interest rate(s) applicable (state whether fixed or variable etc);
- Planned start and end date (term of instrument);
- Detailed repayment schedule for the duration of the borrowing (debt) (showing dates and all payments of principal and interest etc.);
- Final maturity date;
- Total estimated cost of the borrowing (debt) over the repayment period;
- Type of instrument;
- Debt amortisation terms;
- Security to be provided and provide details; and
- Source of loan funds.

<u>MFMA</u>

c) A Schedule of consultation undertaken, including: 46(3)(a)(i),ii
   - Date(s) when the information statement was made public; and
   - Details of meetings, media adverts and other long-term borrowing (debts);

d) A copy of the approved budget and relevant documentation supporting the budget, highlighting the assets(s) to be funded by the proposed borrowing (debt) and the revenue to be received. It must be demonstrated that the proposed borrowing (debt) is consistent with the IDP, the capital budget and the revenue is shown accordingly. 46(6) 17(2) 19

<u>Details</u> <u>MFMA</u>

e) If the borrowing (debt) is for the purpose of refinancing existing long-term borrowing (debt), the following information must be provided: 46(5)
   - Description of the asset(s) for which the original loan was required;
   - The useful remaining life of the assets(s)
   - The net present value of the assets(s), including the discount rate used and any assumptions in the calculations;
   - The net present value of projected future payment <u>before</u> refinancing, including the discount rate and assumptions used; and
   - The net present value of projected future payment <u>after</u> refinancing, including the discount rate and

assumptions used.

f) A copy of the council/board of directors' resolution approving the borrowing (debt) instruments should be forwarded to National and relevant provincial Treasury once approved.

13) **FINANCIAL AFFAIRS OF THE MUNICIPALITY**

13.1 The following information concerning the financial situation and financial management of the municipality must be disclosed:

a) Schedule of all long-term obligations stating principal and interest payments for the life of all loans and any security provided to secure such debts;
b) The amount of any short-term debt outstanding;
C) the revenue of the municipality for the preceding three (3) financial years stated separately:

i. Government grants and public donations;
ii. Revenue from rates and services charges; and
iii. Other revenue sources

c) What source of funding will be used to repay the loan;
d) Details of any default by the municipality on outstanding or repaid debt during the preceding three (3) years;
e) The reserves of the municipality
f) A summary of financial policies and practices; and
g) The latest credit rating obtained.

14. INTEREST RATE RISK

14.1 As a general principle when interest rates are expected to decrease, it is advisable that a floating rate be negotiated in order to take advantage of the lower interest rate in future. If interest rates are expected to increase, it is advisable to obtain a fixed rate so that the benefits of the current low interest rate are maintained.

14.2 The interest risk must be limited in so far as possible. The policy directive is to negotiate fixed interest rates for all long-term borrowings. This will ensure stability of the repayments and reduce the risk for high rates and tariff increases as a result of interest rate hikes in the market.

14.3 Variable rates should be considered for short-term only.

15. LIMITATION

To ensure a financial viable municipality the following ratio are used to determine the municipal gearing ability to borrow:

- Long-term credit rating BBB;
- Interest cost to total expenditure to not exceed 8%;
- Long-term debt revenue (excluding grants) not be exceed 50%;
- Payment rate mature above 95%; and

- Percentage of capital charges to operating expenditure less than 18%.

16. <u>REVIEW</u>

This policy will be reviewed annually to ensure that it complies with changes in applicable legislation and regulation.

FETAKGOMO – TUBATSE
LOCAL MUNICIPALITY

BUDGET POLICY

2018/2019

FETAKGOMO TUBATSE MUNICIPALITY

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18.	Policy Amendments(s)

DEFINITIONS

"Accounting Officer"

Means the municipal manager;

"**Allocation**", means-

a) A municipality's share of the local government's equitable share referred to in section 214(i)(a) of the constitution;
b) An allocation of money to a municipality in terms of section 214 (1) (c) of the constitution;
c) An allocation of money to a municipality in terms of a provincial budget; or
d) Any other allocation of money to a municipality by a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

"**Annual Division of Revenue act**" means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the constitution;

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

"**Basic Municipal Services**" means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided would endanger public health or safety or the environment;

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

a) The tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
b) The rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or
c) The credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

"**Budget transfer**" means transfer of funding within a function/ vote.
"**Budget year**" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA.

"**Chief Financial Officer**" means a person designated in terms of section 80(2) of the MFMA.
"**Councillor"** means a member of a municipal council;
"**Creditor**", means a person to whom money is owed by the municipality;
"**Current year**" means financial year, which has already commenced, but not yet ended;
"**Delegations**" in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;
"**Financial recovery plan**" means a plan prepared in terms of section 141 of the MFMA
"**Financial statements**", means statements consisting of at least-

a) A statement of financial position;
b) A statement of financial performance;
c) A cash flow statement;
d) Any other statement that may be prescribed; and
e) Any notes to these statements;

"**Financial year**" means a twelve months period commencing on 1 July and ending on 30 June each year.
"**Financing agreement**" includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long term debt over a period of time;

"**Fruitless and wasteful expenditure**" means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

"**Irregular expenditure**" means-

a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;
b) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems act, and which has not been condoned in terms of that Act;
c) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office Bearers Act, 1998 (Act No.20 of 1998); or
d) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy. And expenditure by a municipality which falls within the definition of unauthorised expenditure";

"**Investment**" in relation to funds of municipality, means-

a) The placing on deposit of funds of a municipality with a financial institution; or
b) The acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

"**Lender**" means a person who provides debt finance to a municipality;

"**Local community**" has the meaning assigned to it in section 1 0f the Municipal Systems Act;

"**Municipal Structures Act**" means the Local Government: Municipal Structures Act, 1998 (Act No.117 of 1998);

"**Municipal Systems Act**" means Local Government: Municipal Systems Act, 2000 (Act No, 32 of 2000)

"**Long term debt**" means debt repayable over a period exceeding one year;

"**Mayor**" means the councillor in terms of the Municipal Structures Act;

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

"**Municipal debt instrument**" means any note, bond; debenture or other evidence of indebtedness issued by a municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;

"**Municipal entity**" has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"**Municipality**"

a) When referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
b) When referred to as a geographic area, means a municipal area in terms of the Local Government: Municipal Demarcation Act, 1998(Act No.27 of 1998);

"**Accounting officer**" means a person appointed in terms of section 82(1) (a) or (b) of the Municipal Structures Act;

"Head" in relation to the Municipality Finance Recovery Service, means a person-

(a) Appointed in terms of section 159 as Head of Service; or
(b) Acting as the Head of the Service;

"**Municipal service**" has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to MSA for definition)

"**Municipal tariff** "means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

"**Municipal tax**" means property rates or other taxes, levies or duties that a municipality may impose;

"**National treasury**" means the national treasury established by section 5 of the Public Finance Management Act;

"**Official**", means-

An employee of a municipality or municipal entity;

a) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

b) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

"**Overspending**"

a) Means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

b) In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
c) In relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in sub section (5) of this section;

"**Past financial year**" means the financial preceding the current year;

"**Quarter**" means any of the following periods in a financial year:

a) 1 July to 30 September;
b) 1 October to 31 December
c) 1 January to 31 March
d) 1 April to 30 June

"**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) of the MFMA for implementing the municipality's service delivery of municipal services and its annual budget, and which must indicate-

Projections for each month of

a) Revenue to be collected, by source; and
b) Operational and capital expenditure, by vote;
c) Service delivery targets and performance indicators for each quarter; and
d) Any other matters that may be prescribed, and includes any revisions of each plan by the mayor in terms of section 54(1) (c) of the MFMA;

"**Short term debt**" means debt repayable over a period not exceeding one year;

"**Standard of generally accepted recognised accounting practice**" means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standard Board.

"**Unauthorised expenditure"** means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes-

a) Overspending of the total amount appropriated for a vote in the municipality's approved budget;
b) Overspending of the total amount appropriated for a vote in the approved budget
c) Expenditure from a vote unrelated to the department or functional area covered by the vote;
d) Expenditure of money appropriated for a specific purpose, otherwise that for that specific purpose;
e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of allocation otherwise than in accordance with any conditions of the allocation; or
f) A grant by the municipality otherwise than in accordance with the MFMA;

"**Virement**" means transfer of funds between functions/ votes

"**Vote**" means-

(a) one of the main segment into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
(b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

1) INTRODUCTION

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year. This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualisation and the operationalisation of the budget must be located within the national government's policy framework.

This policy framework shall be read in the context of the provisions of the following Acts, Regulations and Administrative Guidelines:

a) MFMA Circulars
b) MFMA, Act 56 of 2003
c) Municipal Budget and Reporting Regulations, Government Gazette No 32141 dated 17 April 2009

2) OBJECTIVE OF THE POLICY

The objective of the budget policy is to set out:

a) The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,
b) The responsibilities of the mayor , the accounting officer , the chief financial officer and other senior managers in compiling the budget

c) To establish and maintain procedures to ensure Greater Tubatse Municipality's IDP review and budget processes.

3) QAULITY CERTIFICATION

a) Whenever an annual budget and supporting documentation, an adjustment budget and supporting documentation of an in-year report of the municipality is submitted to the mayor, tabled in the municipal council, made public or submitted to another organ of state, it must be accompanied by a quality certificate complying with Schedule A,B or C as the may be, and signed by the municipal manager.

4) BUDGETING PRINCIPLES

a) The Budget and Budget Preparation process shall comply with the requirements of the Municipal Finance Management Act of 2003 and nothing contained in this policy shall contradict the said legislation.

b) The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.

c) Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.

d) Greater Tubatse Local Municipality shall prepare three-year budget (medium term revenue and expenditure framework (MTREF) and that be reviewed annually and approved by Council.

e) The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.

(5) BUDGET PREPARATION PROCESS

5.1) Formulation of the Budget

a) The Municipal Manager with the assistance of the Chief Financial Officer and the head of department responsible for IDP shall draft the IDP/Budget process plan as well as the budget timetable for the municipality for the ensuing financial year.

b) The mayor shall table the IDP process plan as well as the budget timetable to Council by 31 August each year for approval (10 months before the start of the next budget year).The IDP/Budget timetable shall contain key deadlines for:

I. The annual review of the IDP
II. The review of budget related policies
III. The preparation, tabling and approval of the annual budget
IV. Heads of Departments shall ensure that they meet the deadline as set out in the IDP/Budget timetable.

- The IDP/Budget steering Committee shall give general direction to the IDP/Budget process and indicate affordable budget growth and envisaged tariffs increases as the baseline of the budget process.
- The mayor shall convene a strategic workshop in with the executive committee and senior managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial pressure facing the municipality. The mayor shall table the IDP priorities with the draft budget to Council.

- The Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolution and budget related policies (policies on tariff setting , credit control, debt collection, indigents, investment and cash management borrowing, etc).

- The Chief Financial Officer and senior managers undertake the technical preparation of the budget.

- The budget must be in the prescribed format, and must be divided into capital and operating budget.

- The budget must reflect the realistically expected revenues by major source for the budget year concerned.

- The expenses reflected in the budget must be divided into items.

- The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

5.2) Public participation process

a) Immediately after the draft annual budget has been tabled, the municipality must convene hearings on the draft budget in April and invite the public, stakeholder organisations, to make representations at the council hearing and to submit comments in response to the draft budget.

5.3) Approval of the budget

b) Council shall consider the next medium term expenditure framework budget for approval not later than 31 May (30 days before the start of the budget year).
c) The council resolution, must contain budget policies and performance measures be adopted.
d) Should the municipality fail to approve the budget before the start of the budget year, the mayor must inform the MEC for finance that the budget has not been approved.

e) The budget tabled to Council for approval shall include the following supporting documents:

Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the year concerned;

I. Draft resolutions;
II. Measurable performance objectives for each budget vote, taking into account the municipality's IDP;
III. The projected cash flows for the financial year by revenue sources and expenditure votes;
IV. Any proposed amendments to the IDP;
V. Any proposed amendments to the budget- related policies;
VI. The cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the accounting officer, the Chief Financial Officer, and other seniors managers;
VII. Particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as Non-Government Organisations , welfare institutions and so on;
VIII. Particulars of the municipality's investments; and
IX. Various information regarding to municipal entities under the shared or sole control of the municipality.

5.4) Publication of the budget

Within 14 days after the draft annual budget has been tabled, the Manager Corporate services must post the budget and other budget-related documentation onto the municipal website so that it is accessible to the public as well as send hard copies to National and Provincial Treasury.

The Chief Financial Officer must within 14 days submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website.

5.5 Service Delivery and Budget Implementation Plan (SDBIP)

The mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council.

The SDBIP shall include the following components:

I. Monthly projections of revenue to be collected for each source]
II. Monthly projections of expenditure (operating and capital) and revenue for each vote
III. Quarterly projections of service delivery targets and performance indicators for each vote
IV. Ward information for expenditure and service delivery
V. Detailed capital works plan broken down by ward over three years

6. CAPITAL BUDGET

Expenditure of a project shall be included in the capital budget if it meets the asset definition i.e. if it results in an asset being acquired or created and its value exceeds R10 000 and has a useful life in excess of one year.

b) Vehicle replacement shall be done in terms of Council's vehicle replacements policy. The budget for vehicle shall distinguish between replacement and new vehicles. No globular amounts shall be budgeted for vehicle acquisition.

c) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

d) The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.

e) Before approving a capital project, the council must consider :

I. The projected cost of the project over all the ensuing financial years until the project becomes operational,

II. Future operational costs and any revenues, which may arise in respect such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).

f) Before approving the capital budget, the council shall consider:

I. The impact on the present and future operating budgets of the municipality in relation to finance charges to be external loans,

II. Depreciation of fixed assets,

III. Maintenance of fixed assets , and

IV. Any other ordinary operational expenses associated with any item on such capital budget.

g) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded.

h) The capital expenditure shall be funded from the following sources:

6.1) Revenue or Surplus

a) IF any project is to be financed from revenue this financing must be included in the cash budget to raise sufficient cash for the expenditure.

b) If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project.

6.2) External loans

a) External loans can be raised only if it is linked to the financing of an asset ;

b) A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured.

c) The loan redemption period should not exceed the estimated life expectancy of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure;

d) Interest payable on external loans shall be included as a cost in the revenue budget;

e) Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

6.3) Capital Replacement Reserve (CRR)

a) Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve shall be established from the following sources of revenue:

b) Appropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes;

c) Interest on the investments of the CRR, appropriated in terms of the investments policy;

d) Additional amounts appropriated as contributions in each annual or adjustments budget; and

e) Sale of land and profit or loss on the sale of assets.

f) Before any asset can be financed from the CRR the financing must be available within the reverse and available as cash as this fund must be cash backed;

g) If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash;

h) Transfers to the CRR must be budgeted for in the cash budget;

6.4) Grant Funding

a) Non capital expenditure funded form grants

b) Must be budgeted for as part of the revenue budget ;

c) Expenditure must be reimbursed from the funding creditor and transferred to

d) The operating must be budgeted for as such.

e) Capital expenditure must be budgeted for in the capital budget;

f) Interest earned on investments of Conditional Grant Funding shall be capitalised if the conditions state that interest should accumulate in the fund.

g) If there is no condition stated the interest can then be allocated directly to the revenue accounts.

h) Grant funding does not need to be cash backed but cash should be secured before Spending can take place.

7. OPERATING BUDGET

a) The municipality shall budget in each annual and adjustments budget for the Contribution to:

I. Provision for accrued leave entitlements equal to 100% of the accrued leave

II. Entitlement of officials as at 30 June of each financial year,

III. Provision for bad debts in accordance with its rate and tariffs policies

IV. Provision for obsolescence and deterioration of stock in accordance with its stores management policy

V. Depreciation and finance charges shall be charged to or Apportioned only between the departments or votes to which the projects relate.

VI. At least 8% of the operating budget component of each annual and adjustments budget shall be set aside for maintenance.

a) When considering the draft annual budget , council shall consider the impact, Of the proposed increases in rates and services tariffs will have on the monthly municipal accounts of households.

b) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

c) The operating budget shall reflect the impact of the capital component on;

I. Depreciation charges

II. Repairs and maintenance expenses

III. Interest payable on external borrowings

IV. Other operating expenses.

d) The chief financial officer shall ensure that the cost of indigence relief is separately reflected in the appropriate votes.

8. FUNDING OF CAPITAL AND OPERATING BUDGET

a. The annual budget may be financed only from:

I. Realistically expected revenues, based on current and previous collection levels;
II. Cash-backed funds available from previous surpluses where such funds are not
III. required for other purposes; and
IV. Borrowed funds in respect of the capital budget only.

9. UNSPENT FUNDS / ROLL OVER OF BUDGET

a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but expect for funds relating to capital expenditure.
b) Only unspent grant (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year
c) Conditions of the grant fund shall be taken into account in applying for such roll over of funds
d) Application for roll over of funds shall be forwarded to the budget office by the 15th of April each year to be included in next year's budget for adoption buy council in May.
e) Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.

f) No funding for projects funded from the capital Replacement Reverse shall be rolled over to the next budget year except in cases where a commitment has been made 90 days (30 March each year) prior the end of that particular financial year.

g) No unspent operating budget shall be rolled over to the next budget year

10. BUDGET TRANSFERS AND VIREMENTS

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a. Budget transfers within the same vote shall be requested by the Director responsible, recommended by the Chief Financial Officer or such senior delegated official in the Budget and Treasury Department and approved by the Municipal Manager.

b. No budget transfers or virement shall be made to or from salaries except with prior approval of the Chief Financial Officer in consultation with the Director Corporate Services.

c. In case of emergencies situations virements shall be submitted by the Municipal Manager to the Mayor for authorization and be reported by the Mayor to Council at its next meeting.

d. The personnel expenditure may not be increased without prior approval of the Chief Financial Officer.

e. Virements are not permitted in relation to the revenue side of the budget;

f. Budget amendments and virement from capita; budgets to operating budget is not allowed.

g. Virement towards personnel expenditure are not permitted; however virement within personnel expenditure are allowed.

h. Budget transfers or virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e. the management of central insurance funds and insurance claims from separate votes.

i. Virements to or from the following items shall not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT.

j. Virements shall not result in adding new projects to the capital budget;

k. Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework shall not be permitted

l. Directors may utilize a saving in the amount appropriated under a main expenditure category (e.g. Salaries, General Expenses, Repairs & Maintanance, etc) within a vote which is under their control towards the defrayment of excess expenditure under another main expenditure category within the same vote, with the approval of the Chief Financial Officer or such senior delegated official in the Budget & Treasury Department.

m. The amount of a saving under a main expenditure category of a vote that may be transferred to another main expenditure category may not exceed five per cent of the amount appropriated under that main expenditure category.

n. Savings on allocation earmarked for specific operating and capital projects may not be transferred for other purposes except with the approval of the council.

o. The amount of savings under a main expenditure category of a vote that may be transferred to another main expenditure category may not exceed ten percent of the amount appropriated under that main expenditure category.

p. Savings in an amount appropriated for capital expenditure may not be used to defray operational expenditure.

q. Virements between votes other than those indicated above shall be included in the adjustment budget.

r. A quarterly report, indicating all virements affected have to be compiled and submitted to council.

11. ADJUSTMENT BUDGET

Each adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.

a) The chief financial officer shall ensure that the adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the IDP and the budget-related policies where these are indicated.

b) Council may revise its annual budget by means of an adjustments budget at most three times a year or a regulated.

c) The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under –collection of revenues arises or is apparent.

d) The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by council in compliance with item 2 of section 10.

e) The council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Mayor.

f) The council should also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the council.

g) Only the Mayor shall table an adjustments budget. Adjustments budget shall be done at most three times a year after the end of each quarter and be submitted to council in the following months:

i. In October – to adjust funding rolled over from the previous financial year as well as to include additional funding that has become available from external sources,

ii. February – to make into account recommendations from the mid-year budget and performance report tabled to council in January that affect the annual budget

iii. May – final budget adjustment to adjust current year's budget in cases where there is an indication that there will be rolling over of funding to the next financial year.

h) An adjustments budget must contain all of the following:

i. An explanation of how the adjustments affect the approved annual budget;
ii. Appropriate motivations for materials adjustments; and
iii. An explanation of the impact of any increases spending on the current and future annual budget.

i) Any inappropriate surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget, but shall be appropriated to the municipality's capital replacement reverse.

j) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

k) Unauthorised expenses may authorise in an adjustments budget.

l) In regard to unforeseen and unavoidable expenditure, the following apply:

i. The mayor may authorise such expenses in an emergency or other exceptional circumstances;
ii. The municipality may not exceed 3 % of the approved annual budget in respect of such unforeseen and unavoidable expenses;
iii. These expenses must be reported by the mayor to the next Council meeting;
iv. The expenses must be appropriated in an adjustments budget; and
v. Council must pass the adjustments budget within sixty days after the expenses were incurred.

12. BUDGET IMPLEMENTATION

12.1 Monitoring

a. The Accounting officer with the assistance of the chief financial officer, other Directors and Line Managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:

   I. funds are spent in accordance with the budget;
   II. expenses are reduced if expected revenues are less than projected; and
   III. Revenues and expenses are properly monitored.

b. The accounting officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the mayor for consideration and tabling to council.

c. The Accounting officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impeding overspending, together with the steps taken to prevent or rectify these problems.

12.2 Reporting

12.2.1 Monthly budget statements

a. The accounting officer with the assistance of the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

This report must reflect the following:

i. Actual revenues per source, compared with budgeted revenues;

ii. Actual expenses per vote, compared with budgeted expenses;
iii. Actual capital expenditure per vote, compared with budgeted expenses;
iv. Actual borrowings, compared with the borrowings envisaged to fund the capital Budget;
v. The amount of allocations received, compared with the budgeted amount;
vi. Actual expenses against allocations, but excluding expenses in respect of the equitable share;
vii. Explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
viii. The remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget ; and
ix. Projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

b. The report to the National Treasury must be both in electronic format and in a signed Written document.

12.2 Quarterly Reports

a. The mayor must submit to Council within thirty days of the end of each Quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

12.3 Mid-year budget and performance assessment

a. The accounting officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

b. The accounting officer must then submit a report on such assessment to the mayor by 25 January each year and to council, Provincial Treasury and National Treasury by 31 January each year.

c. The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

13) CONCLUSION

The Director Corporate Services must place on the municipality's official website the following:

a. The annual and adjustments budgets and all budget-related documents;
b. All budget-related policies;
c. The integrated development plan;
d. The annual report;
e. All performance agreements;
f. All service delivery agreements;
g. All long-term borrowing contracts;
h. All quarterly and mid-year reports submitted the Council on the implementation of ht e budget and the financial state of affairs of the municipality.

14. POLICY AMMENDMENT

No amendments may be made to any section of this without such amendment(s) first being:

a) Consulted upon with the Chief Financial Officer and the Municipal Managers.
b) Duly approved and signed by the Council.

FETAKGOMO – TUBATSE
LOCAL MUNICIPALITY

VIREMENT POLICY

2018/2019

FETAKGOMO TUBATSE LOCAL MUNICIPALITY

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1. Background and purpose

1.1 Each year, the Municipality produces an annual budget which must be approved by Council. In practice, as the year progresses, circumstances may change so that certain estimates are under-budgeted and others over- budgeted due to unforeseen expenditure (for example, due to the occurrence of disasters or savings). As a result, it becomes necessary transfer funds between votes and line items. It is not practical to refer all transfers between line items within a specific vote to the Council, and as the **Local Government: Municipal Finance management Act ('MFMA")** is largely silent as to such transfers, it is necessary to establish a policy which governs the administrative transfer between line items.

1.2 The purpose of this policy is therefore to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials.

2. Definitions

1. Virement is the process of transferring funds from one line of a budget to another. The term is derived from French word meaning a commercial.
2. Vote: For ease of reference , the definition of "vote" as contained in Section 1 of the MFMA is set out hereunder: ' vote" means-
    a) *One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and*
    b) *Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.*

3. Policy options identification, analysis and assessment

3.1 This policy applies only to transfer between line items within votes of the Municipality's operating budget.

3.2 Section 28(2) (d) of the MFMA provides that "An adjustments budget- may authorize the utilization of projected savings in one vote towards spending in another vote." Transfer between votes may therefore be authorized only by the Council of the Municipality.

3.3 This policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy.

3.4 Any deviation from or adjustment to an annual budget or transfers within a budget which is not specifically permitted under this policy or any other policy may not be performed unless approved by the council through an adjustments budget.

4. Authorization of Virements

A transfer of funds from one line to another under this policy may, subject to the provisions of this policy, be authorized as follows:

4.1 If the amount does not exceed R5000.00, the transfer may be authorized by the Budget Specialist or the Specialist: Treasury of the Municipality after consultation with the Manager: budget & Treasury;

4.2 If the amount exceeds R10 000, but does not exceed R30000, the transfer may be authorised by the Manager: Budget and Treasury after consultation with the Chief Financial Officer;

4.3. If the amount exceeds R30, 000.00 but does not exceed R60, 000.00, the transfer may be authorized by the chief financial officer of the Municipality on the recommendation of the municipal manager.

4.4. Notwithstanding the provisions above, a transfer of funds between cost centres within a particular vote may not be authorized by the Chief Financial officer but may only be authorized by Municipal Manager.

5. Limitations on amount of Virement

5.1 **Notwithstanding the provisions of section 3:**

5.1.1. The total amount transferred from and to line items within a particular vote in any financial year may not exceed 10% of the allocated to that vote;

5.1.2. The total amount transferred from and to line items in the entire budget in any financial year may not exceed 10% of the total operating budget for that year;

5.1.3. The amount of any one transfer of funds between line items may not exceed the sum of R 2 000,000.00.

5.2 A transfer which exceeds, or which would results in the exceeding of, any of the limits referred to in 4.1 above may, however, be performed if the Council, by resolution approves thereof.

6. Virement Permitted only if Savings are projected

A transfer of funds from one line item to another may take place only if savings within the first-mentioned line item are projected, and such transfer may, subject in any event to the provisions of this policy, not exceed the amount of such projected savings.

7. Further Restrictions on Virement

7.1. A transfer of funds between line items shall not be permitted under this policy if the effect thereof would be to:

7.1.1. Contravene any policy of the Municipality; or

7.1.2. Alter the approved outcomes or outputs of an Integrated Development Plan; or

7.1.3. Result in an adjustment to the Service Delivery and Budget Implementation plan.

7.2. If any line item has been specifically ring-fenced, no transfer shall be made under this policy to or from such line item.

7.3. **Transfers of funds may not be made under this policy between or from capital items or projects.**

7.4. To the extent that it is practical to do so, transfers within the first three months and the last month of the financial year should be avoided.

7.5. By definition, transfers may not be under this policy from a line item administered by one department to a line item administered by another.

7.6. In accordance with Section 30 of the MFMA, no transfer of funds may be made from a line item of a budget for a particular year to a line item of a budget for a subsequent year.

7.7. The transfer of fund in any year in accordance with this policy shall not give rise to any expectations of a similar transfer occurring in a subsequent year.

7.8. The approval of any transfer shall not per se constitute authorization for expenditure, and all expenditure resulting from approved transfers must, be carried out in accordance with the Municipality s Supply Chain management Policy

7.9. The transfer of funds must in any event not contravene the provisions of paragraph 4.6 of MFMA Circular 51(Municipal Budget Circular for the 2010/2011 MTREF) issued on 19 February 2010, which provides, inert alia, as follows:

1. Virements should not be permitted in relation to the revenue side of the budget

2. Virement between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separated votes);

3. Virements from capital budget to the operating budget should not be permitted;

4. Virements towards personnel expenditure should not be permitted;

5. Virements to or from the following items should not be permitted: bulk purchases; debt impairment; interest charge; depreciation; grants to individuals, revenue forgone, insurance and VAT;

6. Virement should not result in adding new projects to the capital Budget;

7. Virements of conditional grants funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.

8. Procedure for Virement

8.1 Approval for transfer must be made by the Executive Manager of the concerned department.

8.2 The Budget Office shall prescribe a form on which all proposals for transfer of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

8.2.1 The name of the department concerned;
8.2.2 Descriptions of the line items from and to which the transfer is to be made;
8.2.3 The amount of the proposed transfer;

8.2.4 The cause of the saving in the line item from which the transfer is to be made;
8.2.5 The Justification or motivation for the transfer;
8.2.6 A description of any consequences that such transfer may have for the integrated Development plan or the service Delivery and Budget Implementation Plan.

8.3 Each proposal for a transfer shall be submitted by the Director concerned to the Budget Office and if:

8.3.1 The amount of transfer does not exceed the amount referred to in paragraph 3.1 and 3.2, and the transfer is not between cost centres, the Specialist Budget or manager: Budget & Treasury shall:

8.3.1.1 Approve the proposal, or
8.3.1.2 Reject the proposal; or
8.3.1.3 Refer the proposal to the Chief financial Officer for approval or rejection;

8.3.2 The amount of the transfer does not exceed the amount referred to in paragraph 3.3 but the transfer is between cost centres, or if it falls within the range of amounts referred to in paragraph 3.4, the Chief Financial Officer shall refer the proposal to the Municipal Manager who, after consultation with the Chief Financial Officer, shall approve or reject the proposal;

8.4 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Municipality s Supply Chain Management Policy.

9. Implementing Strategy

The Municipal manager shall submit a report on all transfers made under this policy to the Mayor every quarter (September; December; March; June).

The municipal Manager shall be responsible for the implementation and administration of this policy.

This policy will be effective on the date of adoption by Council.

10. Policy Evaluation and review

The Municipality would evaluate and review the policy on an annual bases and make changes if it is necessary.

FETAKGOMO – TUBATSE
LOCAL MUNICIPALITY

CASH MANAGEMENT AND INVESTMENT POLICY

2018-2019

FETAKGOMO TUBATSE LOCAL MUNICIPALITY
LIM 476

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1. INTRODUCTION

1.1. As custodians of public funds, the Council has an obligation to see to it that cash resources are managed as effectively as possible. Council has a responsibility to invest public funds with great care and are liable to the community in that regard.

1.2. The investment policy should be aimed at gaining the highest possible return without undue risk during those periods when funds are not needed. To bring this about, it is essential to have an effective cash flow management program.

1.3 This policy has been compiled in accordance with:-

1.3.1. Local Government: Municipal Systems Act (MSA), Act no 32 of 2000 as amended;

1.3.2. Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003;

1.3.3. Municipal Investment Regulations for the MFMA published in Government Gazette 27431 dated 1 April 2005; and

1.3.4. MFMA Circular no 49 on Non-payment of Obligations dated 30 June 2009.

1.4 Where this policy is contrary to other legislation, such legislation will override this policy. It is an explicit responsibility of the Municipal Manager to bring such conflicts immediately to the attention of the Council once he/ she becomes aware of such conflicts and to propose changes to this Policy to eliminate such conflicts.

2. DELEGATION OF POWERS

2.1 This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Executive Mayor and the Council and the Municipal Manager. All delegations in terms of this policy must be recorded in writing.

2.2 In terms of section 60 (2) of the MSA, the Council may only delegate to the Municipal Manager the power to make decisions on investments on behalf of the municipality within the municipality's investment policy contemplated in section 13 (2) of the MFMA, 2003.

2.3 According to the MFMA, the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/ her. The Municipal Manager is therefore accountable for all transactions entered into by his/her designates.

2.4 The overall responsibility of investments lies with the Municipal Manager. However, the day to day handling of investments should be the responsibility of the Chief Financial Officer or his/her delegate.

2.5 All investment documents will require two signatories, namely the Municipal Manager and the Chief Financial Officer or their delegated signatories. In this regard, specimen signatures must be signed with all financial institutions with which the Municipality deals.

3. PURPOSE OF THE POLICY

3.1 The purpose of this policy is to ensure that investment of surplus funds forms part of the financial management procedures of the Fetakgomo /Greater Tubatse Municipality and to ensure that prudent investment procedures are applied consistently.

4. EFFECTIVE CASH MANAGEMENT

4.1 Cash Management Plan

4.1.1 Adequate and efficient cash management is one of the main functions of the Chief Financial Officer. It is therefore imperative that a cash management plan be established and adhered to at all time. Sound cash management includes:-

4.1.1.1 Collecting revenue when it is due and banking it promptly;

4.1.1.2 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 as well as within legislative requirements;

4.1.1.3 Avoiding pre-payments for goods or services (i.e. payments in advance of the receipt of goods or services), unless required in terms of contractual arrangements with the supplier;

4.1.1.4 Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates prepared by the Municipality;

4.1.1.5 Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the Municipality are collected and banked promptly;

4.1.1.6 Taking any 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 underutilized assets.

4.1.1.7 Accurately forecasting the Municipality's cash flow requirements; and

4.1.1.8 Timing the inflow and outflow of cash to ensure that significant cash outflows only occur when there is sufficient cash in the Municipality's bank account.

4.2 Efficient Cash Collection Procedures

4.2.1 All monies due to the Municipality must be collected as soon as possible and banked on a daily basis. Cash left in the safe can pose a security risk, could necessitate additional insurance coverage and does not earn any interest. Special deposits should be arranged for the larger amounts received, to make sure that these are banked on the same day they are received.

4.2.2 It is essential that all amounts owed to the Municipality be levied by way of a debit in the applicable debtors system. A well-managed debtor and banking control system is the proper measure for ensuring that monies owed to the Municipality are timeously received and banked.

4.2.3 It is also important to review the debt collection performance by regularly comparing monies presently owed to the Municipality in relation to the total income as well as to the situation in previous financial years, in order to determine whether the debt collection is deteriorating or improving.

4.3 Payment to Creditors

4.3.1 Another aspect of effective cash management is adequate control over the timing and payment of creditors accounts. To reduce bank costs with regard to cheque payments it is essential to limit the payment of creditors to one payment per creditor per month, if possible and to make use of electronic transfer subject to strict control measures.

4.3.2 When considering the time to pay a creditor, proper consideration must be given to the conditions of credit/ terms of payment offered. In cases where a cash discount is offered for early settlement the discount, if the relevant time scale is taken into account, will in most cases be more than any investment return from temporarily investing the funds and if offered, they should be properly considered and utilised.

4.3.3 The normal conditions of credit/ terms of payment offered by suppliers should also be considered and utilised to the full by paying on due date and not earlier. 4.3.4 Due consideration should be given to Sections 65 (2) (e) and (f) of the MFMA which regulates payment periods and compliance by the municipality with all its statutory commitments.

4.3.5 To ensure the prompt payment of all creditors the municipality should adopt the step-by-step approach for payment of creditors outlined in MFMA Circular no 49 as part of its financial management procedure manuals.

4.3.6 In the case of SMME's, payment may be effected at the conclusion of the month or within seven days of the date of receipt of the invoice for services rendered, whichever is the later. The CFO shall approve any such early payment before any payment is effected.

4.3.7 The CFO shall not ordinarily process payments, for accounts received, more than once in each calendar month, such processing to take place on or about the end of the month concerned. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.

4.3.8 Special payments to creditors shall only be made with the express approval of the CFO, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

4.4 Management of Investment in inventories

4.4.1 Cash management can be improved by ensuring that adequate stock control is exercised over all goods in store. The inventory levels in any stores system have to be reviewed continually in the light of annual contracts from local suppliers. Only essential inventory levels are to be maintained in the case of inventory items that are readily available

4.4.2 Inventory items held in stock for a long period of time is an unproductive asset to which an opportunity cost can be attached. In addition, inventory items held in stock for long periods of time could become redundant or obsolete. It is advisable, therefore, to dispose of outdated inventory items on a regular basis, thus recovering at least a part of their costs.

4.5 Investment of Surplus Cash

4.5.1 Before any money can be invested, the Chief Financial Officer, or his/her delegate, has to determine whether there will be surplus funds available. The term of investment should also be investigated in relation to projected cash outflows. Prior to making investments for any fixed term, it is essential that cash flow estimates be compiled for at least the next twelve months.

4.5.2 When compiling monthly cash flow estimates it is essential that the Chief Financial Officer is aware of all expected cash flow and when it is to take place, as well as the timing with regard to cash outflows as far as both the operational and the capital budgets are concerned.

4.5.3 By utilising the available information and expertise, the Chief Financial Officer can assess the timing with regard to the applicable investment policy accordingly. Daily cash flow estimates will provide for daily call investments and investment withdrawals, whereas long-term investments need to be based on projections further into the future.

5. LEGAL REQUIREMENTS

5.1 The way in which surplus funds and other monies of local authorities can be invested, is regulated in terms of the Municipal Finance Management Act.

5.2 The Municipal Finance Management Act requires the Municipality to establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed by the Minister, with the concurrence of the Cabinet member responsible for Local Government.

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

5.3.1 Within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment, in that financial year; and

5.3.2 Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.

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

5.4.1 Within 30 days after the end of that financial year, notify the Auditor-General, in writing, of such bank account, including-

5.4.1.1 the type and number of the account; and

5.4.1.2 the opening and closing balances of that bank account in that financial year.

5.5 Promptly disclose information regarding the account when so requested by the National Treasury or the Auditor-General.

6. INVESTMENT ETHICS

6.1 The following ethics apply when dealing with financial institutions and interested parties:-

6.1.1 The Municipal Manager and in the final instance the Chief Financial Officer is responsible for the investment of funds, and have to steer clear from outside interference,

regardless of whether such interference comes from individual Councillors, agents or any institution.

6.1.2 Under no circumstances may he/ she be held susceptible to coercive measures of any description. No member of staff may accept any gift other than something that is so small that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences him or her in his or her work or is intended to do so.

6.1.3 The Chief Financial Officer or his/her delegate must act according to their own discretion and should report any serious cases, i.e. offers of a personal commission or payment in kind, etc, to the Council. Discretion should be the order of the day, and excessive gifts and hospitality must be refused and avoided.

6.1.4 Interest rates offered should never be divulged to another institution.

7. INVESTMENT PRINCIPLES

7.1 Limited Exposure to a Single Institution

7.1.1 Money, especially large sums of money, must be invested with more than one institution in order to limit the risk exposure of the Municipality.

7.1.2 Not more than 50% of the available funds should be placed with a single institution. In this case, it should be noted that a group of financial institutions would be treated as individual institutions.

7.1.3 Where legislation allows, the Municipality must try to plan the distribution of its investments to cover more than one investment category.

7.2 Risk and Return

7.2.1 It should be accepted as general principle that the larger the return, the greater the risk will be. Investments may not be undertaken with a view to speculation and must be governed by the following investment objectives, in order of priority:-

7.2.1.1 Preservation and safety of principal;

7.2.1.2 Liquidity; and

7.2.1.3 Yield.

7.3 Borrowing Money for Reinvestment

7.3.1 The Municipality shall not borrow any money for investment purposes as this is considered as speculation with public funds. Furthermore, investments should not be made where Council is utilising an overdraft facility unless in accordance with applicable legislation.

7.4 Cash in the Bank

7.4.1 Where money is kept in current accounts, it is possible, as well as being an expedient practice, to bargain for more beneficial rates with regard to deposits, for instance call deposits. These rates can be increased by fixed term investments. The overriding principle is to limit the cash in the current account to the absolute minimum but always taking into account the cash management plan and monthly cash flow estimates.

7.5 Employees and Councillors Benefiting from Investments

7.5.1 No employee or Councillor of the Municipality or their family may under any circumstances whatsoever on his or her own behalf or on behalf of any other person whether directly or indirectly, stipulate, claim or receive any consideration of whatever nature in connection with an investment made.

7.6 Reporting Requirements

7.6.1 There shall at all times be transparency and accountability in respect of every investment made and of the Municipality's investment portfolio. In this regard, the Municipal Manager must within 10 days of the end of each month, as part of the section 71 report required by the MFMA, submit to the Mayor a report describing in accordance with generally recognised accounting practise the investment portfolio of the municipality as at the end of the month. The report must set out at least:-

- The market value of each investment as at the beginning of the reporting period;
- Additions and changes to the investment portfolio during the reporting period;
- The market value of each investment as at the end of the reporting period; and
- Fully accrued interest or yield for the reporting period.

8. GENERAL INVESTMENT PRACTICE

8.1 General Principles

8.1.1 After determining whether cash is available for investment and fixing the maximum term of investment, the Chief Financial Officer has to consider the way in which the investment is to be made. Because rates can vary according to money market perceptions with regard to the term of investment, quotations for fixed deposits should be requested telephonically for a period within the limitations of the maximum term.

8.1.2 All telephonic quotations must be recorded on a schedule and the accepted quotation must be confirmed in writing before the actual investment is made. The same procedure must be followed before any re-investment is made with the same institution.

8.1.3 Where a fixed deposit is made at an institution at a lower rate than other quotations, reasons must be recorded by the Chief Financial Officer and reported to Council as part of the monthly financial report by the Chief Financial Officer.

8.2 Payment of Commission

8.2.1 The financial institution where a fixed deposit is made must issue a certificate with regard to each investment when the investment is made, in which it states that the financial institution has not or will not pay any commission and has not or will not grant any other benefit for obtaining such investment to any employee or Councillor of the Municipality or their family or an agent or go-between, or to any person nominated by such agent or go-between, except where the Council has decided to appoint a go-between/ agent/ consultant

and the fee/ commission has been decided and approved by the Council before any investment is made.

8.4 Registered Financial Institutions

In terms of the Municipal Investment Regulations for the MFMA the Municipality may only invest in the following instruments or investments:-

8.4.1 Securities issued by the National Government;

8.4.2 Listed corporate bonds with an investment grading rating from a nationally or internationally recognized credit rating agency;

8.4.3 Deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);

8.4.4 Deposits with the Public Investment Corporation as contemplated by the Public Investment Commissioners Act, 1984 (Act No 45 of 1984);

8.4.5 Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No 46 of 1984);

8.4.6 Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);

8.4.7 Guaranteed endowment policies with the intention of establishing a sinking fund in order to meet the redemption fund requirements of the Municipality;

8.4.8 Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);

8.4.9 Municipal bonds issued by the Municipality;

8.4.10 Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board; and

8.4.11 Any other instruments or investments in which the Municipality was under a law permitted to invest before the commencement of this policy, provided that such investments shall not extend beyond the date of maturity or redemption thereof.

8.4.12 An investment may only be made if the investment is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

8.5 Growth Related Investments and Long-Term Investments

8.5.1 Only the Council can approve such investments or the disposal thereof. The institution with which the investment is made must guarantee at least the capital portion of long-term investments.

8.5.2 Any fees payable to a broker, agent, or consultant must be clearly stated on the application form and approved by Council before any investment is made.

9. CALL DEPOSITS AND FIXED DEPOSITS SHORTER THAN 12 MONTHS

9.1 Quotations must be solicited from a minimum of three financial institutions, bearing in mind the limits of the term for which it is intended to invest the funds. It is acceptable to ask for quotations telephonically, as rates can generally change regularly on a daily basis and time is a determining factor when investments are made.

9.2 Should one of the institutions offer a better rate for a term, other than what the Municipality had in mind, the other institutions that were approached should also be asked to quote a rate for the same term.

9.3 The person responsible for requesting quotations from institutions should record the name of the institution, the name of the person who gave the telephonic 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 telephonic quotation accepted is essential.

9.4 Once the required number of quotations has been obtained, a decision has to be taken regarding the best terms offered and the institution with which the funds are going to be invested. The best offer is normally accepted, with thorough consideration of investment principles. No attempts may be made to make institutions compete with each other as far as their rates and terms are concerned. If institutions have been asked for a quotation with

regard to a specific package the institution has to be told to offer their best rate in their quotation and that, once the quotation has been given, no further bargaining or discussions would be entered into in that regard.

9.5 The abovementioned procedure should be followed regardless of whether the money is to be invested in a fixed deposit or on a call basis.

9.6 It is essential to make sure that the investment document received is an original document, issued by the approved institution. The investment capital should be paid over only to the institution with which it is to be invested, and not to an agent.

9.7 The Chief Financial Officer should seek professional advice whenever there is a degree of uncertainty regarding investment opportunities that he/ she evaluate.

9.8 The above procedures are not applicable to daily call deposits held with the Municipality's banker. However, the Chief Financial Officer should always ensure that the Municipality is receiving the best possible interest rates offered by the financial institution for this type of investment.

10. CONTROL OVER INVESTMENTS

10.1 Proper records should be kept of all investments made. At the very least the following facts should be indicated:-

- ❑ Institution.
- ❑ Principle investment.
- ❑ Interest rate.
- ❑ Maturity date.
- ❑ Details of growth of the investment, calculated annually at 30 June, including interest capitalised.

10.2 The investment register must be examined on a fortnightly basis to identify investments falling due within the next two weeks. It must then be established as what to do with the funds bearing in mind the cash flow requirements.

10.3 Interest, correctly calculated, should be received timeously, together with any distributable capital.

10.4 Investment documents and certificates should be kept in a fire-resistant safe to which access is controlled.

10.5 The Chief Financial Officer is responsible for ensuring that the invested funds are secure and should there be a measure of risk, such risk must be rated realistically.

11. IMPLEMENTATION AND REVIEW OF THIS POLICY

12.1 This policy shall be implemented once approved by Council. All future investments must be made in accordance with this policy.

12.2 In terms of section 17 (1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.