

# Central Karoo District Municipality



## Budget Related Policies

**2022/2023**

**Tabled 26 May 2022**

*"Working together in development and growth"*



# **CENTRAL KAROO DISTRICT MUNICIPALITY**

## **ANTI-CORRUPTION AND FRAUD PREVENTION POLICY**

**2022/2023**

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## **1. INTRODUCTION**

- 1.1 This policy has been developed as a result of the expressed commitment of the Central Karoo District Municipality to fight fraud and corruption.
- 1.2 The Council is therefore committed to the prevention, detection and investigation of all forms of fraud and corruption whether these are attempted from within or external to the municipality.
- 1.3 Fraud and Corruption undermine the basic values and principles governing public administration as set out in Chapter 10 of the Constitution.
- 1.4 This policy provides guidance to all Staff Members, Councillors of the Municipality, and all external stakeholders to prevent and combat fraud and/or corruption and other acts of theft and maladministration.

## **2. OBJECTIVES**

- 2.1 The primary objective of the policy is to assist the Accounting Officer, Council and Oversight Committees, to create an environment in the Central Karoo District Municipality and its area, that are based on the prevention of fraud and corruption.
- 2.2 To develop and maintain a fraud and corruption prevention hotline that is free to all internal and external stakeholders within Central Karoo District Municipality.
- 2.3 To ensure that Central Karoo District Municipality Municipality's Council, Management and staff members are aware of its responsibilities for identifying exposures to fraudulent and corrupt activities or any other dishonest activities of a similar nature.
- 2.4 To ensure that Central Karoo District Municipality Municipality's Council, Management and staff members are aware of its responsibilities for establishing controls and procedures for preventing such fraudulent and or corrupt activity and/or detecting such fraudulent and corrupt activity when it

occurs.

- 2.5 To provide a suitable environment for employees to report matters that they suspect may concern corrupt conduct, criminal conduct, criminal involvement or serious improper conduct and to provide a commitment from management within council that they will ensure adequate protection to employees in circumstances where they are victimized as a consequence of reporting, or being a witness to, fraudulent and/or corrupt activities.

### **3. LEGESLATIVE FRAMEWORK**

- 3.1 This policy has been compiled in accordance with:

- 3.1.1 The Constitution of the Republic of South Africa;
- 3.1.2 Corruption Act, No. 92 of 1994;
- 3.1.3 Public Protector Act, No. 23 of 1994;
- 3.1.4 Prevention of Organised Crime Act, No. 121 of 1998 (POCA);
- 3.1.5 Protected Disclosures Act, No. 26 of 2000;
- 3.1.6 Financial Intelligence Centre Act, No. 38 of 2001 (FICA);
- 3.1.7 Local Government: Municipal Finance Management Act, No. 56 of 2003 ("MFMA");
- 3.1.8 Local Government: Municipal Supply Chain Management Regulations, No. 27636 of 2005;
- 3.1.9 National Treasury Regulations;
- 3.1.10 Local Government: Municipal Systems Act, No. 32 of 2000 ("MSA");
- 3.1.11 Local Government: Municipal Structures Act, No. 117 of 1998 ("MSA");
- 3.1.12 Prevention and Combating of Corrupt Activities Act, No. 12 of 2004;
- 3.1.13 Protection of Constitutional Democracy against Terrorist and Related Activities Act, No. 33 of 2004 ("POCDATARA");
- 3.1.14 Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, GG 37699, 2014;
- 3.1.15 The Public Service Commission Rules.

#### **4. SCOPE OF THIS POLICY**

4.1 This Policy applies to all forms of fraud and corruption, maladministration or suspected irregularities but not limited to, the following persons or entities:

- 4.1.1 Municipal Councillors;
- 4.1.2 All Staff Members of the Municipality;
- 4.1.3 Service Providers, suppliers, contractors and other providers of goods and services to the Municipality;
- 4.1.4 Any person or entity who stands to benefit from a contract concluded with the municipality; and
- 4.1.5 Members of the public.

4.2 It prohibits all acts of fraud and corruption or any other dishonest activities of a similar nature impacting or having a potential prejudice to the Municipality or members of the public. Any investigation required will be conducted without regard to the suspected wrongdoer's length of service, position/title, seniority or relationship to the Central Karoo District Municipality.

#### **5. ENVIRONMENT AND CULTURE**

5.1 The Central Karoo District Municipality Municipal Council and Management must create an environment and culture that promotes an efficient, effective and transparent local public administration that conforms to constitutional principles. The municipality must be managed responsibly in which employees believe that dishonest acts will be detected and investigated.

5.2 To create this environment and culture, the Council and Management must:

- 5.2.1 Participate in in-house training programmes covering Fraud and Corruption Prevention Policy, Whistle Blowing Policy, Code of Conduct – MSA 32 of 2000 and the Municipal Code of Ethics;
- 5.2.2 Ensure that staff understands that the internal controls are designed and intended to prevent and detect fraud and corruption or any other dishonest activities of a similar nature;

- 5.2.3 Ensure that fraud, corruption, theft and maladministration or any other form of fraud and corruption will not be tolerated;
  - 5.2.4 Encourage staff to report suspected fraud and corruption directly as outlined in the whistle blowing policy to those responsible for investigation without fear of disclosure or retribution;
  - 5.2.5 Require vendors and contractors to agree in writing as a part of the contract process, to abide by the Central Karoo District Municipality policies and procedures, and thereby avoid any conflict of interest.
- 5.3 It is the responsibility of all Staff Members and Councillors of the Municipality to report incidents of any form of fraud and corruption, maladministration or any other dishonest activity. If an employee is not comfortable reporting such matter to his/her immediate Supervisor or Manager, he/she must report the matter to the next level of management, the whistle blowing hotline process or the Municipal Manager.
- 5.4 The Municipal Manager or his delegated officer shall report all instances of prima facie criminal conduct to the appropriate authorities. Due cognizance shall be observed with regard to section 34 (1) (b) of the Prevention and Combatting of Corrupt Activities Act, No. 12 of 2004 on miscellaneous matters, which imposed an obligation to report all acts of corruption, fraud, theft, extortion, forgery, or uttering a forged document. Such acts of dishonesty must be reported to the SAPS, failing which management who are aware of the matter, will be committing a criminal offence. The Municipality shall, however, not only report matters in terms of the above obligation but shall report all criminal conduct irrespective of the value involved.
- 5.5 The efficient application of National Treasury Regulations, issued in terms of the MFMA, the application of policy resolutions of the Municipality with regard to Unauthorized, Irregular, Fruitless and Wasteful Expenditure, and other acts of financial dishonesty is an important duty of any recipient of a complaint.

## **6. ROLES AND RESPONSIBILITIES**

6.1 The following section outlines the fraud and corruption risk management responsibilities associated with different roles within the Municipality:

### **6.1.1 Councillors:**

6.1.1.1 As elected representatives, all members of the Central Karoo District Municipal Council have a duty to the residents of the Central Karoo District Municipality and its staff members to ensure that the Council uses its resources prudently and in accordance with the laws and regulations. As such they are required to operate and adhere to the Council's constitution incorporating the Code of Conduct for Councillors. The Code includes rules regarding relationships, personal interests, gifts and hospitality and confidentiality.

6.1.1.2 Councillors as the political component should however be cautious not to embark on investigations into these types of allegations themselves. They should promote and ensure that all activities are reported in terms of the channels suggested in this policy and should allow administrative investigations to be finalised within legal prescripts.

### **6.1.2 Municipal Manager:**

6.1.2.1 The Municipal Manager bears the ultimate responsibility for fraud and corruption prevention through risk management within the Municipality. This includes not only the coordination of risk assessments, overseeing the investigation of suspected fraud and corruption, reporting of such instances, but should actively promote the culture of sound administration through training and development of all staff.

### **6.1.3      Senior Management:**

6.1.3.1 Senior Management must be committed to eradicating fraud and corruption and ensuring that the Municipality strives to be perceived as ethical in all its dealings with the public and other interested parties. In this regard, senior management, under the guidance of the Municipal Manager, will ensure that it does not become complacent in dealing with fraud and corruption and that it will ensure the Municipality's overall fraud and corruption prevention strategy is reviewed and updated regularly. Furthermore, senior management will ensure that all employees and stakeholders are made aware of its fraud and corruption prevention policy and strategies, also of the whistle blowing policy through various initiatives of awareness and training.

### **6.1.4      Chief Financial Officer:**

6.1.4.1 The Chief Financial Officer has key role in providing advice to Council, Municipal Manager, Staff Members and the public about maladministration, financial impropriety, probity, policy framework and budget issues. The Chief Financial Officer undertakes the statutory responsibility under the Municipal Finance Management Act, No. 56 of 2003, to ensure the proper arrangements for the administration of the Council's financial affairs.

### **6.1.5      Internal Auditor:**

6.1.5.1 The role of the Internal Auditor is to independently review and evaluate the adequacy, efficiency and effectiveness of the internal controls (systems and procedures) within the Central Karoo District Municipality on the fraud and corruption prevention, detection strategies and response to fraud and corruption incidents reported by employees or other external parties.

#### **6.1.6     Public:**

6.1.6.1     The public is required to conduct itself in an ethical and moral way. They should ensure that the accountability of councillors and the administration is promoted by becoming involved in the affairs of council, though not only public and community participation mechanisms, but as a stakeholder ensure that they become the eyes and ears of the Municipal Manager, in this very daunting fight against corruption. Ethics are concerned with human character and conduct and deal with questions of right and wrong, appropriate and inappropriate behaviour and what constitutes good or evil. Ethical conduct is based on a set of principles referred to as values or norms.

### **7.         AWARENESS, TRAINING AND DEVELOPMENT**

7.1         The Accounting Officer and Council recognize that the continuous success of the fraud and corruption prevention policy, and its credibility, will depend largely on the effectiveness of staff throughout the organisation. Continuous awareness campaigns must be rolled out throughout the Central Karoo District Municipality.

7.2         Management therefore will be responsible for ensuring that all staff are properly trained in the procedures that they should follow when undertaking their duties.

7.3         This policy must be included in the Municipal Batho Pele Booklet and published on the Municipal Website.

### **8.         WHISTLE BLOWING**

8.1         The Protected Disclosures Act, No. 26 of 2000 came into effect on 16

February 2001. This Act makes provisions for procedures in terms of which employees and/or community members may disclose information regarding unlawful or irregular conduct by their employers or other employees in the employ of their employers without fear of victimization.

8.2 In order to remain in compliance with the Act, the Municipality has created a whistle blowing policy with the following objectives:

- 8.2.1 To promote the zero tolerance on criminal and other irregular conduct within the Central Karoo District Municipality;
- 8.2.2 To encourage the reporting of matters that may cause financial or non-financial loss and/or damage to the Municipality's reputation;
- 8.2.3 To provide for the appropriate systems and mechanisms for reporting.
- 8.2.4 To ensure that council provides the necessary protection to whistle blowers, by concluding agreements to ensure the latter's protection.

## 9. REPORTING PROCEDURES ON FRAUD AND CORRUPTION

9.1 Consistent with the Auditor General South Africa's guidelines, line managers are responsible for daily operations and for the internal control systems within their organizational responsibility. Where managers do not have the expertise to evaluate internal controls, they should call upon the support from Risk Management and Internal Audit. It is the responsibility of members of the public and employees (including line managers) to report all incidents of fraud, corruption or any other dishonest activities of a similar nature through the following:

- 9.1.1 National Anti-Corruption Hotline: **0800 701 701**;
- 9.1.2 Central Karoo District Municipality: **Tel: +27 23 449 1000**  
(Municipal Manager / Risk Management and Internal Audit);
- 9.1.3 Written complaint to be posted: Municipal Offices, 63 Donkin Street, Private Bag X 560, Beaufort West, 6970, South Africa.

9.2 All complaints implicating the Enterprise Risk Management and Internal Audit

Units should be reported to the Accounting Officer.

## **10. CONFIDENTIALITY AND DISCRETION**

- 10.1 It is the responsibility of all employees, management, councillors and community members of the Municipality to report all incidents of fraud or corruption, or any other dishonest activities of a similar nature.
- 10.2 Any fraudulent or corrupt behaviour must be reported immediately through the mechanisms set out in the Whistle Blowing Policy. All reported incidents received will be acted upon, will be treated with the requisite confidentiality and will not be disclosed or discussed with parties other than those charged with investigation into such reports.

## **11. CONFLICT OF INTERESTS**

- 11.1 Employees and Councillors are compelled to declare and avoid any conflict of interest that might arise which include any financial or other private interest or undertaking that could directly or indirectly compromise the performance of the employees and councillor duties or the reputation of the municipality in its relationship with its stakeholders and community.
- 11.2 Employees and Councillors are compelled to declare their business interests in terms of the disclosure of business interests. For the sake of clarity in respect of the anti-fraud obligations this requirement goes further in that all employees and councillors are required to declare their business interests whether such business interests are registered or not. The declaration is required regardless of the status of such an entity; whether active or dormant
- 11.3 All staff members must apply to the Municipal Manager for the approval on work outside of the Municipality, whether it is of financial or non-financial interests.

- 11.4 The value of gifts received from a single source in any calendar year may not exceed R 350.00 for Staff members and R1000.00 for Councillors. Should the value of the gift, reward or favour be uncertain or disputed, the value will be determined by the relevant Manager / Senior Manager.
- 11.5 Any gift as defined in terms of section 9 of Schedule 1 of the Systems Act, No. 32 of 2000 may not be accepted by any Councillor.
- 11.6 Any gift as defined in terms of section 8 of Schedule 2 of the Systems Act, No. 32 of 2000 may not be accepted by any staff member.
- 11.7 Items received which could be clearly defined as marketing material does not constitute a gift.
- 11.8 Receipt of gifts in any of the following scenarios would prima facie be viewed, to evaluate whether it is in breach of section 9 of Schedule 1 and section 8 of Schedule 2 of the Systems Act and section 47 of the Municipal Supply Chain Management regulations: a) Tenders; b) Contracts; c) Provider and prospective providers as well as receivers and prospective receivers of goods in terms of actions that are clearly enacted to avoid and prevent corruption practices.
- 11.9 The responsibility of granting authority to staff members to accept rewards, gifts or favours above R350.00 rests with the Senior Managers of each directorate and the Municipal Manager (or his nominee) to the Senior Managers.
- 11.10 The responsibility of granting authority to the Municipal Manager to accept rewards, gifts or favours above R350.00 rests with the Executive Mayor.
- 11.11 The responsibility of granting authority to councillors to accept rewards, gifts or favours above R350.00 rests with the Speaker.
- 11.12 Councillors must report gifts received by completing and submitting the "Declaration of Rewards, Gifts and Favour Form" to the Office of the Speaker (Speaker).

- 11.13 Staff members must report rewards; gifts and favour received by completing and submitting the "Declaration of Rewards, Gifts and Favour Form" to his/her Senior Manager.
- 11.1.14 The Senior Managers must report rewards, gifts and favours received by Staff members to the Office of the Municipal Manager (Enterprise Risk Management).
- 11.1.15 The office of the Municipal Manager (Enterprise Risk Management Unit) shall provide details of all rewards, gifts and favours received by Councillors and Staff members and authorized by the Executive Mayor, Speaker or Municipal Manager to the Risk and Ethics Management Committee (who is responsible for ethics management), Audit Committee (Oversight) on a quarterly basis and the Office of the Speaker (Council).
- 11.1.16 A register will be kept and maintained in the office of the Municipal Manager (Enterprise Risk Management Unit).

**12. PREVENTION CONTROLS, DETECTION MECHANISMS AND INVESTIGATION**

- 12.1 All Managers are responsible for the detection, prevention and investigation of fraud and corruption or any dishonest activities of a similar nature, within their areas of responsibility. The responsibility to conduct investigations relating to the actions listed in this policy resides with Council, the Municipal Manager and the Senior Managers within the Municipality who have the advisory and supporting assistance from departments and external state agencies which may include any of the following:

- 12.1.1 Internal and external audit services;
- 12.1.2 State Attorney;
- 12.1.3 External investigating agencies, for example the SAPS, where matters fall within their mandate; d) External consultants, for example Forensic Accounting Consultants;
- 12.1.4 Office of the National Director of Public Prosecutions;
- 12.1.5 Special Investigating Units established under any law;

- 12.1.6 The Public Sector;
- 12.1.7 Western Cape Provincial Treasury;
- 12.1.8 Western Cape Department of Local Government;
- 12.1.9 Any other authority as may be determined by Council.

12.2 The Human Resources Unit must provide adequately qualified prosecutors (initiators) and presiding officers to deal with disciplinary enquiries relating to serious misconduct.

12.3 For the purpose of this policy "serious misconduct" means:

- 12.3.1 Theft, unauthorized possession of or malicious damage to the employer's property;
- 12.3.2 Any act of gross dishonesty;
- 12.3.3 Gross negligence;
- 12.3.4 Wrongful disclosure of privileged information;
- 12.3.5 Any act of fraud, corruption or bribery;
- 12.3.6 Any other act of misconduct that would constitute just cause for dismissal for a first offence.

### 13. FORMS OF FRAUD AND CORRUPTION

13.1 The following are examples of different types of corruption:

- 13.1.1 **Bribery:** Bribery involves the promise, offering or giving of a benefit that improperly affects the actions or decisions of public servants.
- 13.1.2 **Embezzlement:** This involves theft of resources by persons entrusted with the authority and control of such resources.
- 13.1.3 **Fraud:** This involves any conduct or behaviour of which a dishonest representation and/or appropriation forms an element.
- 13.1.4 **Abuse of Power:** This involves a public servant using his or her vested authority to improperly benefit another public servant, person or entity (or using vested authority to improperly discriminate against another public servant, person or entity).

- 13.1.5      **Conflict of Interest:**      The failure by a public servant to act or to consciously fail to act on a matter where the public servant has an interest or another person or entity that has some form of relationship with the public servant has an interest.
- 13.1.6      **Abuse of Privileged Information:**      This involves the use, by a public servant of privileged information and knowledge that a public servant possesses as a result of his/ her office to provide unfair advantage to another person or entity to obtain a benefit.
- 13.1.7      **Favouritism:**      The provision of services and/or resources, according to personal affiliation, (for example cultural or religious) of a public servant.
- 13.1.8      **Nepotism:**      A public servant ensuring that family members are appointed to public service positions or that family members receive contracts from the state is regarded as nepotism. These manifestations are by no means exhaustive as corruption appears in many forms and it is virtually impossible to list all of these. It is the responsibility of Management to report some form of serious misconducts to the South African Police Services. The South African Police Service is empowered by s205 of the 1996 Constitution to prevent, combat and investigate crime, to maintain public order, to protect and secure the inhabitants of the Republic of South Africa and their property, and to uphold and enforce the law.

#### **14.      REVIEW AND APPROVAL OF THE POLICY**

- 14.1      The Municipal Council must review this Policy on a yearly basis and determine its adequacy and effectiveness for current circumstances.



# **CENTRAL KAROO DISTRICT MUNICIPALITY**

## **ASSET MANAGEMENT POLICY**

**2022/2023**

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## 1. INTRODUCTION

- 1.1 This Policy for the management of assets has been designed to assist management and officials of the Central Karoo District Municipality (CKDM) with the description of management procedures for Property, Plant and Equipment, Investment Property, Agricultural Assets, Heritage Assets and Intangible Assets. It also should assist with the capacity to differentiate between activities, which are acceptable in terms of general authorization, supervisory responsibilities and limits of authority to the management of assets and functions of the organisation.
- 1.2 This Policy will provide certainty with respect to the handling of asset management procedures undertaken within the organization and will ensure that management and employees understand their respective responsibilities and duties.
- 1.3 The purpose of the Asset Management Policy is to govern the management of assets owned by CKDM (both operationally and financially) to ensure that they are managed, controlled, safeguarded and used in an efficient and effective manner.
- 1.4 This Policy replaces all asset management procedures/instructions and memoranda that have been previously issued.
- 1.5 Non-compliance with this policy will result in the following of disciplinary procedures in terms of the Human Resource policy and procedures of the Municipality.
- 1.6 **For the purpose of this policy, assets exclude inventory and monetary assets such as debtors.**

## 2. OBJECTIVES OF THIS POLICY

- 2.1 The objective of this policy is to ensure that assets of the Municipality are properly managed and accounted for by:
- 2.1.1 The accurate recording of essential asset information;
  - 2.1.2 The accurate recording of asset movements;
  - 2.1.3 Exercising strict physical controls over all assets;
  - 2.1.4 Treating the assets correctly in the Municipality's financial statements;
  - 2.1.5 Providing accurate and meaningful management information;
  - 2.1.6 Compliance with the Council's accounting policies and Generally Recognised Accounting Practices;
  - 2.1.7 Adequate insuring of assets;
  - 2.1.8 Maintenance of Council's assets;
  - 2.1.9 Ensuring that managers are aware of their responsibilities with regard to the assets;
  - 2.1.10 Setting out the standards of management, recording and internal controls so as to safeguard the assets against inappropriate utilisation or loss;
  - 2.1.11 To ensure accuracy of the depreciation charge; and
  - 2.1.12 To ensure a formal set of procedures that can be implemented to ensure that fixed assets and financial policies are achieved and are in compliance with the MFMA.

## 3. DEFINITIONS

- 3.1 **"Accounting Officer"** means the municipal manager appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of section 60 of the Local Government: Municipal Systems Act 2000 (Act No. 32 of 2000);

3.2	<b>“Active Market”</b>	is a market where all the following circumstances must be present: <ul style="list-style-type: none"> <li>• The assets which are traded in the market are homogenous;</li> <li>• A willing buyer and willing seller normally exists at any given time; and</li> <li>• Prices are available to the public.</li> </ul>
3.3	<b>“Agricultural Activity”</b>	is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets;
3.4	<b>“Agricultural Produce”</b>	is the harvested product of the entity’s biological assets;
3.5	<b>“Amortisation”</b>	is the systematic allocation of the depreciable amount of an intangible asset over its useful life;
3.6	<b>“Assets”</b>	are resources controlled by the municipality as a result of past events and from which future economic benefit or service potential are expected to flow. However, for the purpose of this policy exclude inventory and other monetary assets;
3.7	<b>“Asset Management”</b>	encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets;
3.8	<b>“Asset Manager”</b>	is any official to whom the responsibility has been delegated and who needs to account for the control, use, physical and financial management of the Municipality’s assets, in terms of the municipality’s standards, policies and procedures

		and relevant guidelines;
3.9	<b>“Asset Register”</b>	is the recording of the information on each asset which supports the effective financial and technical management of the assets and which complies with statutory requirements;
3.10	<b>“A Biological Asset”</b>	is a living animal or plant;
3.11	<b>“Biological Transformation”</b>	comprises the processes of growth, degeneration, production and procreation that cause qualitative or quantitative changes to a biological asset;
3.12	<b>“Carrying Amount”</b>	is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses;
3.13	<b>“Chief Financial Officer”</b>	means an officer of a municipality designated by the municipal manager to be administratively in charge of the budgetary and treasury functions;
3.14	<b>“Class of Property, plant and Equipment”</b>	means a grouping of assets of a similar nature or function in a municipality’s operations that is shown as a single item for the purpose of disclosure in the financial statements;
3.15	<b>“Commercial Service”</b>	means a service other than a municipal service: <ul style="list-style-type: none"> <li>• Provided by a private sector party or organ of state to or for a municipality or municipal entity on a commercial basis; and</li> <li>• Purchased by a municipality or municipal entity through the supply chain management policy.</li> </ul>

3.16	<b>“Community Assets”</b>	are defined as any asset that contributes to the community’s well-being. Examples are parks, libraries and fire stations;
3.17	<b>“Cost”</b>	is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of Standards of GRAP;
3.18	<b>“Depreciable Amount”</b>	is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value;
3.19	<b>“Depreciation”</b>	is the systematic allocation of the depreciable amount of an asset over its useful life;
3.20	<b>“Disposal”</b>	in relation to capital assets, includes: <ul style="list-style-type: none"> <li>• The deconstruction, demolition or destruction, of the capital assets; or</li> <li>• Any other process that leads to a loss of ownership of capital assets, excluding transfer of ownership.</li> </ul>
3.21	<b>“Disposal Management System”</b>	means the system envisioned in regulation 40 of the Municipal Supply Chain Management Regulations, published in General Notice Nr. 868 of 2005;
3.22	<b>“Fair Value”</b>	is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction;

3.23	<b>“GRAP”</b>	is Standards of Generally Recognised Accounting Practice;
3.24	<b>“Head of Department/ Senior Manager”</b>	means a manager referred to in Section 56 of the Municipal Systems Act;
3.25	<b>“Heritage Assets”</b>	are defined as culturally significant resources. Examples are works of art, historical buildings and statues;
3.26	<b>“Historical Cost”</b>	means the original purchase price or the cost of acquisition of capital assets at the time of acquiring the asset;
3.27	<b>“Impairment Loss of a Cash Generating Asset”</b>	is the amount by which the carrying amount of an asset exceeds its recoverable amount;
3.28	<b>“Impairment loss of a Non-Cash Generating Asset”</b>	is the amount by which the carrying amount of an asset exceeds its recoverable service amount;
3.29	<b>“Improvement/ Rehabilitation”</b>	is an improvement or change to an existing asset to increase its original service potential, for example useful lifetime, capacity, quality and/or functionality;
3.30	<b>“Infrastructure Assets”</b>	are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks;
3.31	<b>“Intangible Assets”</b>	are identifiable non-monetary assets without physical substance;
3.32	<b>“Investment</b>	are defined as property (land or a building-or part

	<b>Properties”</b>	<p>of a building-or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:</p> <ul style="list-style-type: none"> <li>• use in the production and supply of goods or services or for administrative purposes; or</li> <li>• sale in the ordinary course of business.</li> </ul>
3.33	<b>“Manager”</b>	means each senior manager and each municipal official exercising financial management responsibilities;
3.34	<b>“Municipal Valuation”</b>	means the official valuation of an immovable property as reflected in the Municipality's valuation roll;
3.35	<b>“Municipality”</b>	means the Central Karoo District Municipality;
3.36	<b>“Other Assets”</b>	are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings;
3.37	<b>“Property, Plant and Equipment (PPE)”</b>	<p>are tangible assets that:</p> <ul style="list-style-type: none"> <li>• are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and</li> <li>• are expected to be used during more than one period.</li> </ul>
3.38	<b>“Realisable Value”</b>	means the amount of cash or cash equivalents that currently can be obtained by transferring the

capital assets, less the estimated costs of completion and the estimated costs of transferring the assets;

3.39        **“Recoverable Amount”**    is the higher of a cash-generating asset’s net selling price and its future value in use;

3.40        **“Recoverable Service Amount”**    is the higher of a non-cash-generating asset’s fair value less costs to sell and its future value in use;

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

3.42        **“Right to Utilise, Control and Manage”**    means the right to use, control and manage the capital asset for a period of longer than one calendar month, without giving up ownership of the asset. In other words, where the granting of such a right does not lead to the transfer or permanent disposal of the asset, for example when a right is obtained through a rental contract, rental or rental agreement;

3.43        **“Senior Manager”**                is a manager as referred to in Section 56 of the Municipal Systems Act (MSA) who is somebody that reports directly to the Municipal Manager;

3.44        **“Service Provider”**                •    with regards to a municipal service, means a private sector party or organ of state appointed by the municipality, in

terms of Section 8 of the MSA, to perform a municipal service accordance with the Act; or

- with regards to a commercial service, means a private sector party or organ of state appointed by the municipality or municipal entity in terms of the supply chain management policy to perform a commercial service to or for the municipality as an independent contractor.

3.45      **“Supply Chain Management Policy”** means the supply chain management policy of the municipality or municipal entity as required in terms of Chapter 11 of the Act;

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

3.47      **“Transfer”** means with regards to a capital assets or sub-assets the transfer of ownership as a result of sales and other transactions;

3.48      **“Useful life”** is:

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

#### 4.      **STATUTORY AND REGULATORY FRAMEWORK**

4.1 The statutory framework of this policy is:

- 4.1.1 The Constitution of the Republic of South Africa;
- 4.1.2 Local Government: Municipal Systems Act, 32 of 2000;
- 4.1.3 Local Government: Municipal Finance Management Act, 56 of 2003;
- 4.1.4 Regulation No. 878 of 2008;
- 4.1.5 Municipal Asset Transfer Regulations No. 31346 of 2008;
- 4.1.6 Municipal Regulations on Standard Chart of Accounts No. 37577 of 2014;
- 4.1.7 Generally Recognised Accounting Practice (GRAP); and
- 4.1.8 Supply Chain Management Regulations No. 868 of 2005.

4.2 This document constitutes a policy statement and shall not take precedence over the standards specified by the Accounting Standards Board. The relevant accounting standards include:

- 4.2.1 **GRAP 1** - Presentation of Financial Statements;
- 4.2.2 **GRAP 13** - Leases;
- 4.2.3 **GRAP 16** - Investment Property;
- 4.2.4 **GRAP 17** - Property, Plant and Equipment;
- 4.2.5 **GRAP 21** - Impairment of Non-Cash Generating Assets;
- 4.2.6 **GRAP 26** - Impairment of Cash Generating Assets;
- 4.2.7 **GRAP 27** - Agriculture;
- 4.2.8 **GRAP 31** - Intangible Assets;
- 4.2.9 **GRAP 100** - Discontinued Operations; and
- 4.2.10 **GRAP 103** - Heritage Assets.

4.3 Other relevant accounting standards:

- 4.3.1 **GRAP 11** - Construction Contracts;
- 4.3.2 **GRAP 12** - Inventory.

4.4 The following policies, processes and procedures are recommended to be

adopted to ensure an effective and efficient asset management system:

- 4.4.1 Supply Chain Management Policy;
- 4.4.2 Delegation of Powers;
- 4.4.3 Cash Management and Investment Policy;
- 4.4.4 Infrastructure Procurement Policy.

## **5. BACKGROUND**

5.1 The utilization and management of property, plant and equipment, investment property, intangible assets and agricultural assets is the prime mechanism by which the Municipality can fulfil its constitutional mandates for:

- 5.1.1 Delivery of sustainable services;
- 5.1.2 Social and economic development;
- 5.1.3 Promoting safe and healthy environments; and
- 5.1.4 Fulfilling the basic needs of the community.

5.2 As trustees on behalf of the local community, the Municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in assets.

5.3 The policy for the management of assets deals with the Municipal rules required to ensure the enforcement of appropriate stewardship of assets. Stewardship has two components being the:

- 5.3.1 Financial Administration by the Chief Financial Officer; and
- 5.3.2 Physical administration by the relevant managers.

5.4 Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposals by local government.

5.5 Accounting standards have been approved by the Accounting Standards

Board to ensure the appropriate financial treatment for property, plant and equipment, investment property, intangible assets and agricultural assets. The requirements of these new accounting standards include:

- 5.5.1 The compilation of asset registers covering all assets controlled by the Municipality;
- 5.5.2 Accounting treatment for the acquisition, disposal, recording and depreciation / amortisation of assets;
- 5.5.3 The standards to which financial records must be maintained to comply with the new accounting standards.

## **6. DELEGATION OF POWERS**

- 6.1 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.
- 6.2 In accordance with the Local Government: Municipal Finance Management Act (Act 56 of 2003) (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.
- 6.3 The overall responsibility of asset management lies with the Municipal Manager. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing.

## **7. RESPONSIBILITY**

## **7.1        Municipal Manager:**

7.1.1        The municipal manager of a municipality is responsible for the management of the assets of that municipality in terms of section 63 of the MFMA which prescribes the following:

- The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality;
- The Municipality's assets are valued in accordance with standards of Generally Recognized Accounting Practice (GRAP);
- The Municipality has and maintains a system of internal control of assets, including an asset register;
- Senior managers and their teams comply with this policy.

## **7.2        Chief Financial Officer:**

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

7.2.2        No amendments, delegations to the asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

7.2.3        The Chief Financial Officer is responsible to the Municipal Manager to ensure that the financial investment in the Municipality's assets is safeguarded and maintained. He/she may delegate or otherwise assign responsibility for performing these functions but he/she will remain accountable for ensuring that these activities are performed. He/she must ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the Municipality assigned to him/her are utilized effectively, efficiently, economically and transparently;

- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- The systems, processes and registers required to substantiate the financial values of the Municipality's assets are maintained to standards sufficient to satisfy the requirements of effective management;
- Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions;
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.

### 7.3 **Senior Managers:**

#### 7.3.1 The Senior Managers must ensure that:

- Appropriate systems of physical management and control are established and carried out for assets in their area of responsibility;
- The Municipal resources assigned to them are utilized effectively, efficiently, economically and transparently
- The assets under their control must be properly safeguarded and maintained to the required level and that risk management systems must exist and be maintained;
- Any unauthorized, irregular or fruitless or wasteful utilization and losses resulting from criminal or negligent conduct are prevented;
- Their management systems and controls can provide an accurate, reliable and up to date account of assets under their control;
- They are able to justify that their plans, budgets, purchasing, maintenance and disposal decisions for assets optimally achieve the Municipality's strategic objectives;

- The purchase of assets complies with all municipal policies and procedures;
- All moveable property, plant and equipment is duly processed and identified and inspected as being in order before it is received into their stewardship;
- All moveable assets received into their stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to these assets and regular stock takes to ensure that no losses have occurred. Any known losses should be immediately reported to the Chief Financial Officer;
- Assets are appropriately utilized for the purpose for which the municipality acquired them.

7.3.2 The senior managers may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring that these activities are performed.

## **8. FINANCIAL MANAGEMENT**

### **8.1 Pre-Acquisition Planning:**

8.1.1 Before a capital project is included in the budget for approval, the Manager must demonstrate and the Council must consider:

- The projected cost over all the financial years until the project is operational;
- The future operational costs and revenue of the project, including tax and tariff implications;
- The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
- The inclusion of this capital project in the integrated development plan and future budgets: and

- Alternatives to this capital purchase.

8.1.2 The Chief Financial Officer is accountable to ensure the Manager receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

## **8.2 Approval to Acquire Property, Plant and Equipment:**

8.2.1 Expenditure can only be incurred on a capital project if:

- The funds have been appropriated in the capital budget;
- The project, including the total cost and funding sources, has been approved by Council;
- The Chief Financial Officer confirms that funding is available for that specific project;
- Any contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed; and
- It complies with the supply chain management policy.

8.2.2 Approval for the acquisition of assets will occur in terms of the Municipality's delegations and powers and payment for such assets shall be made in terms of the Municipality's financial policies and regulations.

## **8.3 Funding of Capital Projects:**

8.3.1 Within the municipality's on-going financial, legislative and administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan. The acquisition of assets will not be funded over a period longer than the useful life of that asset.

8.3.2 Funding source types can include the following:

- External loans;
- Government grants;

- Public contributions and donations;
- Finance leases; and
- Surplus Cash.

#### **8.4      Disposal of Assets:**

- 8.4.1      In terms of Section 14 of the MFMA the municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an asset needed to provide the minimum level of basic municipal services, unless such asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the minimum level of basic municipal services is not compromised as a result of the disposal of the asset.
- 8.4.2      The municipality may transfer ownership or otherwise dispose of an asset, other than one contemplated above or moveable assets, having an estimated carrying value of more than R 1 000, but only after the Council, in a meeting open to the public:
- Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and
  - Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- 8.4.3      The decision that a specific asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset had been sold, transferred or otherwise disposed of.
- 8.4.4      The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality and the Asset Transfer Regulations.

- 8.4.5 The transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.
- 8.4.6 Every manager shall report in writing to the Chief Financial Officer on 30 April of each financial year on all assets controlled or used by the department concerned which such manager wishes to alienate by public auction or public tender.
- 8.4.7 The Chief Financial Officer shall thereafter consolidate the requests received from the various departments and shall promptly report such consolidated information to the Council or the Municipal Manager of the municipality, as the case may be, recommending the process of alienation to be adopted.
- 8.4.8 Once assets are alienated, the Chief Financial Officer shall in terms of GRAP adjust the asset register for the current year and shall, for the ensuing year, delete the asset from the accounting records and the asset register.
- 8.4.9 If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the Statement of Financial Performance of the department or vote concerned.
- 8.4.10 If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the Statement of Financial Performance of the department or vote concerned.
- 8.4.11 All assets, other than computer equipment, earmarked for write-off must be sold on a public auction or tender once the following steps have been followed:
- a notice was published in the local press of the municipality's intention to sell the asset;
  - in the case of printing equipment, the provincial department of

education is first approached to determine within 30 days if any of the local schools are interested in the equipment;

- in the case where no such schools are interested in the printing equipment it must be donated to non-profit organisations who will have to motivate why the equipment must be donated to them;
- In the case of computer equipment, such equipment shall be destroyed in the presence of an external auditor;
- in the case of an public auction an independent auctioneer was appointed to hold the auction; and
- in the case of a public tender the prescribed tender procedures were followed.

#### **8.5        Loss, Theft, Destruction or Impairment of Assets:**

- 8.5.1        Every manager shall ensure that any incident of loss, theft, destruction, or material impairment of any asset controlled or used by the department in question is promptly reported in writing to the Chief Financial Officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Services.

### **9.        INTERNAL CONTROLS**

#### **9.1        Establishment and Management of the Register of Assets:**

- 9.1.1        The Chief Financial Officer will establish and maintain the Register containing key financial data on each item of Property, Plant or Equipment, Investment Property, Intangible Assets and Agricultural Assets that satisfies the criterion for recognition.
- 9.1.2        The Asset Manager is responsible for establishing and maintaining any additional register or database required to demonstrate their physical management of their assets.
- 9.1.3        The asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of GRAP and any other accounting requirements which may be prescribed.

## 9.2

### **Contents of the Asset Register:**

#### 9.2.1

- A unique identification number;
- GIS identification number in the case of infrastructure;
- A short but meaningful description of each asset;
- mSCOA item;
- Municipal Standard Classification;
- Municipal Vote;
- mSCOA regional indicator;
- Date of acquisition of the date that asset was ready to use;
- Location of the asset;
- The responsible manager and departments or votes within which the asset will be used;
- The title deed number, in the case of fixed property;
- The erf number, in the case of fixed property;
- The measurement base used (Cost or Fair Value);
- The depreciation methods used;
- The original useful life;
- The revised useful life;
- The revised residual value of the asset;
- Depreciation charged for the period;
- The accumulated depreciation;
- The gross carrying amount;
- Date of acquisition or brought into use;
- Date of disposal (if applicable);
- Increases or decreases resulting from revaluations (if applicable);
- Date of last revaluation;
- Method of calculating recoverable amount (when impairment tests are required in terms of GRAP);
- Any restrictions on title to the asset;
- Location;
- Source of finance;

- Condition of the asset;
- Method of calculating the recoverable amount (when impairment losses are required in terms of GRAP);
- Strategic purpose and if it is required to provide minimum basic services;
- Responsible Functional Manager/ department/ vote;
- Impairment losses incurred during the financial year (and the reversal of such losses, where applicable); and
- Whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements.

9.2.2 All managers under whose control any fixed asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the fixed asset register and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.

9.2.3 An asset shall be recorded in the assets 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 capitalised as a fixed asset. An asset shall remain in the asset register for as long as it is in physical existence. The fact that an asset has been fully depreciated shall not in itself be a reason for deleting it from the register.

9.2.4 Controls relating to the asset register should be sufficient to provide Senior Managers with an accurate, reliable and up-to-date account of assets under their control, in line with the standards specified by the Chief Financial Officer and as required by relevant statutes.

9.2.5 These controls will include:

- Details of the physical management;
- The recording of all acquisitions, assignments, transfers, losses and disposals of assets;
- Regular stock-takes; and
- Systems audits to confirm the accuracy of the records.

9.2.6 The Chief Financial Officer will establish a system to ensure that each moveable asset bears a unique identification number/ barcode which shall be recorded in the asset register.

9.2.7 Senior managers shall ensure that the asset identification system approved for use by the municipality is scrupulously applied to all assets controlled or used by the department in question.

## **10. PHYSICAL CONTROLS AND MANAGEMENT**

### **10.1 Responsibilities of the Asset Control Section:**

10.1.1 The Asset Control Section will undertake an annual stock take of assets as part of the annual reporting process.

### **10.2 The Date of Acquisition:**

10.2.1 The date of acquisition of assets is deemed to be the time when legal title and control passes to the municipality.

10.2.2 This may vary for different categories of assets but will usually be the point of time when an asset is brought into use or when final payment for that item is approved.

### **10.3 Transfers Between Managers:**

#### **10.3.1 Permanent Transfers to Another Manager:**

- A Manager may transfer an asset under his control provided that another Senior Manager agrees in writing to accept responsibility for that asset. Copies of such approvals must be submitted to the Financial Services Department.
- The Financial Services Department must appropriately amend the Asset register by recording all approved transfers.
- The Manager to whom the asset is transferred must assume

accountability for the transferred asset from a date specified in the written communication referred to above.

- A Manager must ensure that assets are appropriately safeguarded for loss, damage or misuse wherever they are located. Safeguarding includes ensuring reasonable physical restrictions.

#### 10.3.2 Relocation or Reassignment of Assets

- A Manager must advise the Chief Financial Officer, in writing, whenever an asset is relocated or reassigned from the location (or base) or cost centre as recorded in the Asset Register.
- In the case of assets such as vehicles being utilized in the normal course of operations away from its base such reporting is not necessary.

#### 10.4 Verification of Assets:

10.4.1 Every manager shall at least annually undertake a complete physical verification of all assets under his control.

10.4.2 The results of such verification shall be reported to the Chief Financial Officer in the format as required by the Chief Financial Officer.

10.4.3 The annual verification should be conducted as close to year-end as possible with the verification report reaching the Chief Financial Officer by not later than 30th June.

#### 10.5 Insurance of Assets:

10.5.1 The Chief Financial Officer shall ensure that all movable assets should at least be covered against fire and theft and municipal buildings and infrastructure assets should as far as possible be covered against fire and allied perils.

## **11. MANAGEMENT AND OPERATION OF ASSETS**

### **11.1 Accountability to Manage Assets:**

11.1 Each Senior Manager is accountable to ensure that municipal resources assigned to him are utilized effectively, efficiently, economically and transparently. This will entail:

- Developing appropriate management systems, procedures, processes and controls for managing assets;
- Providing accurate, reliable and up to date account of assets under their control; and
- The development and motivation of relevant strategic asset management plans and operational budgets that optimally achieve the Municipality's strategic objectives.

### **11.2 Strategic Asset Management Plan:**

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

- Alignment with the Integrated Development Plan;
- Operational guidelines;
- Performance monitoring including benchmarking indicators and measurement;
- Maintenance programmes;
- Renewal, refurbishment and replacements plans;
- Disposal and Rehabilitation Plans;
- Operational, financial and capital support requirements; and
- Risk mitigation plans including insurance strategies.

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

### **11.3      Reporting on Impeding Issues:**

- 11.3.1      Each Functional Manager shall report to the Municipal Manager on issues that will significantly impede the assets capacity to provide the required level of service or economic benefit.

## **12.      CLASSIFICATIONS, AGGREGATIONS AND COMPONENTS**

### **12.1      Classification of Assets:**

- 12.1.1      Any asset recognized as an asset under this policy will be classified according to nationally recognized categories.
- 12.1.2      These categories have been specified by the Accounting Standards Board.
- 12.1.3      All assets should be classified under the following headings in the Asset Register:

<b>Property, Plant and Equipment</b>	<ul style="list-style-type: none"><li>• Land not held as investment assets</li><li>• Infrastructure assets (assets which are part of a network of similar assets)</li><li>• Community assets (assets contributing to the general well-being of the community)</li><li>• Other assets (ordinary operational assets)</li></ul> <p>Save for land and buildings other assets shall be classified under the following headings:</p> <ul style="list-style-type: none"><li>• Computer equipment;</li><li>• Office equipment;</li><li>• Furniture and fittings;</li><li>• Radio equipment;</li><li>• Plant and machinery;</li><li>• Motor Vehicles; and</li><li>• Emergency equipment.</li></ul>
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Investment Property	
Intangible Assets	
Agricultural Assets	
Heritage Assets	

## 12.2 Optional Treatment for Major Components:

- 12.2.1 A Manager must, with agreement of the Chief Financial Officer, treat major components of an item of property plant or equipment as a separate asset for the purposes of this policy.
- 12.2.2 These major components may be defined by its physical parameters (e.g. a reservoir or roof) or its financial parameters.
- 12.2.3 In agreeing to these treatments, the Manager must be satisfied that these components:
- Have significantly a different useful life or usage pattern to the main asset;
  - Align with the asset management plans;
  - Justify the costs of separate identification;
  - Have probable future economic benefits or potential service delivery associated with the asset which will flow to the municipality;
  - Is such that the cost of the asset to the municipality can be measured reliably;
  - Is such that the municipality has control over the asset; and
  - Is such that the asset is expected to be used during more than one financial year.
- 12.2.4 All such decisions and agreements will be confirmed before the beginning of the financial year and submitted for approval with the budget. Any amendments will only be permitted as part of a budget review (i.e. once or twice during the year).

- 12.2.5 Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it was a separate asset.

### **13. ACCOUNTING TREATMENT OF ASSETS:**

#### **13.1 Recognition of Assets:**

- 13.1 An item of property, plant or equipment will be recognized as an asset when:

- It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality;
- The cost of the asset to the municipality can be measured reliably;
- The municipality has control over the asset; and
- The asset is expected to be used during more than one financial year.

#### **13.2 Initial Measurement:**

- 13.2.1 An item of property, plant or equipment that qualifies for recognition as an asset should be initially measured at its "cost of acquisition".

- 13.2.2 The "cost of acquisition" usually includes the following:

- Cost price;
- Delivery costs;
- Installation costs;
- Professional fees for architects and engineers;
- Site development costs;
- Contractor fees;
- Import duties;
- Non-refundable taxes (Ex VAT on passenger vehicles).

### **13.3      Donations or Exchanges:**

- 13.1      Where an item of property plant or equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the asset register.

### **13.4      Carrying Amount of Assets:**

- 13.4.1    Subsequent to initial recognition as an asset, an item of property, plant or equipment should be carried at its cost of acquisition less any accumulated depreciation and accumulated impairments.
- 13.4.2    The only exceptions to this rule shall be investment assets as well as heritage assets.

### **13.5      Depreciation:**

- 13.5.1    All assets, except land, assets under construction and heritage assets, shall be depreciated – or in the case of intangible assets, amortised.
- 13.5.2    Depreciation and amortisation are defined as the monetary quantification by which PPE and Intangible Assets are used in the provision of economic benefits or service delivery.
- 13.5.3    The depreciable amount of an item of property, plant or equipment should be allocated on a systematic basis over its useful life.
- 13.5.4    The depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and, therefore, is immaterial in the calculation of the depreciable amount.
- 13.5.5    When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition. The estimate is based on the residual value prevailing at the date of the estimate for similar property assets that have reached the end of their useful lives and

- have operated under conditions similar to those under which the property asset will be used.
- 13.5.6 The depreciation charge for each period will be recognized as an expense against the budget of the relevant Manager.
- 13.5.7 The depreciation method used shall reflect the pattern in which the assets' future economic benefits or service potential are expected to erode the value of the asset.
- 13.5.8 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include:
- the straight-line method;
  - the diminishing balance method; and
  - the units of production method.
- 13.5.9 Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change.
- 13.5.10 The diminishing balance method results in a decreasing charge over the useful life.
- 13.5.11 The units of production method result in a charge based on the expected use or output.
- 13.5.12 The method of depreciation is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
- 13.5.13 The preferred depreciation method will be the straight-line method unless otherwise agreed to in writing by the Chief Financial Officer.
- 13.5.14 Depreciation shall initially be calculated from the day the asset is available for use.

- 13.5.15 Each manager, acting in consultation with the Chief Financial Officer, shall 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.

**13.6 Initial Determination of Useful Life:**

- 13.6.1 Each Manager needs to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:
- The program that will optimize the expected long-term costs of owning that asset;
  - Economic obsolescence because it is too expensive to maintain;
  - Functional obsolescence because it no longer meets the municipality's needs;
  - Technological obsolescence;
  - Social obsolescence due to changing demographics; and
  - Legal obsolescence due to statutory constraints.
- 13.6.2 A schedule of useful lives is included as an annexure. These should be used as a guide only because asset lives experienced may greatly vary from those recommended lives.
- 13.6.3 In the case of an item of PPE or Intangible Asset which is not listed in this annexure, the relevant head of department in consultation with the Chief Financial Officer shall determine a useful operating life and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.

- 13.6.4 Spares purchased specifically for a particular asset or class of assets at the time of the initial acquisition and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

**13.7 Review of Useful Life and Residual Value:**

- 13.7.1 Only the Chief Financial Officer in consultation with the responsible Manager may amend the useful operating life or the residual value assigned to any asset.
- 13.7.2 The Chief Financial Officer shall amend the useful operating life or the residual value assigned to any asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.
- 13.7.3 If the value of an asset item of PPE has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be written off from the date in which such diminution in value occurs.
- 13.7.4 Similarly, if an item of PPE has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the item has physically ceased to exist, it shall be written off in the fixed asset register.
- 13.7.5 In all of the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the item of PPE or intangible asset in question.

13.7.6 The useful life and the residual value of an item of property, plant or equipment must be reviewed annually and if these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods must be adjusted and the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

13.7.7 Additional depreciation not budgeted for as a result of unforeseeable or unavoidable circumstances must be provided for in an adjustments budget and, if such circumstances arises close to the end of the financial year and there will not be time for Council to consider the adjustments before the end of the financial year, may in advance be approved by the Mayor in terms of Section 29 of the MFMA, provided that any other provisions of the MFMA be complied with.

### **13.8 Review of Depreciation Method:**

13.8.1 The depreciation method applicable to a class of asset must be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method must be changed to reflect the changed pattern.

13.8.2 When such a change in depreciation method is necessary the change must be reflected as a change in the accounting estimate and the depreciation charge for the current and future periods should be adjusted.

### **13.9 Subsequent Expenditure on Assets:**

13.9.1 Subsequent expenditure relating to an item of property, plant or equipment that has already been capitalised must be added to the carrying amount of the asset when such expenditure will increase the useful life of the asset or increase the efficiency of the asset or reduce the cost of operating the asset and resulting in financial or service delivery benefits.

- 13.9.2 All other expenditure must be recognized as an expense in the period in which it occurred.
- 13.9.3 Before allowing the capitalization of subsequent expenditure, the Chief Financial Officer must be satisfied that this expenditure will significantly:
- Increase the life of that asset beyond that stated in the asset register, or
  - Increase the quality of service provided by that asset beyond the existing level of service, or
  - Increase the quantity of services that asset can provide, or
  - Reduce the future assessed costs of maintaining that asset.
- 13.9.4 Expenditure that is proposed to be capitalized must also conform to recognition criteria for assets and should also be appropriately included in the approved capital budget

#### **13.10 Impairment Losses:**

- 13.10.1 The carrying amount of an item or a group of identical items of Property, Plant and Equipment, Intangible Assets and Investment Property should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.
- 13.10.2 The recoverable amount is the amount that the municipality expects to recover from the future use of the asset including its residual value on disposal. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve.
- 13.10.3 The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant

and equipment in a sewerage purification works is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

13.10.4 The following may be indicators that an asset is impaired:

- The asset has been damaged;
- The asset has become technically obsolete;
- The asset remains idle for a considerable period either prior to it being put in use or during its useful life; and
- Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.

13.10.5 The following steps will have to be performed regularly during the year to account for impairment losses:

- Departments will identify and inform CFO – Asset Control of assets that:
  - Are in a state of damage at year end;
  - Are technologically obsolete at year end;
  - Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life;
  - Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is land that is purchased at market value and is to be utilized for subsidized housing developments.
- The recoverable amounts of these assets need to be determined by calculating the net selling price per asset as defined above.
- The impairment loss per asset is the difference between the net

selling price and the carrying value of the asset.

**13.11      Subsequent Increase in Recoverable Amount:**

- 13.11.1      A subsequent increase in the recoverable amount of an asset, previously impaired due to a decline in the carrying amount, should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- 13.11.2      The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

**13.12      Accounting Treatment on Disposal:**

- 13.12.1      An asset should be eliminated from the Asset Register on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its existence.
- 13.12.2      Gains or losses arising from the retirement or disposal of an asset should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset and should be recognized as revenue or expense in the financial records.

**13.13      Reinstatement, Maintenance and Other Expenses:**

- 13.13.1      Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.
- 13.13.2      Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

- 13.13.3 Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised. Such expenses may include but need not be limited to import duties, forward cover costs, transportation, installation, assembly and communication costs.
- 13.13.4 The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:

<u>CAPITAL EXPENDITURE</u>	<u>MAINTENANCE</u>
<ul style="list-style-type: none"> <li>• Acquiring a new asset</li> <li>• Replacing an existing asset</li> <li>• Enhancing an existing asset so that its use is expanded</li> <li>• Further developing existing assets so that its original useful life is extended</li> </ul>	<ul style="list-style-type: none"> <li>• Restoring an asset so that it can continue to be used for its intended purposes</li> <li>• Maintaining an asset so that it can be used for the period for which it was initially intended</li> </ul>

### **13.14 Assets Held Under Leases:**

- 13.14.1 **Finance Leases:** are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the Asset Register. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement, or a price calculated after taking into account reasonable interest on the payments over the period of the lease. The asset is then depreciated over its expected useful life.
- 13.14.2 **Operating Leases:** are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed

as they become due. Assets held under operating leases are not accounted for in the asset register.

**13.15 Investment Property:**

- 13.15.1 Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's financial statements.
- 13.15.2 Investment assets comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.
- 13.15.3 Investment assets shall be recorded in a separate section of the assets register in the same manner as other assets.
- 13.15.4 Investment assets shall not be depreciated but shall be valued annually at financial statements date to determine their fair market value. Investment assets shall be recorded in the financial statements 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.
- 13.15.5 An expert valuer shall be engaged by the municipality to undertake such valuations unless such expertise is available in-house.

**13.16 Assets Treated as Inventory:**

- 13.16.1 Any land or buildings owned or acquired by the municipality with the intention of reselling 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 reselling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's financial statements.
- 13.16.2 Such inventories shall, however, be recorded in a separate section of the assets register in the same manner as assets.

**13.17 Heritage Assets:**

- 13.17.1 Heritage assets shall be accounted for in terms of GRAP 103 and shall not be classified separately for purposes of preparing the municipality's financial statements.
- 13.17.2 Heritage assets shall be recorded in a separate section of the assets register in the same manner as other assets.
- 13.17.3 Heritage assets shall not be depreciated.
- 13.17.4 If no original costs or fair values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the asset register without an indication of the costs or fair value concerned.
- 13.17.5 For financial statements purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

**13.18 Other Write-Offs of Assets:**

- 13.18.1 An asset item, even though fully depreciated, shall be written off only on the recommendation of the manager controlling or using the asset concerned, provided it has been submitted to the Chief Financial Officer for approval.
- 13.18.2 Every manager shall report to the Chief Financial Officer on 30 April of each financial year on any asset which such manager wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall consolidate all such reports and shall submit a recommendation to the Municipal Manager of the municipality on the assets to be written off.
- 13.18.3 The only reasons for writing off assets, other than the alienation of such assets,

shall be the loss, theft, and destruction or material impairment of the item/s in question.

13.18.4 If an item of PPE must be written off as a result of an occurrence out of the control of the municipality, such as malicious damage, theft or destruction, the municipal manager must determine whether a third party or an employee was involved in the loss and take all reasonable steps to recover such loss, including reporting the incident to the South African Police Services and the Auditor General, the insurance as well as institute disciplinary steps against any employee who might have been involved in such incident.

13.18.5 In every instance where a not fully depreciated asset is written off, the Chief Financial Officer shall immediately debit to such department or vote the full carrying value of the asset concerned.

## **14. MAINTENANCE**

### **14.1 Maintenance Plans:**

14.1.1 Every Head of Department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Council for approval.

14.1.2 If so directed by the Municipal Manager, the maintenance plan shall be submitted to the Council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

14.1.3 The manager controlling or using the infrastructure asset in question, shall annually report to the Council of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the item concerned.

### **14.2 Deferred Maintenance:**

14.2.1 If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for

any infrastructure asset, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the annual financial statements. Such note shall also indicate any plans which the Council has approved in order to redress such deferral of the maintenance requirements concerned.

- 14.2.2 If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the Head of Department controlling or using such item and shall recalculate the increased annual depreciation expenses accordingly.

**14.3     General Maintenance of Assets:**

- 14.3.1 Every Head of Department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in part 7.13.1 and part 7.13.2 above) are properly maintained and in a manner, which will ensure that such item attain their useful operating lives.

**15.     IMPLEMENTATION OF THIS POLICY**

- 15.1 This policy shall be implemented once approved by Council. All future asset management must be done in accordance with this policy.
- 15.2 This policy must be reviewed whenever it is a required in terms of operational- or legislative changes or as a result of audit requirements.

## **APPENDIX A**

### **SCHEDULE OF EXPECTED USEFUL LIVES OF ASSETS**

	<u>ASSET LIFE</u>		<u>ASSET LIFE</u>
<b>INFRASTRUCTURE ASSETS</b>			
<b><u>ELECTRICITY:</u></b>		<b><u>GAS:</u></b>	
Power Stations	30	Meters	20
Cooling Towers	30	Main Supply	20
Transformer Kiosks	30	Storage Tanks	20
Meters	20	Supply and Reticulation Networks	20
Load Control Equipment	20		
Switchgear	20	<b><u>SEWERAGE:</u></b>	
Supply and Reticulation Networks	20	Sewer Mains	20
Main supply	20	Outflow Sewers	20
		Sewerage Purification Works	20
		Sewerage Pumps	15
		Sludge Machines	15
<b><u>ROADS:</u></b>		<b><u>PEDESTRIAN MALLS:</u></b>	
Motorways	15	Footways	20
Other Roads	10	Kerbing	20
Traffic Islands	10	Paving	20
Traffic Lights	20	Taxiways	20
Street Lights	25	Runways	20
Overhead Bridges	30		
Storm Water Drains	20	<b><u>SECURITY</u></b>	
Bridges, Subways and Culverts	30	Fencing	3
Car Parks	20	Security Systems	5
Bus Terminals	20	Access Control Systems	5
<b><u>WATER:</u></b>		<b><u>COMMUNITY ASSETS</u></b>	
Meters	15	<b><u>BUILDINGS:</u></b>	
Mains	20	Ambulance Stations	30
Rights	20	Aquariums	30
Supply and Reticulation Networks	20	Beach Developments	30
Reservoirs and Storage Tanks	20	Care Centres	30
		Cemeteries	30
<b><u>COMMUNITY ASSETS</u></b>		Civic Theatres and Community Centres	30
<b><u>RECREATIONAL FACILITIES</u></b>		Clinics and Hospitals	30
Bowling Greens	20		
Tennis Courts	20		
Swimming Pools	20		

Golf Courses	20	Game Reserves and Rest Camps	30
Jukskei Pitches	20	Stadiums and Indoor Sports	30
Outdoor Sport Facilities	20	Museums and Galleries	30
Organ	20	Parks and Public Conveniences	30
Lakes and Dams	20	Recreational Centres and Zoo	30
Fountains	20		
Flood Lights	20		
<b>OTHER ASSETS</b>		<b>OTHER ASSETS</b>	
<b><u>BUILDINGS:</u></b>		<b><u>EMERGENCY EQUIPMENT</u></b>	
Abattoirs	30	Other Fire Fighting Equipment	15
Asphalt Plant	30	Ambulances	5 – 10
Cable Stations	30	Fire Hoses	5
Caravan Parks	30	Emergency Lights	5
Bioscope	30		
Compacting Stations	30	<b><u>MOTOR VEHICLES</u></b>	
Hostels for Public/Tourists	30	Fire Engines	20
Hostels for Employees	30	Buses	15
Housing Schemes	30	Motor Vehicles	5 – 7
Kilns	30	Motorcycles	3
Laboratories	30	Trucks and Light Delivery Vehicles	5 – 7
Markets	30	<b><u>AIRCRAFT</u></b>	
Nurseries	30		15
Office Buildings	30		
Old Age Homes	30	<b><u>WATERCRAFT</u></b>	
Quarries	30		15
Tip Sites	30	<b><u>PLANT AND EQUIPMENT</u></b>	
Training Centres	30	Graders	10 – 15
Transport Facilities	30	Tractors	10 – 15
Workshops and Depots	30	Mechanical Horses	10 – 15
		Farm Equipment	5
<b><u>OFFICE EQUIPMENT</u></b>		Lawn Mowers	2
Computer Hardware	5	Compressors	5
Computer Software	3 – 5	Laboratory Equipment	5
Office Machines	3 – 5	Radio Equipment	5
Air Conditioners	5 – 7	Firearms	5
		Telecommunication Equipment	5
		General	5



# **CENTRAL KAROO DISTRICT MUNICIPALITY**

## **BORROWING POLICY**

**2022/2023**

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## PREAMBLE

1. **WHEREAS** section 230A of the Constitution of the Republic of South Africa, 108 of 1996 (hereafter "the Constitution") permits the Central Karoo District Municipality (hereafter "the Municipality") to raise loans in accordance with national legislation;
2. **AND WHEREAS** Chapter 6 of the Local Government: Municipal Finance Management Act, Act 56 of 2003 (hereafter "the MFMA") prescribe inter alia the type of debt and the conditions under which the Municipality may incur debt;
3. **AND WHEREAS** the Council of the Municipality wishes to stipulate the administrative arrangements regulating and governing the taking up of short-term and long-term debt;

**NOW THEREFORE**, the Municipality adopts the following Borrowing Policy to set out the objectives, statutory requirements and guidelines for the borrowing of funds.

## **1. DEFINITIONS**

- 1.1 In this policy, except where the context otherwise indicates, or it is expressly stipulated otherwise, the following words and expressions shall have the respective meanings assigned to them hereunder, and words and expressions to which a meaning has been assigned in terms of the provisions of the MFMA and the Municipal Regulations on Debt Disclosure promulgated in terms thereof, will have a corresponding meaning assigned thereto in terms of the said act. All headings are included for convenience only and shall not be used in the interpretation of any of the provisions of this policy.

- 1.1.1 **"Accounting Officer"** Means the Municipal Manager appointed in terms of section 60 of the MFMA;
- 1.1.2 **"Annual Budget"** Means the budget approved by the Council of the

Municipality for any particular financial year and shall include any adjustments to such a budget;

- |        |                                  |  |
|--------|----------------------------------|--|
| 1.1.3  | <b>“Annually”</b>                | Means once every financial year;   |
| 1.1.4  | <b>“Basic Municipal Service”</b> | Means a municipal service necessary to ensure an acceptable and reasonable quality of life, which service, if not provided, would endanger public health or safety or the environment;   |
| 1.1.5  | <b>“Creditor”</b>                | Means a person to whom money is owing by the Municipality;   |
| 1.1.6  | <b>“Chief Financial Officer”</b> | Means a person designated in terms of section 80(2)(a) of the MFMA;  |
| 1.1.7  | <b>“Constitution”</b>            | Means the Constitution of the Republic of South Africa;  |
| 1.1.8  | <b>“Council”</b>                 | Means the municipal council of the Municipality as referred to and constituted in terms of the provisions of section 157 of the Constitution;  |
| 1.1.9  | <b>“Debt”</b>                    | Means: <ul style="list-style-type: none"> <li>(a) a monetary liability or obligation created by a financing agreement, note, debenture, bond or overdraft, or by the issuance of municipal debt instruments; or</li> <li>(b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another.</li> </ul> |
| 1.1.10 | <b>“Delegation”</b>              | In relation to a duty, includes an instruction or request to perform or to assist in performing the duty;  |

1.1.11	<b>“Financial Year”</b>		Means the period starting from 1 July in any year and ending on 30 June of the following year;
1.1.12	<b>“Lender”</b>		Means a person who provides debt finance to a municipality;
1.1.13	<b>“Long-term Debt”</b>		Means debt repayable over a period exceeding one year;
1.1.14	<b>“Mayor”</b> <b>“Executive Mayor”</b>	<b>or</b>	Means, in terms of the provisions of section 1 of the MFMA, in relation to a municipality with an executive mayor, the councillor elected as the executive mayor of the municipality in terms of section 55 of the Structures Act;
1.1.15	<b>“Municipal Instrument”</b>	<b>Debt</b>	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;
1.1.16	<b>“Municipal Finance Management Act”</b> <b>“MFMA”</b>	<b>or</b>	Means the Local Government: Municipal Finance Management Act, Act 56 of 2003 and any regulations promulgated in terms of the Act;
1.1.17	<b>“Municipality”</b>		Means the CENTRAL KAROO DISTRICT MUNICIPALITY (also referred to as “CKDM”) a local government and legal entity with full legal capacity as contemplated in section 2 of the Systems Act read with the provisions of Chapter 7 of the Constitution and sections 12 and 14 of the Structures Act, with its main place of business and the offices of the Municipal Manager, as envisaged in terms of the provisions of section 115(3) of the Systems Act, at: c/o 63 Donkin Street, BEAUFORT WEST, and may, depending on the context,

include:

- (a) its successor in title; or
- (b) a functionary, employee or official exercising a delegated power or carrying out an instruction, in the event of any power being delegated as contemplated in terms of the provisions of section 59 of the Systems Act, or exercising any lawful act in the furtherance of the Municipality's duties, functions and powers; or
- (c) an authorized service provider fulfilling a responsibility assigned to it by the Municipality through a service delivery agreement;

1.1.18      **“Municipal Service or “Services”**      Means a service that a municipality in terms of its powers and functions provides or may provide to or for the benefit of the local community irrespective of whether:

- (a) such service is provided, or to be provided by the Municipality through an internal mechanism contemplated in section 76 of the Systems Act; and
- (b) fees, charges or tariffs are levied in respect of such service or not;

1.1.19      **“National Treasury”**      Means the National Treasury established in terms of section 5 of the Public Finance Management Act, Act 1 of 1999;

1.1.20      **“Provincial Treasury”**      Means a treasury established in terms of section 17 of the Public Finance Management Act, Act 1 of 1999;

- |        |                          |   |
|--------|--------------------------|---|
| 1.1.21 | <b>“Security”</b>        | Means any mechanism intended to secure the interest of a lender or investor, and includes any of the mechanisms mentioned in section 48(2) of the MFMA; |
| 1.1.22 | <b>“Short-term Debt”</b> | Means debt repayable over a period not exceeding one year;  |
| 1.1.23 | <b>“Structures Act”</b>  | Means the Local Government: Municipal Structures Act, Act 117 of 1998 and any regulations promulgated in terms of the Act;                              |
| 1.1.24 | <b>“Systems Act”</b>     | Means the Local Government: Municipal Systems Act, Act 32 of 2000, as amended, by Act 44 of 2003 and any regulations promulgated in terms of the Act.   |

## 2. **AIM AND PURPOSE**

- 2.1 The Municipality, as a custodian of public funds, has an obligation to see to it that cash resources are managed as effectively as possible. Council has a responsibility to spend public funds with great care and are liable to the community in that regard.
- 2.2 The purpose of this policy is:
- 2.2.1 to establish a borrowing framework and guidelines for the Municipality for the borrowing funds;
  - 2.2.2 to ensure that borrowing forms part of the financial management procedure of the Municipality and that prudent borrowing procedures are applied consistently;
  - 2.2.3 to ensure that the funds are obtained at the lowest possible interest rate at minimum risk, within the parameters of authorized borrowings;
  - 2.2.4 to ensure compliance with all relevant legal and statutory requirements and National Treasury, borrowing regulations; and

2.2.5 to maintain financial sustainability.

**3. TITLE AND APPLICATION**

3.1 This policy is known as the Policy on Borrowing of the Municipality and is applicable to the municipal area of the Municipality.

3.2 This policy revokes all previous policies, decisions and/or *ad hoc* clauses within any other policy, regarding the subject matter of this policy.

**4. COMMENCEMENT AND VALIDITY**

4.1 This policy shall come into full force and effect upon the acceptance thereof by the Council of the Municipality by resolution.

**5. RESPONSIBLE AUTHORITY**

5.1 The responsible authority for the adoption and implementation of this policy is the Municipality, and where applicable the Council of the Municipality.

5.2 The Municipal Manager of the Municipality, as Accounting Officer, is in terms of the provisions of Chapter 8 of the MFMA responsible for managing the financial administration of the Municipality which *inter alia* includes the implementation and administration of this policy, provided that he/she may delegate in writing any of his/her powers under this policy to any other official of the Municipality.

**6. DELEGATIONS OF POWER**

6.1 The Accounting Officer of the Municipality must develop an appropriate system of delegations that will both maximize administrative and operational efficiency and provide adequate checks and balances in the Municipality's

financial administration.

6.2 The Accounting Officer of the Municipality may, in accordance with the provisions of section 79 of the MFMA, delegate to a member of the Municipality's top management or any other official of the Municipality:

- (a) any of the powers or duties assigned to him/her in terms of the MFMA;
- (b) any powers or duties reasonably necessary to assist him/her in complying with a duty which requires him/her to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of the MFMA.

6.3 The Accounting Officer must regularly review delegations issued and, if necessary, amend or withdraw any of those delegations.

6.4 All delegation in terms of this policy:

- (a) must be in writing;
- (b) is subject to such limitations and conditions as the Accounting Officer may impose in a specific case;
- (c) may either be to a specific individual or to the holder of a specific post in the Municipality; and
- (d) does not divest the Accounting Officer of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.

## **7. POLICY OBJECTIVES**

7.1 The objectives of this policy of the Municipality are to:

- (a) Enable the Municipality to exercise its obligations to ensure

sufficient cash resources to implement its capital programmed in the most effective manner;

- (b) Maintain debt within specified limits;
- (c) Ensure adequate provision for the sustainable repayment of debt;
- (d) Manage interest rate and credit risk exposure;
- (e) Ensure that all and any occurring of debt by the Municipality are made with great care, skill, prudence and diligence;
- (f) Govern the taking up of short-term and long-term debt according to the legislative framework.

## **8. LEGISLATIVE FRAMEWORK**

8.1 This policy is designed and must be read and implemented within the framework of *inter alia* the following legislation:

- (a) The Constitution;
- (b) Local Government: Municipal Systems Act, Act 32 of 2000, as amended;
- (c) Local Government: Municipal Finance Management Act, Act 56 of 2003;
- (d) Local Government: Municipal Regulations on Debt Disclosure published under GN R 492 in Government Gazette No. 29966 of 15 June 2007;
- (e) Municipal Budget and Reporting Regulations for the MFMA published in Government Gazette No. 32141 dated 17 April 2009;
- (f) MFMA Circular no 49 on Non-payment of Obligations, dated 30 June 2009; and
- (g) all relevant directives and guidelines issued by National Treasury.

## **9. SHORT-TERM DEBT AND LONG-TERM DEBT**

### **9.1 Short-term Debt:**

9.1.1 A short-term debt is a debt repayable by the Municipality over a period not

exceeding 1 (one) year.

9.1.2 The Municipality may incur short-term debt only in accordance with and subject to the provisions of section 45 of the MFMA and only when necessary to bridge:

- (a) shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year; or
- (b) capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

9.1.3 The 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.

9.1.4 For the purpose of obtaining a resolution to incur short-term debt, the Council may:

- (a) approve a short-term debt transaction individually; or
- (b) approve an agreement with a lender for a 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) the 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.

9.1.5 The 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.

9.1.6 No lender may wilfully extent credit to the Municipality for the purpose of renewing or refinancing short-term debt that must be paid off within the financial year. If a lender wilfully extends credit to the Municipality in contravention with the before mentioned, the Municipality is not bound to repay the loan or interest on the loan.

9.2 **Long-Term Debt:**

9.2.1 A long-term debt is a debt repayable by the Municipality over a period exceeding 1 (one) year.

9.2.2 The Municipality may incur long-term debt only in accordance with and subject to the provisions of section 46 of the MFMA and only for the purpose of:

- (a) capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government as set out in section 152 of the Constitution, including costs referred to in sub-paragraph (e) below; or
- (b) re-financing existing long-term debt subject to sub-paragraph (f) below.

9.2.3 The Municipality may incur long-term debt only if:

- (a) a resolution of the 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.

9.2.4 The Municipality may incur long-term debt only if the Accounting Officer of the Municipality:

- (a) has, in accordance with section 21A of the Systems Act:
- (i) at least 21 (twenty-one) days prior to the meeting of 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) Invited the public, the National and Provincial Treasury to submit written comments or representations to the Council in respect of the proposed debt. The Municipality must provide the following information regarding the proposed long-term debt, or any other information as may be determined from time to time by the National and/or Provincial Treasury, along with the above-mentioned invitation for comment:
- a copy of the abovementioned information statement as required by section 46(3) of the MFMA, containing particulars of the proposed borrowing (debt) instrument;
  - if not already incorporated in the information statement, the Municipality must ensure that the following information is provided in addition to the information statement:
    - the amount of debt to be raised through borrowing or other means;
    - the purposes for which the borrowing

- (debt) is to be incurred;
  - The interest rate(s) applicable (state whether fixed or variable etc.);
  - the planned start and end date (term of instrument);
  - a detailed repayment schedule for the duration of the borrowing (debt) (showing dates and all payments of principle debt and interest, etc.);
  - the total estimated cost of the borrowing (debt) over the repayment period;
  - the type of instrument;
  - the details of security to be provided; and
  - the source of loan funds.
- a schedule of consultation undertaken, including:
  - the date(s) on which the information statement was made public; and
  - the details of meetings, media adverts and other methods used to consult on the proposed long-term borrowing (debt).
- a copy of the approved budget, and relevant documentation supporting the budget highlighting the asset(s) to be funded by the proposed borrowing (debt) and the revenue to be received. The Municipality must demonstrate that the proposed borrowing (debt) is consistent with its IDP, the capital budget and the revenue is shown accordingly;
- if the borrowing (debt) is for the purpose of refinancing existing long-term borrowing

(debt), the following information:

- a description of the asset(s) for which the original loan was required;
  - the useful remaining life of the asset(s);
  - the net present value of the asset(s), including the discount rate used and any assumptions in the calculations;
  - the net present value of projected future payments before refinancing, including the discount rate and assumptions used;
  - the net present value of projected future payments after financing, assumptions used.
- 
- the Municipality must state what source of funding will be used to repay the loan and specify the revenue stream(s) and whether it is existing stream(s) and whether it is existing revenue or new revenue;
  - a schedule of all long-term borrowing (debt) obligations, showing principal and interest payments for the life of all loans and any associated investments set up as sinking funds etc.;
  - the Municipality must forward a copy of the Council's resolution approving the borrowing (debt) instrument to the National and Provincial Treasury once approved by the Council;
  - a certification for long-term borrowing (debt) must be completed and signed by the Accounting Officer and Executive Mayor and included with the request for comment on the proposed long-term borrowing (debt). This ensures that the Accounting Officer and

Executive Mayor approve the request.

(iii) has submitted a copy of the information statement to the Municipal Council at least 21 (twenty-one) days prior to the meeting of the Council, together with particulars of:

- the essential repayment terms, including the anticipated debt repayment schedule; and
- the anticipated total cost in connection with such debt over the repayment period.

(iv) The process concludes with a resolution of the Council, signed by the Executive Mayor, approving the debt agreement. Thereafter the Accounting Officer must sign the debt agreement which creates or acknowledges the debt. In considering the debt, the Council must ensure that the long-term debt is consistent with the Municipality's capital budget.

(v) In terms of section 75(1)(f) and 75(2) of the MFMA, the Accounting Officer must also place the details of all long-term borrowing contracts on the website of the Municipality within 5 (five) days of their tabling in the Council or the date on which they must be made public, whichever occurs first.

9.2.5 Capital expenditure contemplated in sub-paragraph (b) above may include:

(a) financing costs, including:

- capitalized interest for a reasonable initial period;
- costs associated with security arrangements in accordance with section 48 of the MFMA;
- discounts and fees in connection with the financing;
- fees for legal, financial, advisory, trustee, credit rating

and other services directly connected to the financing;  
and

- costs connected to the sale or placement of debt, and costs for printing and publication directly connected to the financing.

(b) costs of professional services directly related to the capital expenditure; and

(c) such other costs as may be prescribed.

9.2.6 The Municipality may borrow money for the purpose of re-financing existing long-term debt, provided that:

- (a) the existing long-term debt was lawfully incurred;
- (b) the re-financing 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 re-financing is less than the net present value of projected future payments before re-financing; and
- (d) the discount rate used in projecting net present value referred to above, 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.

9.2.7 The Municipality's long-term debt must be consistent with its capital budget referred to in section 17(2) of the MFMA.

### **9.3            Conditions Applying to Both Short-Term and Long-Term Debt:**

9.3.1 Both short-term and long-term debt may be incurred by the Municipality only if:

- (a) the debt is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency; and
- (b) section 48(3) of the MFMA, regarding assets secured required for providing basic municipal services, has been complied with, if security is to be provided by the Municipality.

#### **9.4        Security:**

9.4.1        The Municipality may, by resolution of the Council, provide security for:

- (a) any of its debt obligations;
- (b) any debt obligations of a municipal entity under its sole control; or
- (c) contractual obligations of the Municipality undertaken in connection with capital expenditure by other persons on property, plant or equipment to be used by the Municipality or such other person for the purpose of achieving the objects of local government in terms of section 152 of the Constitution.

9.4.2        The Municipality may in terms of sub-paragraph (a) above provide any appropriate security, including by:

- (a) giving a lien on, or pledging, mortgaging, ceding or otherwise hypothecating, an asset or right, or giving any other form of collateral;
- (b) undertaking to effect payment directly from money or sources that may become available and to authorize the lender or investor direct access to such sources to ensure payment of the secured debt or the performance of the secured obligations, but this form of security may not affect compliance with section 8(2) of the MFMA;
- (c) undertaking to deposit funds with the lender, investor or third party as security;

- (d) agreeing to specific payment mechanisms or procedures to ensure exclusive or dedicated payment to lenders or investors, including revenue intercepts, payments into dedicated accounts or other payment mechanisms or procedures;
- (e) ceding as security any category of revenue or rights to future revenue;
- (f) undertaking to have disputes resolved through mediation, arbitration or other dispute resolution mechanisms;
- (g) undertaking to retain revenues or specific municipal tariffs or other charges, fees or funds at a particular level or at a level sufficient to meet its financial obligations;
- (h) undertaking to make provision in its budgets for the payment of its financial obligations, including capital and interest;
- (i) agreeing to restrictions on debt that the Municipality may incur in future until the secured debt is settled or the secured obligations are met; and
- (j) agreeing to such other arrangements as the Municipality may consider necessary and prudent.

9.4.3 A Council resolution authorizing the provision of security in terms of giving a lien on, or pledging, mortgaging, ceding or otherwise hypothecating, an asset or right, or giving any other form of collateral:

- (a) must determine whether the asset or right with respect to which the security is provided, is necessary for providing the minimum level of basic municipal services; and
- (b) if so, must indicate the manner in which the availability of the asset or right for the provision of that minimum level of basic municipal services will be protected.

9.4.4 If the resolution has determined that the asset or right is necessary for providing the minimum level of basic municipal services, neither the party to

whom the municipal security is provided, nor any successor or assignee of such party, may, in the event of a default by the Municipality, deal with the asset or right in a manner that would preclude or impede the continuation of that minimum level of basic municipal services.

- 9.4.5 A determination in terms of sub-paragraph (c) above that an asset or right is not necessary for providing the minimum level of basic municipal services is binding on the Municipality until the secured debt has been paid in full or the secured obligations have been performed in full, as the case may be.

**9.5 Disclosure:**

- 9.5.1 In compliance with the provisions of section 49 of the MFMA the Municipality must, when interacting with a prospective lender or when preparing documentation for consideration by a prospective investor:

- (a) disclose all information in that person's possession or within 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.

- 9.5.2 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.

- 9.5.3 The Minister of Finance, acting with the concurrence of the Minister for Provincial and Local Government, has in terms of section 168 of the MFMA, made the Municipal Regulations on Debt Disclosure, published under GN R 492 in Government Gazette No. 29966 of 15 June 2007, which has been effective from 1 July 2007 (a copy of which is annexed hereto as Annexure "PB1").

- 9.5.4 In terms of regulation 3 of the abovementioned regulations, the Municipality must when entering into discussions with a prospective lender, other creditor or underwriter with a view to incur municipal debt, otherwise than through

municipal debt instruments, indicate in writing to the prospective lender, other creditor or underwriter whether it intends to incur short-term or long-term debt, and:

(a) if it intends to incur short-term debt, whether the purpose of the debt is to bridge:

- shortfalls within a financial year as contemplated in section 45(1)(a) of the MFMA; or
- capital needs within a financial year as contemplated in section 45(1)(b) of the MFMA; or

(b) if it intends to incur long-term debt, whether the purpose of the debt is for:

- capital expenditure on property, plant or equipment as contemplated in section 46(1)(a) of the MFMA; or
- re-financing existing long-term debt as contemplated in section 46(1)(b) of the MFMA.

9.5.5 In terms of regulation 4 of the abovementioned regulations, the Municipality must when entering into discussions with a prospective lender, other creditor or underwriter with a view to incur short-term or long-term debt (otherwise than through municipal debt instruments), make available to the prospective lender, other creditor or underwriter certified copies of:

- (a) its audited financial statements for the preceding 3 (three) financial years together with an indication whether the audit deadline referred to in section 126(1) and section 126(2) of the MFMA has been met;
- (b) its approved annual budget;
- (c) the Municipality's Integrated Development Plan; and
- (d) its repayment schedules pertaining to its existing short-term and long-term debt.

9.5.6 In terms of regulation 15 of the abovementioned regulations, where debt incurred by the Municipality is to be repaid from revenues linked to a

particular municipal service, the Municipality must disclose the following information, irrespective of whether the debt was incurred by way of the issuing of municipal debt instruments or in any other way:

- (a) whether the rights of recovery of a lender or investor against the Municipality is limited:
  - to revenues linked to that particular service; or
  - in any other respect;
- (b) particulars of any security provided by the Municipality; and
- (c) operational statistics pertaining to that particular municipal service and any other municipal service that is relevant to the debt transaction.

A disclosure in terms of sub-regulation 15(1) must:

- (a) be contained in the disclosure statement if the debt is incurred through the issuing of municipal debt instruments; or
- (b) be made by written notice to the lender if the debt is incurred in any other way.

9.5.7 In terms of regulation 16 of the abovementioned regulations, the Municipality having incurred debt, irrespective of whether by way of the issuing of municipal debt instruments or otherwise, must provide written notification to lenders, investors and other holders of record of such debt instruments or debt, any designated fiduciaries representing any such lenders, investors or holders, any securities exchange on which the instruments are listed, and the National and Provincial Treasury, as soon as possible after becoming aware of:

- (a) any event which is likely to affect the ability of the Municipality to meet its repayment or security obligations in respect of its debt;
- (b) any failure by the Municipality to meet its repayment obligations on the due date other than non-payment for technical reasons which is remedied within 72 hours;

- (c) any failure by the Municipality to meet:
  - any of its obligations pertaining to security provided by the Municipality; or
  - any other obligation constituting a default as defined for purposes of a debt transaction;
- (d) any new debt incurred by the Municipality;
- (e) the provision of any additional security by the Municipality to an existing creditor; or
- (f) any mandatory intervention by the provincial executive in terms of Chapter 13 of the MFMA.

9.5.8 In terms of regulation 17 of the abovementioned regulations, the Municipality must without derogating from any obligation to make documents available at places set out in a disclosure statement, keep readily available at its main office for inspection, on request of any interested person, copies of all documents relating to a debt transaction or documentation required to be disclosed or made available in terms of these regulations, including:

- (a) any documentation referred to in regulation 4;
- (b) any guarantees, security arrangements or other credit enhancement arrangements;
- (c) all advertisements, notices, resolutions, information statements, disclosure statements;
- (d) annual updates of disclosure statements referred to in regulation 14; and
- (e) any material event disclosures referred to in regulation 16.

## 9.6 **Municipal Guarantees:**

9.6.1 The Municipality may not issue any guarantee for any commitment or debt

of any organ of state or person, except on the following conditions:

- (a) the guarantee must be within limits specified in the Municipality's approved budget;
- (b) the Municipality may guarantee the debt of a municipal entity under its sole control only if the guarantee is authorized by the Council in the same manner and subject to the same conditions applicable to the Municipality in terms of Chapter 6 of the MFMA;
- (c) the Municipality may guarantee the debt of a municipal entity under its shared control or of any other person, but only with the approval of the National Treasury, and then only if:
  - the Municipality creates, and maintains for the duration of the guarantee, a cash-backed reserve equal to its total potential financial exposure as a result of such guarantee; or
  - the Municipality purchases and maintains in effect for the duration of the guarantee, a policy of insurance issued by a registered insurer, which covers the full amount of the Municipality's potential financial exposure as a result of such guarantee.

## **10. IMPLEMENTATION AND REVIEW OF THIS POLICY**

- 10.1 This policy shall be implemented once approved by Council. All future borrowing transactions must be made in accordance with this policy.
- 10.2 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.



# **CENTRAL KAROO DISTRICT MUNICIPALITY**

## **BUDGET POLICY**

**2022/2023**

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## **1. BACKGROUND**

- 1.1 Every budget cycle should place Council in a stronger position in relation to the link between Municipality's policies, strategic objectives, its service delivery and budget implementation plans and ultimately the delivery of services. The tabling of three-year service delivery and budget implementation plans, together with the revenue and expenditure estimates for the corresponding period, provides a basis for the introduction of important enhancements to the previous budget process. Greater attention will be given to service delivery achievements, changes to policies and plans, and how these translate into requests for increases in baseline allocations.
- 1.2 The success of the budget process will require a team effort and will depend on the understanding and commitment of those involved. It will further require a closer working relationship between the Budget Office, IDP Offices and Business Unit Managers to improve the usefulness of information that is presented in the budget.

## **2. PURPOSE OF THE POLICY**

- 2.1 The purpose of this policy is to control and inform the basis, format and information that are included in the Budget documentation.
- 2.2 The policy sets out the budgeting principles which Central Karoo District Municipality must follow in preparing each annual budget.

## **3. DEFINITIONS**

- 3.1 **"COGTA"** means the Department of Co-operative Governance and Traditional Affairs;
- 3.2 **"IDP"** means Integrated Development Plan;
- 3.3 **"MFMA"** means the Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

3.4        **“MTREF”**                      means Medium Term Revenue and expenditure Framework;

3.5        **“The Municipality”**        means Central Karoo District Municipality.

#### **4.        LEGISLATIVE CONTEXT OF THE POLICY**

4.1        The policy aims to give effect to the requirements and stipulations of –

4.1.1      The Municipal Finance Management Act 56 of 2003 (MFMA);

4.1.2      The Budget and Reporting Regulations, Notice 393 of 2009;

4.1.3      Any official directive issued by the Minister of Finance, in terms of section 168 (1) of the MFMA, from time to time;

in regard to the planning, preparation and approval of the annual budget.

#### **5.        SCOPE FOR APPLICATION**

5.1        The policy shall apply to all the relevant parties within the Central Karoo District Municipality that are involved throughout the budget process.

#### **6.        RESPONSIBLE OFFICIALS**

6.1        The responsibilities of officials are indicated in the paragraphs below.

#### **7.        MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)**

7.1        Medium-term budgeting is a continuous process which covers a time span of more than one year. The purpose of such a process is to assist in planning over the medium-term and to reflect the effect of current decision over the medium term.

7.2 The budget process aims to facilitate the achievement of the aforementioned objectives and in doing so; it will allow the municipality to:

7.2.1 Plan for the period covered by the MTREF - three years presently;

7.2.2 Evaluate changing priorities and implementation plans that increase accountability of projects that is executed over the medium-term;

7.2.3 Involve various role-players who provide political and technical expertise when faced with the challenge to make trade-offs between equally important strategic priorities, and

7.2.4 Allocate resources in line with strategic priorities and service delivery plans.

7.3 When finalizing budget documentation, departments are encouraged to pay particular attention to:

7.3.1 Improving the alignment between the IDP, operational plans, existing medium- term allocations and expected service delivery milestones, and

7.3.2 Optimising the inclusion of new priorities within baseline allocations through reprioritisation, and

7.3.3 Ensuring the affordability of revised medium-term plans which require an increase to baseline allocations.

## **8. FORMAT AND CONTENT OF THE BUDGET**

8.1 The budget of the Council consists of the operating budget (operating revenue and expenditure), the capital budget as well as a number of strategic reports, graphs and schedules that should enhance the understanding of the document and its objective.

8.2 The budget must be a reflection of the IDP of Council.

8.3 The annual budget and supporting documentation of a municipality must be in

the format specified in section 71(3) of the MFMA, read with Schedule A of the Budget and Reporting Regulations, Notice 393 of 2009 and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the MFMA, covering the following –

- 8.3.1 Mayor's Report;
- 8.3.2 Resolutions;
- 8.3.3 Executive Summary;
- 8.3.4 Annual Budget Tables;
- 8.3.5 Overview of Annual Budget Process;
- 8.3.6 Overview of alignment of annual budget with IDP;
- 8.3.7 Measurable performance objectives and indicators;
- 8.3.8 Overview of budget related policies;
- 8.3.9 Overview of budget funding;
- 8.3.10 Expenditure on allocations and grant programmes;
- 8.3.11 Allocations of grants made by the municipality in terms of Section 17(3)(j) to:
  - other municipalities;
  - municipal entities;
  - other external mechanisms;
  - other organs of state;
  - any organisations or bodies referred to in section 67(1);
- 8.3.12 Councillor and board member allowances and employee benefits;
- 8.3.13 Monthly targets of revenue, expenditure and cash flow;
- 8.3.14 Annual budgets and service delivery and budget implementation plans – internal departments;
- 8.3.15 Annual budgets and service delivery agreements – municipal entities and other external mechanism;
- 8.3.16 Contracts having future budgetary implications;
- 8.3.17 Capital expenditure details;
- 8.3.18 Legislation compliance status;
- 8.3.19 Other supporting documents to include the following listed under Sections 17(3)(f), (g) and (h):

- particulars of the municipality's investments;
- any prescribed budget information of linked municipal entities;
- particulars of any proposed municipal entities intended to be linked;

8.3.20 Municipal Manager's quality certification.

## 9. **BUDGET PRINCIPLES**

### 9.1 **Capital Budgets:**

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

#### 9.1.1.1 **Basis of Calculation:**

- The **zero-based method** is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- The annual capital budget shall be based on realistically anticipated revenue, which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- The impact of the capital budget on the current and future operating budgets in terms of finance charges to

be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analysed when the annual operating and capital budgets are being compiled.

- In addition, the council shall consider the future impact of such operational expenses- net of any revenues expected to be generated by such item.

#### 9.1.1.2 Financing:

- ***Own financing sources (basic capital budget)***

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

- a) unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- b) further amounts appropriated as contributions in each annual or adjustments budget;
- c) net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy; and
- d) Interest on the investments of the capital replacement reserve, appropriate in terms of the banking and investment guideline and/or policy.

- ***Other finance sources (Ad Hoc Capital Budget)***

- a) Grants and subsidies as allocated in the annual Division of Revenue of Act;
- b) Grants and subsidies as allocated by Provincial government;
- c) External Loans;

- d) Private Contributions;
- e) Contributions from the Capital Development Fund;
- f) Surpluses from the current operating budget (municipal own funding);
- g) Any other financing source secured by the local authority.

## 9.2 Operating Budgets:

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

### 9.2.1.1 Basis of Calculation:

- a) The principle of zero-based- and incremental budgeting shall be applied in preparing the annual operating budget.
- b) The annual operating budget shall be based on realistically anticipated revenue.
- c) An income-based approach shall be used where the realistically anticipated income would be determined first and the level of operating expenditure would be based on the determined income, thus resulting in a cash funded budget.

### 9.1.2.2 Financing:

The operating budget shall be financed from the following sources of financing:

- a) Service Charges  
Service charges shall be based on the tariff growth rate as agreed upon and be based on a cost recovery principle as far as practically possible.

b) Agency Services

A rate based on the specific Service Level Agreements.

c) Grants & Subsidies

Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the organization

d) Interest on Investments

The budget for interest and investment shall be in accordance with the Cash Management and Investment policy of the organization.

e) Rental Fees

Fees for rental property facilities and equipment will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year.

f) Licences and Permits

Fees for licences and permits will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year

g) Other Income

All other income items will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year.

#### 9.1.2.3 Budget Categories:

The following expenditure categories shall be accommodated in the operating budget and must be in line with the Municipal Standard Chart of Accounts as determined by National Treasury (MSCOA).

a) Salaries, Wages and Allowances

The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organized labour and the employer for a particular period. The remuneration of all political office bearers is based on the limitations and percentages as determined by COGTA.

b) Other General Expenditure

A percentage growth for all other general expenditure will be based on the percentage determined by Financial Services in line with prevailing growth rates and the CPIX.

c) Repairs and Maintenance

The budget of repairs and maintenance shall be based on the increment as determined by Financial Services in conjunction with the needs of the departments in terms of repairing their assets.

d) Capital Expenses

Capital expenses refer to interest and redemption that has to be repaid on an external loan taken up by Council. The budget for capital expenses will be determined by the repayments that the municipality is liable for based on the agreements entered into with the other party.

e) Contributions to Capital

A global amount that will be spent on the acquisition of small capital items is determined. The needs of departments in terms of small capital items are requested and these needs are then prioritized and then the budget is allocated to those prioritized items.

f) Contributions to Funds

Refers to the contribution made to provisions (e.g. leave reserve fund) on annual basis and is determined based on the actual expenditure in the previous year and any other factor that could have an effect.

g) Appropriations

Refers to the transfers to- and from the capital replacement reserve, to offset depreciation charges. Appropriations are determined on an annual basis.

## **10. BUDGET PROCESS**

### **10.1 Budget Process:**

- 10.1.1 A Budget Steering Committee, as part of a Finance Portfolio Committee, established by the Executive Mayor, in terms of regulation 4 of the Municipal Budget and Reporting Regulations, to provide technical assistance to the Mayor in discharging the budget process and related matters set out in section 53 of the MFMA.

### **10.2 Quality Certification:**

- 10.2.1 Whenever an annual budget and supporting documentation, an adjustments budget and supporting documentation or an in-year report of a 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 of the regulations, as the case may be, and signed by the municipal manager.

**10.3     Consistency in Basis of Measurement and Accounting Policies:**

10.3.1     The municipal manager of a municipality must take all reasonable steps to ensure that –

- a)         the basis of measurement and accounting policies underpinning the municipality's annual financial statements are the same as those used in the preparation of the municipality's annual budget and supporting documentation, its adjustments budgets and supporting documentation, and its in-year reports; and
- b)         any differences or changes between financial years are explicitly noted;
- c)         The budget is prepared using the municipal standard chart of account allocations for budget line items.

**10.4     Budget Related Policies:**

10.4.1     The municipal manager of a municipality must prepare or take all reasonable steps to ensure the preparation of the budget-related policies of the municipality, or any necessary amendments to such policies, in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the mayor in terms of section 21(1)(b) of the MFMA.

**10.5     Planning:**

10.5.1     Budget Time Table:

- a)         The Chief Financial Officer (CFO) shall prepare a draft budget timetable for the ensuing financial year which shall be tabled by the Executive Mayor to Council for approval at least 10 months before the start of the next budget year.

- b) The budget timetable shall contain key deadlines for:
- the annual review of the IDP;
  - the review of budget related policies;
  - the preparation, tabling and approval of the annual budget;
  - the consultative processes forming part of the budget process, prescribed in sections 21,22 and 23 of the MFMA.

Business Unit Managers shall ensure that they meet the deadlines as set out in the Budget Timetable.

10.5.2 Budgetary Strategy:

- a) The CFO shall prepare a Budget Strategy for approval by Council, which shall contain the principles, objectives and strategies that will apply during the forthcoming budget preparation process. Such Budget Strategy shall take cognisance of the directives, guidelines and economic factors prevailing at the time or circulated by National and Provincial Government. The Budget Strategy shall give general direction to the budget process and also indicate affordable budget growth and envisaged tariff increases as the base line of the budget process.

10.5.3 Budget Compilation Process:

- a) The process to be followed in the compilation of the budget is as follows and should incorporate the funding principles detailed under paragraph 6.7 below:
- The CFO, after consultation with the Budget Steering Committee set the reasonable growth level of the capital budget to be financed out of own sources and the operational budget based on the current financial

performance and the prevailing industry growth levels (i.e. CPIX).

- After the income has been determined, an acceptable growth level for the operating expenditure is determined and the draft operating budget is discussed with the relevant Business Unit Managers for their perusal and amendments.
- The draft operating and capital budget is compiled based on the projects that emanated out of the engagements with the different stakeholders.
- The CFO, engage with the Business Unit Managers in order to determine the priorities for a particular financial year and to determine the ranking of projects based on these priorities in line with the IDP of the municipality.
- The CFO must assist the MM to prepare and submit to the mayor, via the budget steering committee, for consideration the following:
  - The draft operating and capital budget for perusal and suggestions;
  - A draft service delivery and budget implementation plan, to include the components as listed under paragraph 7.1 below, for the budget year together with the annual budget as prescribed by regulation 14(2);
  - Drafts of the annual performance agreements as required in terms of section 57(1)(b) of the MFMA.

## **10.6      Funding:**

### **10.6.1      Funding of expenditure:**

#### **a)              The funding of an annual budget must:**

- be estimated in accordance with the assumptions and

methodologies set out in the funding and reserves policy of the municipality referred to in paragraph 6.5; and

- be consistent with the trends, current and past, of actual funding collected or received.

- b) Realistically anticipated revenues to be received from national or provincial government, national or provincial public entities, other municipalities, municipal entities, donors or any other source may be included in an annual budget only if there is acceptable documentation that guarantees the funds.  
Acceptable documentation is constituted as listed under regulation 10(2).
- c) Estimated provision for revenue from levies or other charges that will not be collected must be budgeted for separately and reflected on the expenditure side of the municipality's annual budget and not netted out from budgeted revenue.
- d) The cash flow budget required in terms of Schedule A must reflect all funds realistically forecast to be collected, including arrears.
- e) To determine whether an annual budget is funded in accordance with section 18 of the MFMA, a simultaneous analysis is required of the financial performance, financial position, cash flow, and capital expenditure budgets together with any requirements for working capital and cash investments held for statutory or contractual purposes.

#### 10.6.2 Funding of capital expenditure:

- a) An annual budget must show total capital expenditure and the different sources of funding.
- b) All sources of funding shown must be available and must not have been committed for other purposes.
- c) The total budgeted capital funding by source must equal the total budgeted capital expenditure.

10.6.3 Funds created in terms of section 12 of the MFMA (i.e. Relief, charitable, trust funds):

- a) Funds created in terms of section 12 of the MFMA must be fully cash backed. A municipality may make expenditures or donations in support of the objectives for which funds created in terms of section 12 of the MFMA were established if approved in an annual budget or adjustments budget.
- b) Money received for relief, charitable and/or other funds in terms of section 12(1) deposited in a separate account opened in terms of section 12(2) may be withdrawn from the account without appropriation in terms of an approved budget, but only:
  - by or on the written authority of the accounting officer in acting in accordance with decisions of the municipal council; and
  - for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.
- c) No municipal funds may be paid into a fund created in terms of section 12 of the MFMA.

## **10.7 Approval of Capital Projects:**

10.7.1 Within ten working days after the municipal council has given individual approval for a capital project in terms of section 19(1)(b) of the MFMA, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public –

- a) the municipal council resolution approving the capital project; and
- b) details of the nature, location and total projected cost of the approved capital project.

10.7.2 The following capital projects may be approved by a council either individually or as part of a consolidated capital programme as contemplated in section 19(3) of the MFMA:

- a) capital projects of which the total projected cost is below 5% of the municipality's revenue, in the case of a municipality with approved total revenue in its current annual budget not exceeding R250 million;
- b) capital projects of which the total projected cost is below 8% of the municipality's revenue, in the case of a municipality with approved total revenue in its current annual budget greater than R250 million but not exceeding R500 million; and
- c) capital projects of which the total projected cost is below R50 million, in the case of a municipality with approved total revenue in its current annual budget greater than R500 million.

10.7.3 Paragraph 5.8(a) does not apply to capital projects whose total projected cost when the annual budget is approved is below the values set out in Paragraph 5.8(b).

10.7.4 Expenditure needed for capital projects below the values set out in paragraph 5.8(b) may be included in the annual budget before the project is approved in terms of section 19(3) of the MFMA.

## **10.8 Tabling in Council:**

10.8.1 The draft budget must be tabled to Council at least 90 days before the start of the new financial year (31 March) in terms of sections 16(2) with the accompanying quality certificate required in terms of the Budget and Reporting Regulations.

10.8.2 An annual budget and supporting documentation tabled in a municipal council in terms of section 17(3) of the MFMA must –

- a) be in the format in which it will eventually be approved by the

- council; and
  - b) be credible and realistic such that it is capable of being approved and implemented as tabled.
- 10.8.3 When complying with section 68 of the MFMA, the municipal manager must submit the draft municipal service delivery and budget implementation plan to the mayor together with the annual budget to be considered by the mayor for tabling in terms of section 16(2) of the MFMA.
- 10.8.4 For effective planning and implementation of the annual budget, the draft municipal service delivery and budget implementation plan may form part of the budget documentation and be tabled in the municipal council if so recommended by the budget steering committee.

**10.9 Publication and Submission for Consideration:**

- 10.9.1 After the draft budget is tabled in Council, it is released for public comment and for National and Provincial Treasuries as required by section 22 of the MFMA.
- 10.9.2 When making public the annual budget and supporting documentation in terms of section 22(a) of the MFMA, read with section 21A of the Municipal Systems Act, the municipal manager must also make public any other information that the municipal council considers appropriate to facilitate the budget consultation process, including –
- a) summaries of the annual budget and supporting documentation in alternate languages predominant in the community; and
  - b) information relevant to each ward in the municipality.
- 10.9.3 All information contemplated in (1) above must cover:
- a) the relevant financial and service delivery implications of the annual budget; and
  - b) at least the previous year's actual outcome, the current year's forecast outcome, the budget year, and the following two years.

10.9.4 When submitting the annual budget to the National Treasury and the relevant provincial treasury in terms of section 22(b)(i) of the MFMA, the municipal manager must also submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form –

- a) the supporting documentation as tabled in the municipal council;
- b) the draft service delivery and budget implementation plan; and
- c) any other information as may be required by the National Treasury.

10.9.5 The municipal manager must send copies of the annual budget and supporting documentation as tabled in the municipal council, in both printed and electronic form to –

- a) any other municipality affected by the annual budget within ten working days of the annual budget being tabled in the municipal council; and
- b) any other organ of state on receipt of a request from that organ of state.

#### **10.10 Consultations on Tabled Budgets:**

10.10.1 The mayor must for purposes of section 23 of the MFMA table the following documents in the municipal council –

- a) a report summarising the local community's views on the annual budget;
- b) any comments on the annual budget received from the National Treasury and the relevant provincial treasury;
- c) any comments on the annual budget received from any other organ of state, including any affected municipality; and
- d) any comments on the annual budget received from any other stakeholders.

10.10.2 The municipal manager must assist the mayor in the preparation of the documents referred to in subparagraph (1) and section 23(2) of the MFMA.

- 10.10.3 Once the comments from the public, and the National and Provincial Treasuries have been submitted, noted and considered, the necessary amendments are made to the draft budget and the budget is then tabled for Council to consider approval of the budget at least 30 days before the start of the budget year (31 May).

**10.11 Approval of Annual Budgets:**

- 10.11.1 A municipal council must consider the full implications, financial or otherwise, of the annual budget and supporting documentation before finally approving the annual budget before the start of the budget year.
- 10.11.2 When approving an annual budget, a municipal council must in terms of section 24(2)(c) of the MFMA, consider and adopt separate resolutions dealing with each of the matters contemplated in that section.

**10.12 Publication of Approved Budget:**

- 10.12.1 Within ten working days after the municipal council has approved the annual budget of a municipality, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved annual budget and supporting documentation and the resolutions referred to in section 24(2)(c) of the MFMA.
- 10.12.2 The municipal manager must also make public any other information that the municipal council considers appropriate to facilitate public awareness of the annual budget, including –
- a) summaries of the annual budget and supporting documentation in accordance with communication policy; and
- 10.12.3 All information contemplated in subparagraph (2) must cover:
- a) the relevant financial and service delivery implications of the annual budget; and

- b) at least the previous year's actual outcome, the current year's forecast outcome, the budget year and the following two years.

**10.13      Publication of Approved Services Delivery and Budget Implementation Plan:**

- 10.13.1      The municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved service delivery and budget implementation plan within ten working days after the mayor has approved the plan in terms of section 53(1)(c)(ii) of the MFMA.

**10.14      Submission of Approved Annual Budget:**

- 10.14.1      The municipal manager must submit the approved annual budget to National Treasury and the relevant provincial treasury within ten working days after the municipal council has approved the annual budget.

- 10.14.2      The municipal manager must submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form –

- a) the supporting documentation within ten working days after the municipal council has approved the annual budget;
- b) the approved service delivery and budget implementation plan within ten working days after the mayor has approved the plan; and
- c) any other information as may be required by the National Treasury.

- 10.14.3      The municipal manager must send copies of the approved annual budget and supporting documentation, in both printed and electronic form to –

- a) any other municipality affected by the annual budget within ten working days after the municipal council has approved the annual budget; and
- b) any other organ of state on receipt of a request from that organ of state.

## 11. BUDGET IMPLEMENTATION

11.1 After the budget has been approved, the service delivery and budget implementation plan (SDBIP) should be compiled to include the following components:

- a) Monthly projections of revenue to be collected for each source;
- b) Monthly projections of expenditure (operating and capital) versus actual expenditure for each vote;
- c) Quarterly projections of service delivery targets and performance indicators for each vote;
- d) Detailed capital works plan broken down by vote over three years.

11.2 The SDBIP must be tabled to the Mayor within 28 days after aforementioned approval.

11.3 Each Business Unit Manager has to indicate the intended spending patterns of both their capital and operating budgets. (Cash flows)

11.4 These listed cash flows are consolidated into the Service Delivery and Budget Implementation Plan of the organisation.

11.5 The SDBIP will be monitored on a monthly basis where actual spending will be compared with the planned spending as indicated by the Business Unit Managers at the beginning of the year.

11.6 Each Business Unit Manager can use their respective municipal standard chart of account numbers as indicated on the budget.

11.7 The Mayor, in consultation with the Budget Steering Committee, must take all reasonable steps to ensure that the annual performance agreements of the municipal manager and all senior managers –

- a) comply, and are concluded, as required in terms of section 57 the Municipal Systems Act, and
- b) are linked to the measurable performance objectives approved with

the budget and SDBIP.

- 11.8 The municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved service delivery and budget implementation plan within ten working days after the mayor has approved the plan in terms of section 53(1)(c)(ii) of the MFMA.

## **12. ADJUSTMENTS BUDGET**

### **12.1 Authority:**

- 12.1.1 Budget amendments are only allowed when Council approve a recommendation by the Executive Mayor, in terms of section 28 of the MFMA, to revise the approved annual budget.

### **12.2 Timeframes and Reasons for Adjustments Budgets:**

#### **12.1.1 During the year:**

Should any material under-collection of revenue become a reality, the revenue and expenditure estimates **must** be adjusted downwards.

#### **12.1.2 At Any Time After the Mid-Year Budget and Performance Assessment has been Tabled in Council, but not Later than 28 February of the Current Year:**

- a) Additional revenues that have become available over and above those anticipated in the annual budget **may** be appropriated, but only to revise or accelerate spending programmes already budgeted for;
- b) *The utilization of projected savings in one vote **may** be utilized towards spending under another vote;*
- c) Any errors in the annual budget **may** be corrected;
- d) Unauthorised expenditure of the current financial year, not recoverable from the person liable for that expenditure, may be authorized in terms of section 32(a)(i) of the MFMA.

12.1.3 Only One Adjustments Budget Referred to in (b) above may be Tabled in Council During a Year, Except when:

the additional revenues referred to in (b)(i) above are allocations to the municipality in a National or Provincial adjustments budget, when it will be required that the Mayor **must**, at the next council meeting, but within 60 days of the approval of the relevant National or Provincial adjustments budget, table an adjustments budget in council to appropriate the additional revenues.

12.1.4 At the First Available Opportunity after any Unforeseeable and Unavoidable Expenditure was Incurred:

the mayor may in emergency or other exceptional circumstances recommend the authorization of unforeseeable and unavoidable expenditure for which no provision was made in an approved budget and table the adjustment budget **but if** such adjustments budget is **not passed** by council within 60 days after the unforeseeable and unavoidable expenditure was incurred, the expenditure is unauthorized and section 32 of the MFMA applies.

12.1.5 After the End of the Past Financial Year where the Under-Spending Could not Reasonably have been foreseen at the Time:

The authorization of the spending of funds, that was unspent at the end of the past year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by council, **must** be approved in an adjustments budget for that purpose by the council by 25 August of the year following the year to which the roll-over relate.

12.1.6 When the Mayor Tables the Annual Report, within Seven Months After the End of a Financial Year, in terms of Section 127(2) of the MFMA:

A special adjustments budget must be tabled in the municipal council which may only deal with unauthorised expenditure from the previous financial year, which the council is being requested to authorize in terms of section 32(2)(a)(i) of the MFMA.

### **12.3      Format:**

- 12.3.1      An adjustments budget and supporting documentation of a municipality must be in the format specified in Schedule B of the regulations and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the MFMA.

### **12.4      Funding:**

- 12.4.1      An adjustments budget of a municipality must be appropriately funded. The supporting documentation to accompany an adjustments budget in terms of section 28(5) of the MFMA must contain an explanation of how the adjustments budget is funded.

### **12.5      Submission of Tabled Adjustments Budget:**

- 12.5.1      When submitting the tabled adjustments budget to the National Treasury and the relevant provincial treasury in terms of section 28(7) of the MFMA, read together with section 22(b)(i) of the MFMA, the municipal manager must submit in both printed and electronic form:
- a)          the supporting documentation referred to in section 28(5) of the MFMA within ten working days of the adjustments budget being tabled in the municipal council; and
  - b)          any other information as may be required by the National Treasury.
- 12.5.2      The municipal manager must send copies of an adjustments budget and supporting documentation, in both printed and electronic form to:
- a)          any other municipality affected by that adjustments budget within ten working days of the adjustments budget being tabled in the municipal council; and
  - b)          any other organ of state on receipt of a request from that organ of state.

## **12.6      Approval:**

- 12.6.1      A municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation referred to in regulation 21 before approving the adjustments budget.
- 12.6.2      An adjustment budget must be accompanied by all of the following:
- a)          An explanation of how the adjustments affect the approved annual budget;
  - b)          Appropriate motivation of any material changes to the annual budget;
  - c)          An explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two years; and
  - d)          Any other supporting documentation that may be prescribed.
- 12.6.3      Expenditure may only be incurred on amended budgets after approval by Council of such Budget amendment, except in case of emergency or other exceptional circumstances as defined in Section 29 of the MFMA.
- 12.6.4      When approving an adjustments budget, a municipal council must consider and adopt separate resolutions dealing with each of the following matters listed in Part1 and 2 of Schedule B of the regulations:
- a)          Mayor's report;
  - b)          Resolutions;
  - c)          Executive summary;
  - d)          Tables;
  - e)          Quality certificate;
  - f)          Supporting documentation.

**12.7      Publication:**

- 12.7.1      Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting documentation, as well as the resolutions referred to in regulation 25(3) and information required under regulation 26(2).

**12.8      Submission of Approved Adjustments Budget and Other Documents:**

- 12.8.1      The municipal manager must submit the approved adjustments budget to National Treasury and the relevant provincial treasury within ten working days after the municipal council has approved an adjustments budget.
- 12.8.2      When submitting an adjustments budget to the National Treasury and the relevant provincial treasury, the municipal manager must also submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form:
- a)          the supporting documentation within ten working days after the municipal council has approved the adjustments budget;
  - b)          the amended service delivery and budget implementation plan, within ten working days after the council has approved the amended plan in terms of section 54(1)(c) of the MFMA; and
  - c)          any other information as may be required by the National Treasury.
- 12.8.3      The municipal manager must send copies of an approved adjustments budget and supporting documentation, in both printed and electronic form to:
- a)          any other municipality affected by that adjustments budget within ten working days after the municipal council has approved the adjustments budget; and
  - b)          any other organ of state on receipt of a request from that organ of state.

### 13. **MONITORING AND REPORTING**

The monthly, quarterly and mid-year budget and performance assessment reports mentioned below **must be in the format** specified in Schedule C of the Municipal Budget and Reporting Regulations (Notice 393 of 2009) and to include all the required tables, charts and explanatory information taking into account any guidelines issued by the Minister in terms of section 168(1) of the MFMA.

#### 13.1 **Monthly Reports:**

13.1.1 A monthly report prepared by Financial Services shall serve to monitor the actual expenditure against the Budget and cash flow forecasts reflected in the SDBIP for the period. Business Unit Managers shall provide any possible comments to the Chief Financial Officer for inclusion in the report before it is forwarded to the Municipal Manager for submission as prescribed by the MFMA and Regulations:

- a) The Municipal Manager must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasuries 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.
- b) This report must reflect the following:
  - actual revenues per source, compared with budgeted revenues;
  - actual expenses per vote, compared with budgeted expenses;
  - actual capital expenditure per vote, compared with budgeted expenses;
  - actual borrowings, compared with the borrowings envisaged to fund the capital budget;

- the amount of allocations received, compared with the budgeted amount;
- actual expenses against allocations, but excluding expenses in respect of the equitable share;
- 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;
- the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- 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.

- c) The report to the National and Provincial Treasuries must be both in electronic format and in a signed written document.

## **13.2 Quarterly Reports:**

- 13.2.1 The Executive Mayor must submit to the Council within thirty days after the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality as required by section 52 (d) of the MFMA.

## **13.3 Mid-Year Budget and Performance Assessment:**

- 13.3.1 The Municipal Manager 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 in terms of section 72 of the MFMA.

- 13.3.2 The Municipal Manager must then submit a report on such assessment to the Executive Mayor by 25 January each year as well as to Provincial Treasury and National Treasury.
- 13.3.3 The Municipal Manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan subject to the requirements stipulated in Section 8 of this policy.
- 13.3.4 The Executive Mayor must submit the section 72 assessment report to Council by 31 January of each year as required by section 54(1) (f) of the MFMA.

**13.4 Website Reporting:**

- 13.4.1 The Municipal Manager must place on the municipality's official website the following information relating to the budgetary process in terms of section 75 of the MFMA:
- a) the annual and adjustments budgets and all budget-related documents;
  - b) all budget-related policies;
  - c) the annual report;
  - d) all performance agreements;
  - e) all service delivery agreements;
  - f) all long-term borrowing contracts;
  - g) all monthly-, quarterly- and mid-year report submitted to the Council on the implementation of the budget and the financial state of affairs of the municipality.

**14. RELATED POLICIES**

- 14.1 The following policies are related to this policy:
- 14.1.1 Cash Management and Investment;
  - 14.1.2 Funding and Reserves.

**15.        REVIEW**

15.1        This policy will be reviewed at least annually and updated if needed.

**16.        EFFECTIVE DATE**

16.1        This policy shall come into effect on 1 July 2021.



# **CENTRAL KAROO DISTRICT MUNICIPALITY**

## **CONTRACT MANAGEMENT POLICY**

**2022/2023**

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## 1. INTRODUCTION

1.1 Effective contract management is vital for the efficient operation of any business entity. The importance of contract management in municipalities has been emphasized by introduction of the Municipal Finance Management Act no 56 of 2003. The following extract from section 116 of the Municipal Finance Management Act no 56 of 2003 Contracts and contract management are of particular relevance "A contract or agreement procured through the supply chain management system of a municipality or municipal entity must —

1.1.1 be in writing;

1.1.2 stipulate the terms and conditions of the contract or agreement, which must include provisions providing for —

- a. the termination of the contract or agreement in the case of non-  
or underperformance;
- b. dispute resolution mechanisms to settle disputes between the parties;
- c. a periodic review of the contract or agreement once every three years in the case of a contract or agreement for longer than three years; and
- d. any other matters that may be prescribed.

1.2 The accounting officer of a municipality or municipal entity must —

1.2.1 take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced;

1.2.2 monitor on a monthly basis the performance of the contractor under the contract or agreement, the monthly monitoring of contracts is delegated to the user department and must be escalated to the municipal manager in case of a break-down in service delivery that cannot be managed by the user department;

1.2.3 establish capacity in the administration of the municipality or municipal entity —

- a. to assist the accounting officer in carrying out the duties set out in paragraphs 1.2.1 and 1.2.2; and
- b. to oversee the day-to-day management of the contract or agreement; and
- c. report to the council of the municipality, as may be appropriate, on the management of the contract or agreement and the performance of the contractor where non-performance of the vendor is deemed to be of such a serious nature that the municipal manager refers it to Council for notification purposes.

Council must receive an annual report (to be included in the annual Supply Chain Management Report) containing information regarding the performance of vendors. The mayor may require quarterly reports and those must be provided as and when required.

1.2.4 A contract or agreement procured through the supply chain management policy of the municipality or municipal entity may be amended by the parties, but only after—

1.2.4.1 the reasons for the proposed amendment have been tabled in the council of the municipality or, in the case of a municipal entity, in the council of its parent municipality; and

1.2.4.2 the local community—

- has been given reasonable notice of the intention to amend the contract or agreement; and
- has been invited to submit representations to the municipality or Municipal entity.

## **2. ROLE-PLAYERS OF CONTRACT MANAGEMENT**

2.1 Supply Chain Management.

2.2 Legal Services.

2.3 Contract Management/Project Manager – the user department will always be considered the contract/project manager.

## **3. CUSTODIAN OF BID DOCUMENTS AND CONTRACT DOCUMENTS**

3.1 All bid documents and Contract Documents shall be kept by the Supply Chain Management Divisions.

3.2 No Senior Manager shall keep original bid documents and Contracts in their offices.

3.3 Directorates will however be allowed to keep copies of contracts and bid documents for assessment and management purposes.

## **4. ROLE OF PROJECT MANAGEMENT AND CONTRACT ADMINISTRATION**

<b><u>Project Manager</u></b>		<b><u>Contract Administration</u></b>	
➤	Nominated by the Head of section to manage the specific project;	➤	Official from Legal Services Division Responsible for Contract Administration;
➤	Often reflected as reporting officer in terms of the suppliers' performance management system;	➤	Responsible for –
➤	Responsible for –		
	- Quality control, financial management and other technical expertise needed		- Safekeeping of all contract related documents, to be done at the registry

	<p>for the success of the project.</p> <ul style="list-style-type: none"> <li>- Facilitates the signing of contract with the services provider.</li> <li>- Assessing performance in line with the Suppliers Performance Monitoring System.</li> <li>- Reporting on poor performance of supplier to the accounting officer and council.</li> </ul>		<p>department;</p> <ul style="list-style-type: none"> <li>- Advise the Reporting Officer/ Project Manager on: <ul style="list-style-type: none"> <li>• Drafting of Service Level Agreement;</li> <li>• Contract's expiry date;</li> <li>• Price adjustment.</li> </ul> </li> </ul>
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## 5. **SCOPE AND OBJECTIVES**

- 5.1 The objective of this policy/procedure is to set out the procedure that should be followed when drafting, monitoring, cancelling or renewing contracts or agreements procured through the supply chain management of the municipality.
- 5.2 This policy/procedure applies to all contracts entered into by the Municipality as results of its supply chain management policy.
- 5.3 This policy/procedure should be read and used in conjunction with the Municipality's supply chain management policy.

## 6. **PROCEDURES WHEN DRAFTING CONTRACTS**

- 6.1 All contracts of the municipality should be in writing and should at least include the following:
- 6.1.1 Termination of the agreement in case of non or under-performance;
  - 6.1.2 Dispute resolution mechanisms to settle disputes between the parties;
  - 6.1.3 Price of the goods or services to be delivered to the municipality and performance will be evaluated;

- 6.1.4 Penalties in case of non-performance or under performance;
  - 6.1.5 Duration of the contract;
  - 6.1.6 A periodic review of the contract or agreement once every three years in the case of a contract or agreement for longer than three years.
- 6.2 All contracts that have serious financial implications for the municipality should be handed over to the municipality legal adviser for review before being signed by the accounting officer or delegated official.
- 6.3 The following are regarded as contracts that have serious financial implications:
  - 6.3.1 Contract value to the amount of R200 000.00 or more;
  - 6.3.2 Contract for the period of more 12 months and more.

## **7. PROCEDURES AFTER DRAFTING CONTRACTS**

- 7.1 After the contract has been signed by the Municipal Manager it should be entered into the contract register that should be maintained by the Registry Office. The register should at least include the following information (See Annexure A):
  - 7.1.1 Date that the contract was signed;
  - 7.1.2 Contract number;
  - 7.1.3 Name of the contractor;
  - 7.1.4 Brief description of the goods or services to be provided;
  - 7.1.5 Duration of the contract;
  - 7.1.6 Review date if it is a contract for more than three years;
  - 7.1.7 Remarks/ Comments;
- 7.2 The Contract Administration officer should update this register on monthly basis with all contracts entered into by the municipality during that month.

## **8. REVIEW OR TERMINATION OF CONTRACTS**

- 8.1 The Head Supply Chain Management may inform the relevant Head of Department and/or Municipal Manager about the date of the review of the contract, at a reasonable period before the review date. As the management of the contract is the purview of the user department, this responsibility rests with the user department.
- 8.2 In case of non-performance or under-performance by the contractor remedies as outlined in the contract should be used by the Municipality.

## **9. AMENDMENT OF A CONTRACT**

- 9.1 A contract or agreement procured through the supply chain management policy of the municipality or municipal entity may be amended by the parties, but only after —
- 9.1.1 the reasons for the proposed amendment have been tabled in the council of the municipality or, in the case of a municipal entity, in the council of its parent municipality; and the local community —
- 9.1.1.1 has been given reasonable notice of the intention to amend the contract or agreement; and
- 9.1.1.2 has been invited to submit representations to the municipality or municipal entity.

## **10. VARIATION ORDERS**

- 10.1 In cases where the estimated value of the envisaged changes in purchase does not vary more than 15% of the total value of the original contract, the contractor may be instructed to deliver the goods or render the services as such. In cases of measurable quantities, the contractor may be approached to reduce the unit price, and such offers may be accepted provided that there is no escalation in price.
- 10.2 The Accounting Officer shall be delegated to approve variation order as per section 10.1 or Directors may approve the variation order if the Rand value falls within their overall delegation limits.

## **11. REPORTING TO COUNCIL**

11.1 The Head of Supply Chain Management Unit should prepare on monthly basis a report for submission to the Accounting Officer, a report on all contracts with which problems are experienced for escalation to the Council should the Accounting Officer deem that to be necessary. This report is required by section 116 subsections (2)(d) of the Municipal Finance Management Act, No 53 of 2003.

11.2 The following information should be contained in the report:

- 11.2.1 Contract number;
- 11.2.2 Name of the contractor;
- 11.2.3 Brief description of the goods or services to be provided;
- 11.2.4 Duration of the contract;
- 11.2.5 Penalties under the contract;
- 11.2.6 Payments made to date;
- 11.2.7 Penalties paid by the municipality or contractor;
- 11.2.8 Amendment to the contract;
- 11.2.9 Remarks from site meeting or contract steering committee meeting that have impact on the contract;
- 11.2.10 Progress report from the head of department that procured the goods or services;
- 11.2.11 Any delays that might have impact on the completion of the contract.

## **12. REPORTING TO NATIONAL TREASURY**

12.1 The Chief Financial Officer are required to submit information in respect of each contract above R10 000 000.00 awarded and signed by all parties to the contract to National Treasury.

12.2 A report must be submitted each time a contract is awarded and signed or no later than 15 days after the end of each month.

- 12.3 Completed reports are to be e-mailed to the National Treasury at:  
[Contracts@treasury.gov.za](mailto:Contracts@treasury.gov.za) or by facsimile to (012) 326 5445.
- 12.4 The following information should be contained in the report:
- 12.4.1 Name of the Municipality;
  - 12.4.2 Contract reference number;
  - 12.4.3 Contract signing date;
  - 12.4.4 Contract description;
  - 12.4.5 Name of contractor;
  - 12.4.6 Percentage equity ownership by black persons (no franchise prior to elections) based on information furnished on Municipal Bid Document (MBD) 6.1;
  - 12.4.7 Percentage equity ownership by black women based on information furnished on MBD 6.1;
  - 12.4.8 Percentage equity ownership by white women based on information furnished on MBD 6.1;
  - 12.4.9 Outsourced / subcontracted business to small business as a percentage of annual turnover based on information furnished on MBD 6.3, if applicable;
  - 12.4.10 Percentage local content of final product in relation to the bid price based on the information furnished on MBD 6.4, if applicable;
  - 12.4.11 Total contract price (A);
  - 12.4.12 Total price of lowest acceptable bid 9price of bid scoring the highest points for price) (B);
  - 12.4.13 Premium paid to promote specified goals (C) ( $C=(A-B)$ );
  - 12.4.14 Percentage premium paid ( $C/B \times 100$ ).

### **13. ANNEXURES**

Annexures A to C is typical annexures applicable to all Municipal contracts. Information required may vary in detail depending on the nature of the project:

**ANNEXURE A:** Registration of all contracts of the Municipality

**ANNEXURE B:** Registration of all contracts above R10 000 000.00

**ANNEXURE C:** Report to the Council on Contracts Management over  
R 10 000 000.

## ANNEXURE A

## REGISTER OF ALL CONTRACTS OF THE MUNICIPALITY

[illegible]

## ANNEXURE B

**REGISTER OF ALL CONTRACTS ABOVE R10 000 000.00 FOR PERIOD EXCEEDING THREE MONTHS**

[illegible]

## ANNEXURE C

## REPORT TO COUNCIL ON CONTRACT MANAGEMENT – CONTRACTS OVER R 10 000 000.00

[illegible]

**14.        APPLICABLE LEGISLATION**

14.1        Local Government: Municipal Finance Management Act, 56 of 2003;

14.2        Supply Chain Management Regulations in terms of the Local Government:  
Municipal Finance Management Act, 56 of 2003;

14.3        Any other legislation issued in this regard.