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BUDGET RELATED POLICIES 2021/2022

May 2021

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ANNEXURE A

Accounting Policies to the Annual Financial Statements

Effective from 1 July 2021

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer		
Council		

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. BASIS OF PRESENTATION

The annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standards of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with GRAP 3 as read with Directive 5. Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of the annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise. Details of any changes in the accounting policies are provided in the notes on changes in accounting policies.

These standards are summarised as follows:

Reference	Topic
GRAP Framework	Framework for the preparation and presentation of financial statements
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investment in Associates
GRAP 8	Investment in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies

Reference	Topic
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 20	Related Party Disclosures (Revised)
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 32	Service Concession Arrangement Grantor
GRAP 100	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
IFRS 4	Insurance contracts
IAS 12	Income taxes
IGRAP 1	Applying the probable test on initial recognition of revenue
IGRAP 2	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IGRAP 3	Determining whether an Arrangement Contains a lease
IGRAP 4	Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8	Agreements for the construction of Assets from Exchange Transactions
IGRAP 9	Distributions of Non-cash Assets to Owners
IGRAP 10	Assets Received from Customers
IGRAP 11	Consolidations – Special Purpose Entities

Reference	Topic
IGRAP 12	Jointly Controlled Entities – Non-monetary Contributions by Ventures
IGRAP 13	Operating Leases – Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15	Revenue – Barter Transactions Involving Advertising Services
IGRAP 16	Intangible Assets – Website Costs
IGRAP 17	Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset
IGRAP 18	Recognition and Derecognition of Land
IGRAP 19	Liabilities to Pay Levies
IFRIC 12	Service concession arrangements
SIC 25	Income taxes – Changes in the status of an enterprise or its shareholders
SIC 29	Disclosure service concession
Directive 1	Repeal of existing transitional provisions in, and consequential amendments to, standards of GRAP
Directive 3	Transitional provisions for high capacity municipalities
Directive 5	Determine the GRAP reporting framework
Directive 7	The Application of Deemed Cost
Directive 11	Changes in the Measurement Bases Following the Initial Adoption of the Standards of GRAP
Guideline	Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The Cash Flow Statement is prepared using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Accounting policies for material transactions, events or conditions not covered by the above GRAP standards have been developed in accordance with GRAP 3. Where required, accounting policies were developed for standards of GRAP that have been issued by the Accounting Standards Board, but for which an effective date have not been determined by the Minister of Finance.

2. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued in prior periods, but are not yet effective and have not been early adopted by the municipality:

Reference	Topic	Effective date
GRAP 18	Segment Reporting - issued March 2005	1 July 2020
GRAP 110	Living and Non-living Resources	1 July 2020

All other standards as listed above will only be effective on the date it is announced by the Minister of Finance.

The ASB Directive 5 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board or, International Financial Reporting Standards. Where a standard of GRAP has been issued, but is not in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Management has considered all of the above-mentioned GRAP standards issued but not effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

3. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand and are rounded off to the nearest Rand.

4. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

5. OFFSETTING

Financial assets and liabilities are offset and the net amount reported on the Statement of Financial Position when there is a legally enforceable right to set off the recognised

amount, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

6. COMPARATIVE INFORMATION AND BUDGET INFORMATION

6.1 Current year comparatives

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving motivations for over- or under spending on line items where it is found to be material. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification. The approved budget covers the period from 1 July 2019 to 30 June 2020.

In general a difference of 10% or more is considered material, although the surrounding circumstances are taken into account if it could influence the decisions or assessments of the users of the financial statements in determining whether a difference between the budgeted and actual amount is material.

6.2 Prior year comparatives

The comparative figures of one prior period is disclosed. When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

7. HOUSING DEVELOPMENT FUND

The Housing Development Fund was established in terms of the Housing Act (Act No. 107 of 1997).

7.1 Housing Development Fund

Sections 15(5) and 16 of the Housing Act, (Act 107 of 1997), which came into operation on 1 April 1998, required that the Municipality maintain a separate housing operating

account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Act also requires in terms of Section 14(4) (d) (ii) (aa), read with, inter alia, Section 16(2), that the net proceeds of any letting, sale or alienation of property, previously financed from government housing funds, be paid into a separate operating account, and be utilised by the Municipality for housing development in accordance with the National Housing Policy.

The following provisions are set for the creation and utilisation of the Housing Development Fund:

- The proceeds in this fund are utilised for housing development in accordance with the National Housing Policy, and also for housing development projects approved by the National Minister of Human Settlements.
- Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.
- Interest earned on the investments of the fund is disclosed as interest earned in the Statement of Financial Performance.

7.2 Un-realized Housing Proceeds

In order to comply with Section 14(4) (d) (i) and (ii) of the Housing Act, (Act 107 of 1997) where all net proceeds need to be paid into the Housing Development Fund, it was necessary to create a holding account which represents the un-realized funds due by long-term housing selling schemes and sponsored loan debtors. This account is reduced when debtors are billed for their payment.

8. INTERNAL RESERVES AND REVALUATION RESERVE

8.1 Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as re-valued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus / (deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus / (deficit) while gains or losses on disposal, based on re-valued amounts are credited or charged to the Statement of Financial Performance.

9. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, where the provision being measured involves a large population of items; the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

9.1 Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Municipality's policy, taking into account current

technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

10. PROPERTY, PLANT AND EQUIPMENT

10.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

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

Property, plant and equipment are initially recognised at cost on its acquisition date. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

10.2 Subsequent measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, excluding land and buildings, are measured at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent to initial recognition, land and buildings are carried at a revalued amount based on municipal valuations, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by external independent valuers every four years to coincide with the implementation of the general valuation such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

An increase in the carrying amount of land and buildings as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

When revalued assets are sold or retired, the amounts included in the revaluation reserve in respect of that assets, are transferred to accumulated surplus or deficit.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

10.3 Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated using the straight line method, to allocate their cost or revalued amounts less their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Asset class	Useful lives as applied in the AR (years)
Infrastructure	
Roads and storm water	5-100
Electricity	5-75
Water	5-100
Sewerage	5-100
Solid Waste	5-100
Buildings, structures and facilities	
Buildings	50
Recreational and sports facilities	5-100
Parks, gardens and cemeteries	5-100
Housing assets	50
Other assets	
Transport Assets	5-20
Computer and other office equipment	3-10
Furniture & fittings	5-10
Machinery and equipment	5-10

The useful lives, residual values and depreciation method are reviewed annually at the end of the financial year where there is any indication that the entity's expectations about the residual amount and the useful life of an asset has changed since the

preceding reporting date. Any adjustments arising from the annual review are applied prospectively.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready for its intended use. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the relevant lease.

10.4 De-recognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying values of assets (Cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

11. INTANGIBLE ASSETS

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

Amortization is calculated on cost, using the straight-line method, over the useful lives of the assets, which is estimated to be between 3 to 10 years upon initial recognition.

Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised.

Intangible assets are annually tested for impairment and the estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

12. INVESTMENT PROPERTIES

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.
- Land held for a currently undetermined future use.
- A building owned (or held by under a finance lease) and leased out under one or more operating leases.
- Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held.

- A building that is vacant but is held to be leased out under one or more operating leases.
- Property that is being constructed or developed for future use as investment property.

Investment property is subsequently measured using the fair value model. Investment property is carried at fair value, representing open market value determined by external valuers on reporting date. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the period in which it arises.

If the Municipality determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value to be reliably measurable when construction is completed, it measures that investment property at cost until the fair value can be reliably determined or construction has been completed.

Where the Municipality has determined that the fair value of an investment property (other than investment property under construction) is not determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy for property, plant and equipment).

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

13. HERITAGE ASSETS

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

The Municipality classifies assets as heritage assets where the significance as a heritage asset can be determined. In regard to land and buildings all graded sites are classified as Heritage Assets. Furthermore land with a natural significance is not componentised but seen as a single Heritage asset due to all parts contributing together to make up its significance.

GRAP 103 requires that land and buildings that qualify as Heritage assets, but of which a significant portion of that land and buildings is held for use in the production or supply of goods or services or for administrative purposes, should be recognised as property, plant and equipment, rather than heritage assets.

13.1 Initial recognition

The cost of an item of heritage assets is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

13.2 Subsequent measurement

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets (excluding Heritage assets which are land and buildings) are measured at cost less accumulated impairment losses. Heritage assets are not depreciated.

Subsequent to initial recognition, land and buildings which qualify as Heritage Assets are carried at a revalued amount based on municipal valuations less subsequent accumulated impairment losses. Revaluations are performed by external independent valuers every four years to coincide with the implementation of the general valuation such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date.

13.3 De-recognition of heritage assets

The carrying amount of an item of heritage assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of an item of heritage assets is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

14. INVENTORIES

Inventories consist of raw materials, work in progress, consumables and finished goods, which are valued at the lower of cost, determined on the first in first out basis, and net realisable value, except for plants which are valued at the tariffs charged. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value.

Cost of inventories comprises all costs of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Redundant and slow moving inventories are identified and written down to their estimated net realisable values. Inventories are written down according to their age, condition and utility. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

14.1 Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

14.2 Land inventory for BNG housing projects

The ASB issued the guideline on Accounting for Arrangements Undertaken i.t.o the National Housing Programme.

In terms of the guideline land currently controlled by the Municipality and recognised as either Property, plant and equipment or Investment Property, that has been designated for the purposes of an BNG housing development – in terms of Council's approved housing pipeline projects - meets the definition of inventory and requires reclassification to inventory.

The municipality only reclassifies the portion of land that it would not control after entering into an arrangement with the provincial Department of Human Settlements, to inventory.

Once the township development is completed, revisions that may need to be made to the values of the land initially reclassified as inventory is treated as a change in accounting estimate in terms of GRAP 3.

The carrying amount of the land up until the date of reclassification, as determined in accordance with the accounting policy of Property, plant and equipment or Investment property, is the cost amount on the date of reclassification.

Land inventory is derecognised once an agreement has been entered into with the provincial Department of Human Settlements.

15. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND HERITAGE ASSETS

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. A commercial return means that the return charged by the entity is commensurate with the risk associated with holding the asset and the asset is intended to generate positive cash inflows. All other assets are classified as non-cash-generating assets.

15.1 Impairment of cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at revalued amount reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset. An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

15.2 Impairment of non-cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

16. EMPLOYEE BENEFITS

The municipality provides short term benefits, long term benefits and retirement benefits for its employees and councillors.

16.1 Short-term employee benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service.

16.2 Post-employment benefits: Defined contribution plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees.

16.3 Post-employment benefits: Defined benefit plans

A **defined benefit plan** is a plan that defines an amount of benefit that an employee will receive on retirement.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out by independent qualified actuaries regularly, as may be required for fair presentation.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

16.3.1 Post-retirement Health Care Benefits:

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

16.3.2 Ex-gratia Pension Benefits:

The Municipality provides pension and retirement gratuity benefits to certain employees who were in the employment of the former Paarl and Wellington Municipalities (now incorporated into the Drakenstein Municipality) at 31 December 1994 (Paarl) and 31 March 1995 (Wellington) and still in the employment of Drakenstein Municipality at date of normal retirement, medical disability, retrenchment or death. The gratuity is calculated on the salary benefits during 1994/1995.

16.4 Long-service allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

16.5 National- and Provincially administered defined benefit plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the projected unit credit method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

The municipality does not apply defined benefit accounting to the defined benefit funds to which it is a member where these funds are classified in terms of GRAP as multi-employer plans, as sufficient information is not available to apply the principles

involved. As a result, GRAP 25 is applied and such funds are accounted for as defined contribution funds.

Salaried personnel are members of the Cape Joint Pension fund established in terms of the Local Authorities Pension Fund Ordinance, 1969 (Ordinance 23 of 1969), and the provisions of the Pension Fund Act, 1956 (Act 24 of 1956) or the SAMWU National Provident Fund.

16.6 Leave pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end and is shown as an accrual in the Statement of Financial Position.

16.7 Provision for bonus

The municipality recognises the expected cost of bonuses as a provision only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made at reporting date.

17. LEASES

17.1 Lease classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

17.2 The Municipality as lessee

Property, plant and equipment subject to finance lease agreements are capitalised at their cash cost equivalent. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Obligations. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on the straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

17.3 The Municipality as lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

18. BORROWINGS

Interest-bearing external loans and bank overdrafts are recorded net of direct issue costs. Finance charges, including premiums payable, are accounted for on an accrual basis. Borrowings are initially recognised at fair value, net of transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method.

Borrowing costs are recognised as an expense in the Statement of Financial Performance in the period incurred.

19. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either *Financial Assets* or *Financial Liabilities*.

A financial instrument is recognised if the municipality becomes a party to the contractual provisions of the instrument.

19.1 Classification of financial instruments

19.1.1 Financial Assets

A financial asset is any asset that is a cash or contractual right to receive cash. In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Financial asset at amortised cost being a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

Financial assets measured at fair value being financial assets that meet either of the following conditions:

- (a) Derivatives;
- (b) Combined instruments that are designated at fair value;
- (c) Instruments held for trading;
- (d) Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
- (e) Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets measured at cost being investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Finance Lease Receivables	Financial assets at amortised cost
Long-term Receivables	Financial assets at amortised cost
Current portion of Long-term Receivables	Financial assets at amortised cost
Consumer Debtors	Financial assets at amortised cost
Other Debtors	Financial assets at amortised cost
Short-term Investment Deposits – Call	Financial assets at amortised cost
Bank Balances and Cash	Financial assets at amortised cost
Investments in stock – ESKOM	Financial assets at fair value

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets at amortised cost.

19.1.2 Financial Liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

The following main categories of Financial Liabilities and the classification determining how they are measured exist:

- (i) Financial liabilities measured at fair value; or
- (ii) Financial liabilities measured at amortised cost

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Liabilities	Classification in terms of GRAP 104
Long term Liabilities	Financial liability at amortised cost
Other Creditors	Financial liability at amortised cost
Bank overdraft	Financial liability at amortised cost
Short-term Loans	Financial liability at amortised cost
Current portion of Long-Term Liabilities	Financial liability at amortised cost

Financial liabilities that are measured at fair value that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives)

Any other financial liabilities should be classified as financial liabilities at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

19.2 Initial and subsequent measurement

19.2.1 Financial assets:

Financial asset at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis.

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as financial asset at amortised cost.

Financial Assets measured at fair value are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

19.2.2 Financial liabilities:

Financial liabilities measured at fair value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities classified at amortised cost (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

19.3 Impairment of financial assets

Financial assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Trade receivables encompass long term debtors, consumer debtors and other debtors. A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

According to GRAP 104, the assessment for impairment needs to be made for each individual financial asset separately or for groups of financial assets with similar credit risks. The following methodology was followed to make a provision for bad debts for the year under review:

19.3.1 Consumer debtors

Consumer debtors are assessed individually thereafter collectively, considering factors such as payment histories and ratios, qualitative factors e.g. correspondence from attorneys, disputes about certain accounts, etc.

19.3.2 Other debtors

Other Debtors are reviewed individually considering payment histories and disputes about certain amounts. Provision for impairment is made accordingly.

19.3.3 Long term debtors

- Housing Loans

The loans in this group are assessed by reviewing their payment histories and ratios. Provision for impairment is made accordingly.

- Other Long Term Debtors

No provision for impairment is made for Other Long term Debtors, because it is envisaged that these debts will be fully recovered.

Other financial assets at amortised cost are assessed individually for impairment.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

19.4 De-recognition of financial assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

19.5 De-recognition of financial liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

20. STATUTORY RECEIVABLES

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The municipality has the following major categories under the ambit of statutory receivables:

- VAT receivable
- Rates debtors
- Traffic fine debtors

Recognition

- The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

20.1 Measurement

The municipality initially measures statutory receivables at their transaction amount.

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any interest or other charges that may have accrued on the receivable, impairment losses and amounts derecognised.

20.2 Impairment of statutory receivables

Statutory receivables, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Statutory receivables are impaired where there is objective evidence of impairment of Statutory receivables (such as the probability of insolvency or significant financial difficulties of the debtor).

If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 108.

A provision for impairment of receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

According to GRAP 108, the assessment for impairment needs to be made for each individual financial asset separately or for groups of statutory receivables with similar credit risks. The following methodology was followed to make a provision for bad debts for the year under review:

20.2.1 Rates debtors

Rates debtors are assessed individually thereafter collectively, considering factors such as payment histories and ratios, qualitative factors e.g. correspondence from attorneys, disputes about certain accounts, etc.

20.2.2 Traffic fines debtors

Traffic fine debtors are reviewed collectively considering payment histories and disputes about certain amounts. Provision for impairment is made accordingly.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

20.3 De-recognition of statutory receivable

The municipality derecognises Statutory receivable only when the rights to the cash flows from the asset are settled, expires or are waived; or it transfers control of the statutory receivable and substantially all the risks and rewards of ownership of the asset to another entity.

If the municipality has transferred control of the receivable to another party, whilst retaining some significant risks and rewards, and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the municipality will derecognise the receivable; and will recognised any separate rights and obligations created or retained in the transfer.

21. REVENUE RECOGNITION

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

21.1 Revenue from exchange transactions

21.1.1 Service charges

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

21.1.2 Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

21.1.3 Interest earned and rentals received

Interest and rentals are recognised on a time proportion basis that takes into account the effective yield on the investment. Interest may be transferred from the Accumulated Surplus to the Housing Development Fund or the Insurance Reserve.

21.1.4 Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

21.1.5 Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

21.1.6 Income from agency services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

21.1.7 Housing rental and instalments

Finance income from the sale of housing by way of instalment sale agreements or finance leases is recognised on a time proportion basis.

21.1.8 Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.

- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

21.2 Revenue from non-exchange transactions

21.2.1 Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

21.2.2 Fines

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the Municipality is entitled to collect.

Subsequent to initial recognition and measurement, the municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

21.2.3 Donations and contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met.

Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired in non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

21.2.4 Government grants and receipts

- Unconditional grants

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

- Conditional grants and receipts

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

- *Interest earned on unspent grants and receipts*

Interest earned on unspent grants and receipts is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance in accordance with GRAP 9.

21.2.5 Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

21.2.6 Services received in kind

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

21.2.7 Revenue recognition of unclaimed deposits

Unclaimed deposits older than three (3) years are recognised as revenue.

22. ACCOUNTING BY PRINCIPALS AND AGENTS

Identification

An agent is an entity that has been directed by another entity (a principal) through a binding arrangement to undertake transactions with third parties on behalf of the principal and for the benefit of the principal

A principal is an entity that directs another entity (an agent). through a binding

arrangement to undertake transaction with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf and for the benefit of another entity (the principal)

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms

and conditions of the transaction, to conclude that Is an agent. The municipality applies Judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal. In accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

23. HOUSING ARRANGEMENTS

The ASB issued the guideline on Accounting for Arrangements Undertaken in terms of the National Housing Programme.

Where the Municipality acts as a project manager in a housing arrangement, it is regarded as an agent in terms of the principles of GRAP 109 - Accounting by Principals and Agents.

Where the municipality is regarded as an agent, costs related to the construction of top structures and the related recovery thereof (revenue) is not be recognised in the statement of financial performance of the municipality.

Where the Municipality is identified as a project developer, the construction of the houses is performed by the municipality or by the appointment of a sub-contractor to undertake the construction on the municipality's behalf. The municipality applies the GRAP 11, Construction Contracts to account for these construction activities.

Where the municipality is regarded as the project developer and if the outcome of the construction contract can be estimated reliably, then contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed with reference to surveys of work performed. Otherwise, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Contract revenue will be in the form of a grant from the Western Cape Department of Human settlements and presented and disclosed under

transfers and subsidies in the Statement of Financial Performance.

Contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

24. VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Section 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

25. GRANTS-IN-AID

The municipality transfers money to individuals, organizations and other sectors of government from time to time. When making these transfers, the municipality does not:-

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

26. UNAUTHORISED EXPENDITURE

Section 1 of the Municipal Finance Management Act (MFMA), No 56 of 2003, defines “unauthorised expenditure” as follows -

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

Section 1 of the MFMA also defines a “**vote**” as:

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

The Municipality uses the Municipal Standard Chart of Accounts (mSCOA) Functions and Sub-functions, previously the Government Finance Statistics (GFS) functions, as well as departments as the main groupings of segments of the Municipality’s budget segments within the Municipality are grouped per department to facilitate greater accountability and budget implementation by the respective Executive Directors as well as per mSCOA classification to facilitate comparisons on a higher level.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

27. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality’s supply chain management policies.

28. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

29. FOREIGN CURRENCIES

Transactions in foreign currencies are translated to the functional currency of the entity at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost and fair value in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in surplus or deficit.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Cash flows arising from transactions in a foreign currency are recorded in Rand's by applying, to the foreign currency amount, the exchange rate between the Rand and the foreign currency at the date of the cash flow.

30. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets,

liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Details of changes in accounting policies, changes in estimates and correction of errors are disclosed in the notes to the annual financial statements where applicable.

31. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Accounting Officer, executive directors and all other managers reporting directly to the Accounting Officer or as designated by the Accounting Officer.

Close members of the family of a individual are those family members who may be expected to influence or be influenced by that individual in their dealings with the Municipality. A individual is considered to be a close member of the family of another individual if they are married or live together in a relationship similar to a marriage; or if they are separated by no more than two degrees of natural or legal consanguinity or affinity.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration.

In the case of permanent employees acting in management positions, only the remuneration received additionally for acting in that position is disclosed.

Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related

parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

32. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

33. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

1. KEY JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In the application of the municipality's accounting policies, which are described above, management is required to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

- **Materiality**

Materiality is judged by reference to the size and nature of the item. The deciding factor is whether the omission or misstatement could, individually or collectively, influence the decisions that users make on the basis of these financial statements.

In preparation of the annual financial statements materiality has been considered in:

- a) Deciding what to report in the financial statements and how to present it.
- b) Assessing the effect of omissions, misstatements and errors on the financial statements.

In assessing whether an item, transaction or event is material, specific thresholds for specific items, transactions and events, or aggregations thereof has been developed. These thresholds are used to make decisions about the reporting of information (i.e. how to recognise, measure, present and disclose items,

transactions and events), and used as a margin of error or framework within which to assess misstatements and errors. Based on professional judgement the quantitative value of materiality for the 2019/20 financial year is set at R12.5 million.

The municipality has also considered whether certain transactions or balances may be qualitatively material based on the inherent characteristics thereof, even though the transaction or balance is quantitatively immaterial, if:

- a) The item, transaction or event relates to legal or regulatory requirements.
- b) Related party transactions.
- c) The regularity or frequency with which an item, transaction or event occurs.
- d) The item, transaction or event results in the reversal of a trend.
- e) The item, transaction or event is likely to result in a change in accounting policy.
- f) The commencement of a new function, or the reduction or cessation of an existing function.
- g) The degree of estimation or judgement that is needed to determine the value of an item, transaction or event.
- h) An item, transaction or event that affects the going concern assumption of the municipality.

- **Lease classification – Municipality as lessor**

The Municipality has entered into commercial property leases on its investment property portfolio. The Municipality has determined that it retains all the significant risks and rewards of ownership of these properties, and so accounts for them as operating leases.

- **Lease classification – Municipality as lessee**

The Municipality has entered into a number of leases for office equipment. In determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Municipality.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. The Municipality has exercised its judgement on the appropriate classification of equipment leases, and has determined a number of lease arrangements are finance leases.

- **Classification of Property as held for strategic purposes.**
The Municipality classifies vacant land that is earmarked for future development in terms of the Municipality's Spatial Development Framework, as Property, plant and Equipment, rather than Investment Property.
- **Criteria for the classification of properties as Investment property rather than Property, plant and equipment, when classification is difficult are as follows:**
All properties held to earn market-related rentals or for capital appreciation or both and that are not for administrative purposes and that will not be sold in the ordinary course of operations are classified as Investment Properties.
- **Land held for currently undetermined future use.**
Leases properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as Investment Properties. The rental revenue generated is incidental to the purposes for which the property is held.
- **Componentisation of Infrastructure assets**
All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.
- **Determination of Repairs and Maintenance costs**
Repairs and Maintenance is based on Management's own judgement of costs incurred in cost centres responsible for the maintenance and repair of Municipal owned assets. This includes internal charges (inter departmental charges) such as internal transport costs, charged out to the different departments.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

- **Pension and other post-employment benefits**
The cost of defined benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

- **Classification of financial assets and liabilities**

The classification of financial assets and liabilities, into categories, is based on judgement by management. The Accounting Policy on Financial Instruments describes the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: Financial Instruments.

- **Impairment of financial assets**

The Accounting Policy on Financial Instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considers the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of service debtors (receivables from exchange and non-exchange transactions) is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

The calculation in respect of the impairment of fine receivables (receivables from non-exchange transactions) is based on an assessment of the past payment history of fines per category.

- **Valuation of Financial Assets at Fair Value**

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required in establishing fair values. Judgment includes the consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

- **Review of useful lives of property, plant and equipment and intangible assets**

The useful lives of assets are based on management's estimation. Management considers whether there is any indication that expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. These include changes in the composition, condition and nature of the asset, its susceptibility and adaptability to changes in technology and processes, the nature of the processes and environment in which the asset is deployed, availability of funding to replace the asset and changes in the market in relation to the asset, as well as planned repairs and maintenance including refurbishments.

- **Valuation of Land and buildings and fair value estimations of Investment Property**

Land and buildings were valued and the fair value of Investment property determined, by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

- **Impairment of property plant and equipment, intangible assets, heritage assets and inventory**

The Accounting Policies on Impairment of Cash and Non-cash generating assets as well as Inventory describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to the impairment of Property, Plant and Equipment, Intangible Assets and Heritage Assets and the write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Cash generating Assets and GRAP 26: Impairment of non-Cash generating Assets.

- **Provisions and contingent liabilities**

Management judgement is required when recognising and measuring provisions, and when measuring contingent liabilities. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice

and judgment of qualified engineers. The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money. The increase in the rehabilitation provision due to passage of time is recognised as finance cost in the statement of financial performance.

- **Revenue recognition**

The Accounting Policies on Revenue from Exchange Transactions and Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality. In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-exchange Transactions.

In particular, in regard to revenue from exchange revenue - when goods are sold, whether the municipality had transferred to the buyer the significant risks and rewards of ownership of the goods; and, when services are rendered, whether the service has been rendered.

Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. In regard to revenue from non-exchange transactions - significant estimations were made to the initial recognition and measurement of revenue on fines, on the estimated reductions on initial recognition and measurement. Based on past experience, of the amount of revenue the Municipality is entitled to collect was calculated as 97.1% of the value of the fines issued, whereas it was estimated that 82.1% of the value of the fines issued were impaired. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

- **Budget Information**

Management assumes deviations between budget and actual amounts to be material when a deviation of more than 10% exists. All material differences are explained in the notes to the annual financial statements.



Financial Asset Management Policy

Effective from 1 July 2021

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer		
Council		

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1. INTRODUCTION

- 1.1 This document indicates the policy of Drakenstein Municipality (DM) for the management of its assets (which excludes financial assets such as receivables and cash), and it commits the Municipality to –
- a) Managing and maintaining municipal assets in a way that is aligned with the Municipality's strategic objectives and recognised good practice; and
 - b) Establishing and maintaining an asset register that complies with the latest accounting standards.
- 1.2 These assets must be safeguarded and maintained over their useful lives and may be –
- Used in the production or supply of goods and services or for administrative purposes;
 - Held to earn rentals or for capital appreciation or both; or
 - Held indefinitely for the benefit of present and future generations, due to its cultural, environmental, historical, natural, scientific, technological or artistic significance.
- 1.3 Since 2004, when the Municipal Finance Management Act No 56 of 2003 (MFMA) was promulgated, municipalities have been required to align the planning, management, reporting and auditing of their finances in accordance with the strict requirements of the MFMA and related legislation.
- 1.4 Section 63(2)(b) of the MFMA requires a Municipality's assets to be valued according to standards of generally recognised accounting practice (GRAP) and section 122(3) determines the preparation of annual financial statements in accordance with GRAP.
- 1.5 Regarding the disposal of assets, sections 14 and 90 of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) sets out certain requirements, while the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has also been issued.

2. SCOPE AND APPLICATION

2.1 POLICY OBJECTIVE

2.1.1 This policy has been designed to provide guidance during the development of an asset management strategy, asset management plans and asset management procedures. Detailed procedures, to ensure that management and employees within the Municipality understand their respective responsibilities and duties, are provided in a separate document.

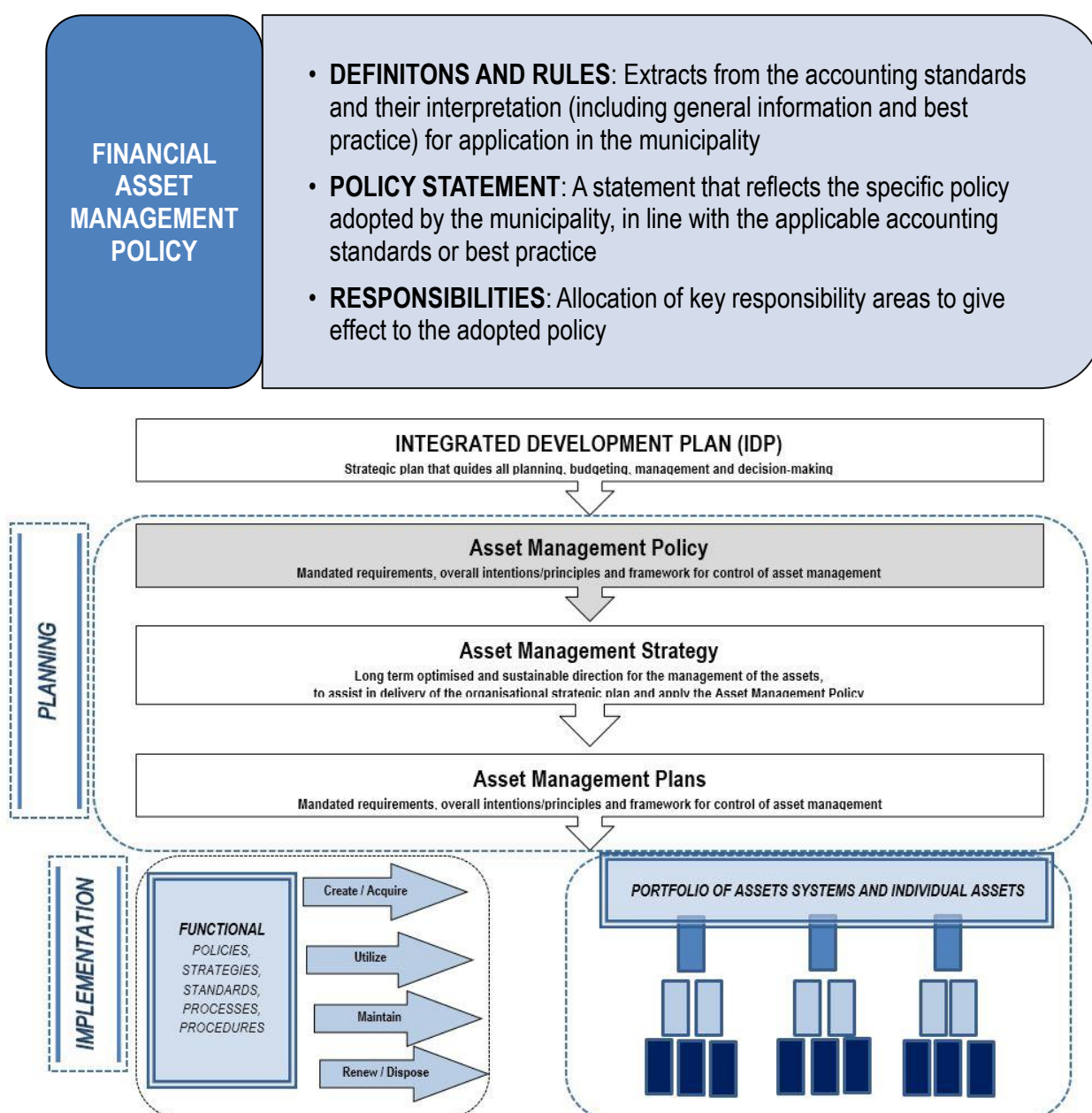
2.1.2 The objective of this policy is to ensure that assets of the DM are properly managed and accounted for by –

- (a) Applying asset management principles in a consistent manner and in accordance with legal requirements and recognised good practice;
- (b) Compliance with the Council's accounting policies and Generally Recognised Accounting Practices;
- (c) The accurate recording of essential asset information;
- (d) The accurate recording of asset movements;
- (e) Treating the assets correctly in the Municipality's financial statements;
- (f) Providing accurate and meaningful management information;
- (g) Adequate insuring of assets;
- (h) Maintenance of Council's assets;
- (i) Ensuring that management are aware of their responsibilities with regard to assets;
- (j) Setting out the standards of management, recording and internal controls so as to safeguard the assets against inappropriate utilisation or loss; and
- (k) Exercising strict physical controls over all assets.

2.2 POLICY FORMAT

2.2.1 The policy approach has mainly been to focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets. The Asset Management Policy sets out the overall intentions, principles and framework for control of asset management.

2.2.2 The following figures give an overview to the format of presentation of this policy document, and how it links to separate documents that provide the strategy, plans and any procedures that may arise in terms of this policy:



2.3 RELATIONSHIP WITH OTHER POLICIES

2.3.1 This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following –

- (a) Asset Management Policy: Defining the municipality's vision and intent regarding all aspects of asset management;
- (b) Delegation of Powers (Delegations Register): Identifying the processes surrounding the establishment of delegated authority;
- (c) SCM Policy: Regulating all processes and procedures relating to acquisitions;
- (d) Budget Policy: The processes to be followed during the budget process as well as pre-determined prioritisation methodology;
- (e) Accounting Policies: Governed by the Accounting Standards, the accounting policies determine the basis of recognition, measurement and recording of all transactions;
- (f) Policy on Management and Disposal of Assets;
- (g) Fleet Management Policy; and
- (h) Insurance Management Policy.

2.3.2 This policy does not overrule the requirement to comply with other policies. The Chief Financial Officer (CFO) will provide guidance or adjust this policy where an apparent conflict exists between this policy and other policies, legislation or regulations.

2.4 APPLICATION

2.4.1 This document is applicable to all officials of the Drakenstein Municipality.

2.5 APPROVAL AND EFFECTIVE DATE

2.5.1 The CFO is responsible for the submission of this document to Council to consider its adoption after consultation with the City Manager. The effective date for implementation of the policy is 1 July 2021.

2.6 POLICY IMPLEMENTATION AND AMENDMENT

- 2.6.1 Detailed procedures shall be prepared and is to be adopted by the City Manager, in consultation with the CFO and Executive Directors, to give effect to this policy.
- 2.6.2 This policy will be reviewed annually as part of the review of budget related policies, and it will be updated whenever legislative or accounting standard amendments significantly change the requirements pertaining to asset management in general and the administration of Council's assets. Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the City Manager in consultation with the CFO and respective Executive Directors. The recommendations of the CFO shall be considered for adoption by Council.

3. ABBREVIATIONS AND DEFINITIONS

3.1 ABBREVIATIONS

The following abbreviations are used in this document:

Abbreviation	Description
AM	Asset Management
AR	Asset Register
CFO	Chief financial officer
DM	Drakenstein Municipality
EUL	Estimated useful life
GRAP	Generally recognised accounting practices
HA	Heritage Assets
IA	Intangible Assets
IP	Investment Property
MFMA	Municipal Finance Management Act (No. 56 of 2003)
MSA	Municipal Systems Act (No. 32 of 2000)
PPE	Property, Plant and Equipment
RUL	Remaining useful life
SCM	Supply Chain Management

3.2 DEFINITIONS

For purposes of this policy, unless otherwise stated, the definitions in part 5 of this document shall apply.

4. CONTEXT AND REFERENCES

This policy has been developed with due consideration of statutory requirements and asset management guidelines.

4.1 STATUTORY REQUIREMENTS

4.1.1 This policy must comply with all relevant legislative requirements including –

- (a) The Constitution of the Republic of South Africa, 1996;
- (b) The Municipal Systems Act, 2000; and
- (c) The Municipal Finance Management Act, 2003

4.1.2 The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects –

- (a) Providing democratic and accountable government for local communities;
- (b) Ensuring the provision of services to communities in a sustainable manner;
- (c) Promoting social and economic development;
- (d) Promoting a safe and healthy environment ; and
- (e) Encouraging the involvement of communities and community organisations in matter of local government.

4.1.3 The manner in which a Municipality manages its assets is central to meeting the above challenges. Accordingly the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable. Section 55(2) of the MSA also emphasises the responsibility and accountability of the City Manager, as accounting officer of the Municipality, for all assets of the Municipality.

4.1.4 The Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the City Manager by the requirement to ensure that –

- (a) The Municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- (b) The Municipality's assets are valued in accordance with standards of generally recognised accounting practice; and

- (c) The Municipality has and maintains a system of internal control of assets and liabilities.

4.1.5 Requirements regarding asset disposals are set out in sections 14 and 90 of the MFMA while section 75(1)(h) requires that certain information regarding assets disposed of is placed on the Municipality's website. Also developed in terms of the MFMA, the Municipal Asset Transfer Regulations is applicable to all municipalities and municipal entities transferring and disposing of capital assets, or granting a right to use, control or manage capital assets.

4.1.6 In addition, the Municipal Supply Chain Management Regulation no. 27636 has specific requirements regarding the disposal of capital assets.

4.1.7 The Occupational Health and Safety Act requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its assets safe.

4.2 ACCOUNTING STANDARDS

4.2.1 The MFMA requires municipalities to comply with the standards of Generally Recognised Accounting Practice (GRAP), in line with international practice. The following Standards and interpretations of GRAP significantly impacts on the recognition and measurement of assets within the municipal environment –

- (a) GRAP 12 – Inventories;
- (b) GRAP 13 – Leases and more specifically, deemed finance leases;
- (c) GRAP 16 – Identification of items to be treated as Investment Properties;
- (d) GRAP 17 – Property Plant and Equipment;
- (e) GRAP 21 – Impairment of non-cash-generating assets;
- (f) GRAP 26 – Impairment of cash-generating assets;
- (g) GRAP 27 – Agriculture;
- (h) GRAP 31 – Intangible assets and more specifically the treatment of items of software; and

- (i) GRAP 103 – Heritage assets
- (j) IGRAP 18 – Recognition and De-recognition of Land

4.3 RATIONALE FOR ASSET MANAGEMENT

4.3.1 Municipal assets are the means by which the Municipality delivers a range of essential municipal services. The principal objective of asset management is therefore to enable the Municipality to meet its service delivery objectives efficiently and effectively. Good asset management facilitates the provision of services in a financially sustainable manner requiring adequate automation of critical processes within the asset management cycle.

4.3.2 Typical to an effective and efficient system at least the following functions need to be addressed by the minimum business process requirements –

- (a) Safeguarding of assets, e.g. asset tracking, numbering and locations;
- (b) Maintaining assets, planned and unplanned maintenance which needs to also incorporate capital asset renewal;
- (c) Maintenance costing as an input into asset replacement plans;
- (d) Establishing and maintaining a management, accounting and information system that accounts for the assets of the Municipality;
- (e) Asset valuation principles in accordance with Generally Recognised Accounting Practice;
- (f) Establishing and maintaining systems of internal controls over assets;
- (g) Establishing and maintaining an asset register;
- (h) Clarifying responsibilities and accountabilities for the asset management process; and
- (i) Insurance of assets.

4.3.3 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 municipal assets. Municipal rules, described in approved

policies, are required to ensure the enforcement of appropriate stewardship of municipal assets. Stewardship has two components being the –

- (a) Physical administration by the Executive Directors of relevant departments and the Manager: Assets and Insurance Management; and
- (b) Financial administration by the Chief Financial Officer.

4.3.4 To this end, *statutory provisions* have been implemented to protect public property against arbitrary and inappropriate management or disposal by a local government, and *accounting standards* have been promulgated to ensure the appropriate financial treatment for different types of assets.

4.3.5 The requirements of these accounting standards include –

- (a) The compilation of asset registers covering all property, plant and equipment controlled by the Municipality; and
- (b) Accounting treatment for the acquisition, disposal, recording and subsequent measurement of assets.

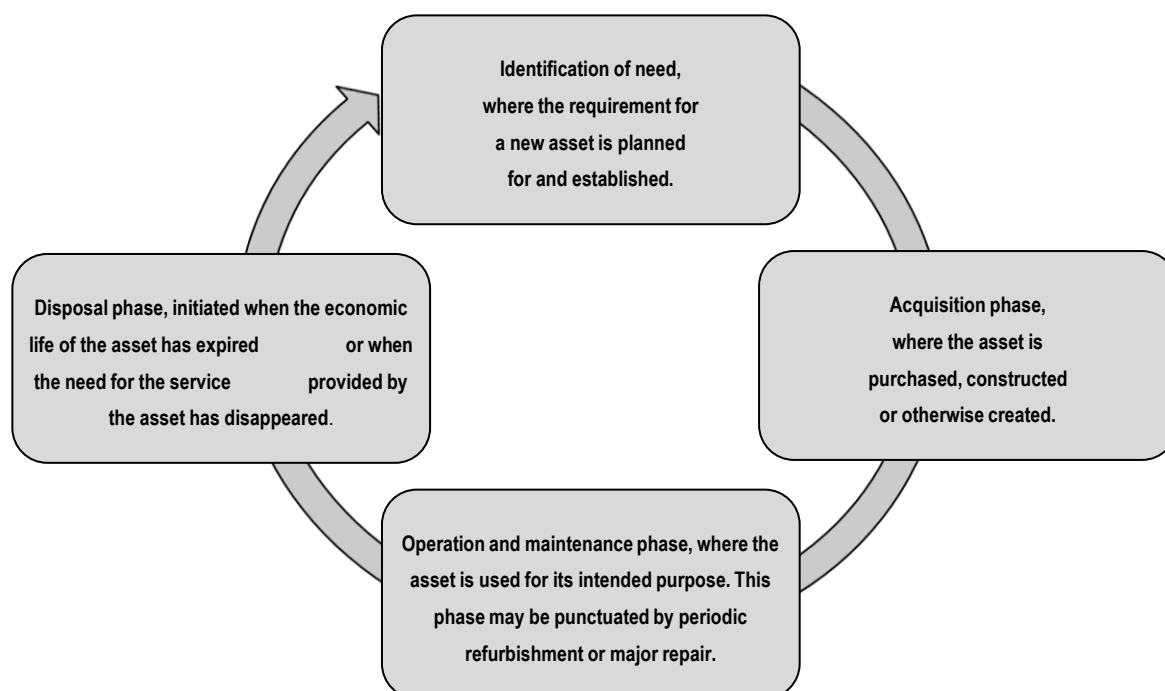
4.3.6 The Financial Asset Management Policy describes the appropriate financial treatment for different types of assets.

4.4 THE ASSET LFCYCLE AND MANAGEMENT OF INFRASTRUCTURE ASSETS

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

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

4.4.2 The phases through which an asset passes during its life are –



- 4.4.3 Effective management of immovable assets such as infrastructure and community facilities are central to the Municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Councillors and officials are custodians on behalf of the public of infrastructure assets, the replacement value of which amounts to several billion Rand.
- 4.4.4 Consequently, the management of such assets is critical to meeting the strategic objectives of the Municipality and in measuring its performance.
- 4.4.5 There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintenance and renewing existing infrastructure whilst also addressing backlogs in basic services and facing ongoing changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the Municipality.
- 4.4.6 Accordingly, the asset register adopted by a Municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

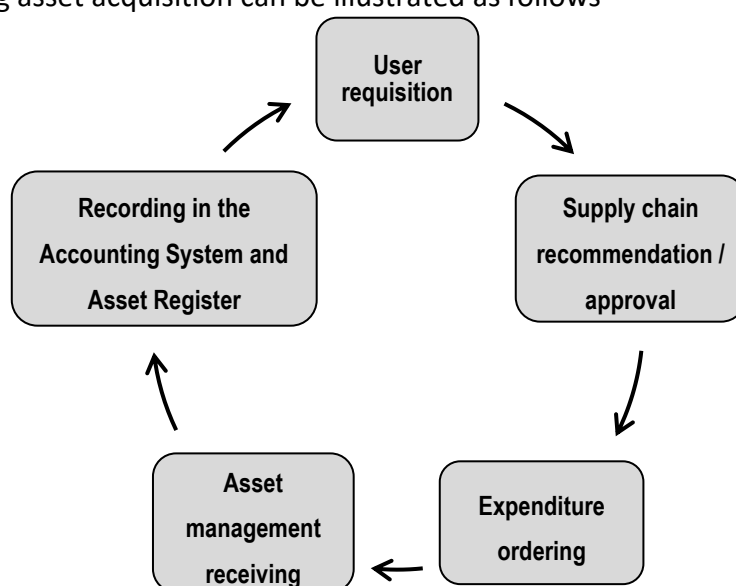
5. POLICY STATEMENT FOR ASSET ACCOUNTING

5.1 ASSET ACQUISITION

5.1.1 Definitions and rules

(a) Acquisition

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing. The date of acquisition of assets is deemed to be the time when control or legal title passes to the Municipality. The *Process Flow* during asset acquisition can be illustrated as follows –



(b) Creation of new infrastructure assets

Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that has not been in the control or ownership of the Municipality in the past.

(c) Self-constructed assets

Self-constructed assets relate to all assets constructed by the Municipality itself or another party on instructions from the Municipality.

(d) Donated assets

A donated asset is an item that has been given to the Municipality by a third party in government or outside government without paying or actual or implied exchange.

5.1.2 Policy Statement

- (a) Should the Municipality decide to acquire a capital asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset –
 - (i) The purpose for which the asset is required is in keeping with the objectives of the Municipality and will provide significant, direct and tangible benefit to it;
 - (ii) The asset meets the definition of a capital asset (as defined in GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103);
 - (iii) The asset has been budgeted for;
 - (iv) The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
 - (v) The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
 - (vi) The asset is appropriate to the task or requirement and is cost-effective over the life of the asset;
 - (vii) The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
 - (viii) Space and other necessary facilities to accommodate the asset are in place; and
 - (ix) The most suitable and appropriate type, brand, model, etc. has been selected.
- (b) The cost of all **new infrastructure facilities** (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.

- (c) **Work in progress** shall be indicated as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management, which may in rare instances be deemed to be only after the defects liability period. Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- (d) All assets that can be classified as assets and that are **constructed by the Municipality** shall be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be indicated as such in the asset register until such time that the facility is completed.
- (e) **Donated assets** shall be valued at fair value, reflected in the asset register, and depreciated as normal assets. All donated assets shall be approved by the City Manager and ratified by Council prior to acceptance.

5.1.3 Responsibilities

- (a) Before a capital project is included in the budget for approval, the Executive Director of the relevant department must demonstrate that they have considered –
 - (i) The projected cost over all the financial years until the project is operational;
 - (ii) The future operational costs and revenue on the project, including tax and tariff implications;
 - (iii) The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
 - (iv) The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation; and
 - (v) The inclusion of this capital project in the integrated development plan and future budgets.

- (b) The CFO is accountable to ensure the Executive Director of the relevant department receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.
- (c) Executive Directors shall ensure that details of all capital work in progress is completed and submitted to the Manager: Assets and Insurance Management (or delegated official).
- (d) Each Executive Director shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the asset register.
- (e) Each Executive Director shall ensure that proper records of staff time, transport costs and material costs are retained such that all costs associated with the construction of these assets are completely and accurately accounted for.
- (f) Each Executive Director shall notify the Manager: Assets and Insurance Management (or delegated official) when the works have been completed and separate componentised assets can be recognised on the asset register (unbundled).
- (g) On completion of the infrastructure project, the Executive Directors shall ensure that all costs (both direct and indirect) associated with the construction of the assets be summed and be capitalised to the assets that make up the project.
- (h) Executive Directors must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the Municipality.
- (i) Executive Directors must ensure that approval is obtained from the City Manager prior to acceptance of a donated asset.

5.2 ASSET RECOGNITION

5.2.1 Definitions and Rules

- (a) Assets
An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits or service potential associated with the item will flow to the entity.

- (b) Control
An item is not recognised as an asset unless the entity has the capacity to control the service potential or future economic benefit of the asset, is able to deny or regulate access of that benefit, and has the ability to secure the future economic benefit of that asset. Legal title and physical possession are good indicators of control but are not infallible.
- (c) Past transactions or events
Assets are only recognised from the point when some event or transaction transferred control to an entity.
- (d) Probability of the flow of benefits or service potential
The degree of certainty that any economic benefits or service potential associated with an item will flow to the Municipality is based on the judgement. The City Manager shall exercise such judgement on behalf of the Municipality, in consultation with the CFO and respective Executive Director.
- (e) Reliable measurement
Items are recognised that possess a cost or fair value that can be reliably measured in terms of this policy.
- (f) Economic benefits
Economic benefits are derived from assets that generate net cash inflow.
- (g) Service Potential
An asset has service potential if it has the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the Municipality, such as the provision of services.
- (h) Non-current asset
A “non-current asset” is an asset with an expected useful life of greater than 12 months.
- (i) Immovable assets
Immovable assets are structures such as buildings and roads. A plant that is built-in to the structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).
- (j) Spares and standby equipment
Spares and materials used on a regular basis in the ordinary course of operations are usually carried as inventory (i.e. they are not usually considered assets) and are expensed when consumed. Spares that constitute

an entire or significant portion of a component type, or a specific component, defined in the immovable PPE asset hierarchy are considered capital spare parts and are recognised as an item of PPE immediately that they are available for use and in a location and condition necessary for it to be capable of operating in a manner intended by management. Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognised as items of PPE.

(k) Leased assets

A lease is an agreement whereby the lessor conveys to the lessee (in this case, the Municipality) the right to use an asset for an agreed period of time in return for a payment. Leases are categorised into finance and operating leases. A finance lease transfers substantially all risks and rewards incident to ownership of an asset, even though the title may not eventually be transferred (substance over form). Where the risks and rewards of ownership of the assets are substantially transferred to the Municipality, the lease is regarded as a finance lease recognised by the Municipality. Where there is no substantial transfer of risks and rewards of ownership to the Municipality, the lease is considered an operating lease and payments are expensed in the income statement on a systematic basis (straight-line basis over the lease term).

(l) Asset custodian

The department that controls an asset, as well as the individual (asset custodian) that is responsible for the operations associated with such asset in the department, is identified by the respective Executive Director, recorded, and communicated on recognition of the asset.

(m) Capitalisation Threshold

(i) The capitalisation threshold is a policy decision of the Municipality and is the value above which assets are capitalised and reported in the statement of financial position as tangible or intangible capital assets as opposed to being expensed in the year of acquisition (accelerated depreciation). As a result, the threshold has a significant impact on the size of the asset register and the complexity of asset management. However the capitalisation threshold is regarded as a deviation from GRAP standards and should be determined annually by comparison against materiality and must be determined at a level that will ensure that the Municipality does not deviate materially from the requirements of GRAP.

(ii) The capitalisation threshold should not be applied to the components of an asset, but should be applied to the value of the capital asset as a whole. If the threshold is applied at component level, the asset

register would be incomplete in the sense that an asset recorded as such would not be a complete asset. The Municipality has taken the following into account when considering a capitalisation threshold –

- (aa) The impact of the threshold on the financial statements and the decisions/assessments the users of the financial statement may or may not make;
- (bb) The cost of maintaining financial and management information on assets when the threshold is very low;
- (cc) The impact on comparability and benchmarking cost of services may be difficult if different capitalisation thresholds are applied; and
- (dd) The size of the Municipality or the size of its service areas when setting a capitalisation threshold level.

5.2.2 Policy statement

- (a) A capital asset shall be recognised as an asset in the financial and asset records when –
 - (i) It is probable that future economic benefits or potential service delivery associated with the item will flow to the Municipality;
 - (ii) The cost or fair value of the item to the Municipality can be measured reliably;
 - (iii) The cost is above the municipal capitalisation threshold (if any); and
 - (iv) The item is expected to be used during more than one financial year.
- (b) The Municipality shall recognise all assets existing at the time of adoption of this policy and the development of new, upgraded and renewed assets on an on-going basis. Such assets shall be capitalised in compliance with prevailing accounting standards.
- (c) The capitalisation threshold is set at R 500 (five hundred rand), (excluding VAT where applicable), but the application thereof will be determined annually by the Municipality. Assets with a cost not exceeding the capitalisation threshold shall be expensed in the statement of financial performance and not be capitalised. These assets shall not be depreciated or tested for impairment and shall not generate any further transactions. The Municipality (City Manager or delegated official) can however determine with an internal memorandum which assets under the threshold should be classified as capital assets.
- (d) Certain types of assets, as listed in **Annexure B**, shall not be capitalised, either because these are not typically expected to have operating lives exceeding

one year, or because it is difficult to maintain control for asset register purposes, in terms of verifying existence and location.

- (e) While assets described in (c) and (d) above are not included in the asset register, control over these items shall be the responsibility of the relevant Executive Director.

5.1.3 Responsibilities

- (a) The CFO, in consultation with the City Manager and Executive Directors, shall determine effective procedures for the recognition of new assets and subsequent capital expenditure on existing assets.
- (b) Every Executive Director shall ensure that all assets under their control are correctly recognised as assets, and that control is exercised over items as described above in 5.2.2 (c) and (d).
- (c) The CFO shall keep a lease register with the following minimum information - name of the lessor, description of the asset, fair value of the asset at inception of the lease, lease commencement date, lease termination date, economic useful life of the asset, lease payments, and any restrictions in the lease agreement.
- (d) Every Executive Director shall ensure that all assets under their control are correctly capitalised and the capitalisation threshold applied as and when applicable.

5.3 CLASSIFICATION OF ASSETS

5.3.1 Definitions and rules

- (a) Asset Categories

The accounting categories of assets are as follows –

- (i) Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the Municipality's operations, that is shown as a single class for the purposes of disclosure in the financial statements);
- (ii) Investment property;
- (iii) Intangible assets;

- (iv) Heritage assets;
- (v) Biological assets; and
- (vi) Land Inventories (land or buildings owned or acquired with the intention of selling or distributing such property in the ordinary course of business).

In the case of an asset not appearing in the adopted classification structure, a classification that is most closely comparable to the asset in question is used.

(b) Class of assets

A class of assets is defined as a group of assets of a similar nature or function in the Municipality's operations. The total balance of each class of assets is disclosed in the notes to the financial statement.

(c) Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rentals to other, or for administrative purposes; and are expected to be used during more than one period. This includes items necessary for environment or safety reasons to leverage the economic benefits or service potential from other assets. Insignificant items may be aggregated. Property, plant and equipment are broken down into groups of assets of a similar nature or function in the Municipality's operations for the purpose of disclosure in the financial statements.

(d) PPE asset hierarchy

An assets hierarchy is adopted for PPE which enables separate accounting of parts (or components) of the asset that are considered significant to the Municipality from a financial point of view, and for other reasons determined by the Municipality including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the Municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the Municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and component.

(e) PPE Land

PPE Land comprises any land held by the Municipality to be used in the production or supply of goods or for administrative purposes. The intention is not to develop or sell the property in the normal course of business. Land

held for a currently undetermined future use, should not be included in PPE, but should be included in Investment Properties.

(f) PPE Buildings, structures and facilities

- (i) Buildings assets are buildings that are used for municipal operations such as operational buildings held by the Municipality to be used in the production or supply of goods or for administrative purposes and rental stock or housing not held for capital gain, as well as community halls and other municipal buildings utilised for the general well-being of the Municipality.
- (ii) Housing Assets have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.
- (iii) Other structures and facilities assets include other municipal structures and community facilities such as parks, gardens, cemeteries, as well as recreational facilities.

(g) PPE Infrastructure

Infrastructure assets are immovable assets which are part of a network of similar assets. Infrastructure Assets comprise assets used for the delivery of infrastructure-based services. At DM these assets include Electricity networks, Water Networks, Sewerage (Sanitation) Networks, Roads (including storm water assets) and Solid Waste (Landfill site).

(h) Component approach

- (i) The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:
 - (aa) Significant cost; and
 - (bb) Considerable difference in useful life.
- (ii) If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset a whole, it should be recognised as a separately depreciable part (component).

(i) Level of detail of componentisation

- (i) For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level

that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that means the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very costly when dealing with assets that are very numerous in nature e.g. street signs, street lights, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data. The different levels of detail are shown below –

- (aa) Level 1: Service level (e.g. Drakenstein Roads Infrastructure);
- (bb) Level 2: Network level (e.g. Paarl Roads Network);
- (cc) Level 3: Facility level (e.g. Paarl Bergrivier Boulevard);
- (dd) Level 4: Maintenance item level (e.g. Traffic sign in Paarl Bergrivier Boulevard); and
- (ee) Level 5: Component level (e.g. U-bolt on Traffic sign in Paarl Bergrivier Boulevard).

(ii) The preferred level of detail for the accounting and technical management of infrastructure is level 4 above.

(iii) The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the Municipality.

(j) PPE – Other assets

Other assets are ordinary operational assets such as vehicles, equipment as well as furniture and fittings.

(k) Investment Property

Investment property is defined as property (land and/or a building, or a part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or for capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operation).

(l) Intangible Assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Example are licenses/right, (such as water licenses), servitudes and software.

(m) Heritage Assets

- (i) Heritage assets are assets of cultural, historic or environmental significance, such as monuments, nature reserves, and work of art. Some heritage assets have more than one purpose, e.g. a historical building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The Municipality needs to determine whether the significant portion of the asset meets the definition of a heritage asset. The entity must use its judgement to make such assessment. The asset should be accounted for as a heritage asset if, and only, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purpose. If a significant portion is used for production, administrative purpose or supply of services or goods, the asset shall be accounted for in accordance with GRAP 17 on PPE.
- (ii) If the Municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

(n) Biological assets

Biological Assets are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. Managed agricultural activity such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the Municipality from its ownership or control of the asset.

(o) Land Inventories

Inventory Property comprises any land owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land owned or acquired by the Municipality with the intention of developing such property for the purpose of selling or distributing it in the ordinary course of business.

5.3.2 Policy Statement

- (a) The accounting groups specified by GRAP and asset classes as set out below shall be adhered to as a minimum standard. An extended asset classification, as set out in **Annexure A**, has been adopted.

Accounting Group	Asset Class
Property, plant and equipment	Land
	Buildings, structures and facilities
	• <i>Buildings</i>
	• <i>Community, Cemeteries, Sports and recreation</i>
	Infrastructure (assets which are part of a network of similar assets)
	Other assets (ordinary operational assets)
Heritage assets	Statues, monuments and memorials
	Historic buildings and sites
	Works of art, regalia and collections
	Conservation areas and nature reserves
Intangible Assets	Capitalised development cost
	Plans and designs
	Computer software and systems
	Licences and rights

Accounting Group	Asset Class
Investment property	Commercial property
	Residential property
	Land held for appreciation or development purposes
	Land with undetermined use

- (b) An extended asset classification, as set out in **Annexure A**, has been adopted, and asset hierarchies shall be progressively applied for each of the asset classes, separately identifying items at component level that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant.
- (c) PPE – Library Books
- (i) The books in a library book collection shall be documented and recorded in the library computer systems.

- (ii) Where exact costs are not available, the value of the library book collection shall be determined by applying a standard rate to the quantities of different library books of different ages. Where library books of a particular value or importance are kept in the library these shall be separately recorded and valued.
- (d) Assets Treated as Inventory
 - (i) Any land or buildings owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the Municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the Municipality's statement of financial position.
 - (ii) Such inventories shall, however, be recorded in an inventory register in the same manner as other assets.
- (e) Investment Properties
 - (i) Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE. If the Council of the Municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.
 - (ii) The following types of Municipal Property **will be classified** as Investment Property –
 - (aa) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which council intends to sell at a beneficial time in the future.
 - (bb) Land held for a currently undetermined future use.
 - (cc) A building owned by the Municipality (or held by the Municipality under a finance lease) and leased out under one or more operating leases on a commercial basis.
 - (dd) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
 - (ee) Property that is being constructed or developed for future use as investment property.

- (iii) The following types of Municipal Property will **not be classified** as Investment Property –
 - (aa) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.
 - (bb) Property being constructed or developed on behalf of the Provincial Government Housing Department.
 - (cc) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.
 - (dd) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner-occupied property.
 - (ee) Property that is leased to another entity under a finance lease.
 - (ff) Property held to provide a social service and which also generates cash inflows. For example, if council holds housing stock (letting units) used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held.
 - (gg) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation.
 - (hh) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.
 - (ii) Properties held to provide services considered to be part of the municipalities mandated function.

5.3.3 Responsibilities

- (a) The CFO shall ensure that the classification of assets adopted by the Municipality complies with the statutory requirements.
- (b) The CFO shall ensure that the classifications indicated in **Annexure A** are applied, and in the case of an item of assets not appearing in the annexure, the classification applicable to the asset most closely comparable.

- (c) When required, the CFO shall consult with the Executive Directors responsible for assets to ensure an effective and appropriate asset hierarchy is determined for each class of assets to component level.
- (d) Every Executive Director shall ensure that all assets under their control are classified correctly and shall advise the CFO when assets should be re-classified.

5.4 IDENTIFICATION OF ASSETS

5.4.1 Definition and Rules

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

5.4.2 Policy Statement

- (a) An asset identification system shall be operated and applied in conjunction with an asset register. As far as practicable, every individual asset shall have a unique identification number - in the case of movable assets, if this identification number is not a barcode number due to impracticability of affixing such a tag to the asset, the serial number of the asset will be used as the unique identification number.

5.4.3 Responsibilities

- (a) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Directors, shall develop and implement an asset identification system to meet the policy objective.
- (b) Executive Directors shall ensure that all the assets under their control are correctly barcoded or otherwise identifiable in the asset register.

5.5 ASSET REGISTER

5.5.1 Definitions and Rules

- (a) Asset Register
An asset register is a database with information relating to each asset. The asset register is structured in line with the adopted classification structure.

The scope of data in the register is sufficient to facilitate the application of the respective accounting standard for each of the asset classes, and the strategic and operational asset management needs of the Municipality.

(b) Updating data in the Asset Register

The asset register is updated by the Asset Officers only when authorised and instructed to do so by the Manager: Assets and Insurance Management.

5.5.2 Policy Statement

- (a) An asset register shall be established and maintained to provide the data required to apply the applicable accounting standards, as well as other data considered by the Municipality to be necessary to support strategic asset management planning and operational management needs. The asset register shall reflect at least the following information –
- (i) A brief but meaningful description of each asset;
 - (ii) The date on which the asset was acquired or commissioned into use;
 - (iii) The location of the asset;
 - (iv) The responsible department(s) or vote(s) within which the assets will be used;
 - (v) The title deed number, in the case of property;
 - (vi) The stand number, in the case of property;
 - (vii) Where applicable, the identification number;
 - (viii) The initial measurement basis used (Cost or Fair Value);
 - (ix) The original estimated useful life;
 - (x) The revised useful life;
 - (xi) The residual value;
 - (xii) The original cost, or the revalued amount or the fair value if no costs are available;
 - (xiii) The (last) revaluation date of the assets subject to revaluation;
 - (xiv) The revalued value of such assets;
 - (xv) Accumulated depreciation to date;
 - (xvi) The depreciation charge for the current financial year;
 - (xvii) The carrying value of the asset;
 - (xviii) Impairment losses incurred during the financial year (and the reversal of such losses, where applicable);
 - (xix) Increases or the decreases resulting from revaluations (if applicable);
 - (xx) The date on which the asset is disposed of;
 - (xxi) The disposal price (if any); and
 - (xxii) The date on which the asset is retired from use, if not disposed of.
- (b) The asset register shall be updated and reconciled to the general ledger on a regular basis.

- (c) Certain assets are not included individually in the asset register, but are listed in sub-registers, with a reference thereto in the main asset register – these types of assets are listed in ***Annexure C***.

5.5.3 Responsibilities

- (a) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Directors, shall define the format of the asset register, and shall ensure that the format complies with the prevailing accounting standards.
- (b) Executive Directors shall provide the CFO with the data required to establish and update the asset register in a timely fashion.
- (c) The CFO shall establish procedures to control the completeness and integrity of the asset register data, and ensure proper application of the control procedures.

5.6 MEASUREMENT AT RECOGNITION

5.6.1 Definitions and rules

- (a) Calculation of initial cost price
 - (i) Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the Municipality is not allowed to claim input VAT paid on acquisition of such assets. In such an instance, the Municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:
 - (aa) Costs of employee benefits (as defined GRAP 25) arising directly from the construction or acquisition of the item of the capital asset;
 - (bb) The cost of site preparation;
 - (cc) Initial delivery and handling costs;
 - (dd) Installation costs;
 - (ee) Professional fees such as for architects and engineers; and
 - (ff) The estimated cost of dismantling and removing the asset and restoring the site.

- (ii) When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.
- (b) Input Tax (VAT)
 - (i) In order for a Municipality to claim input tax, goods and services must be acquired by the Municipality for the purpose of consumption, use or supply in the course of making taxable supplies. It follows that a Municipality may not claim input tax where goods or services are acquired for the purposes of making exempt or other non-taxable supplies. The following are denied to be claimed as input tax –
 - (aa) Entertainment;
 - (bb) Motor Vehicles as defined in the VAT Act 89 of 1991; and
 - (cc) Goods and services it acquired as an agent on behalf of someone else.
- (c) Measurement at recognition of PPE

An item of PPE that qualifies for recognition is measured at cost. Where an asset is required at no or nominal cost (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of PPE, such as on recognising PPE for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.
- (d) Measurement at recognition of heritage assets

Heritage assets will be measured at cost at initial recognition. However, where a heritage asset was acquired through a non-exchange transaction its cost is its fair value at the date of acquisition.
- (e) Measurement at recognition of investment property

Investment property will be measured at cost including transaction cost at initial recognition. However, where an investment property was acquired through a non-exchange transaction (i.e. where the investment property was acquired for no or nominal value), its cost is its fair value at the date of acquisition.
- (f) Measurement at recognition of intangible assets

Intangible assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the data acquired.

(g) Fair Value

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market values obtained from a qualified valuer can be used where there is an active and liquid market for asset (for example - land and some types of plant and equipment). In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciation replacement cost (DRC) approach may be used. Assessment of fair values is to be made by a professional with qualifications and appropriate knowledge and experience in valuation of the respective assets.

(h) Cost of an item of infrastructure

The capitalisation value comprises (i) purchase price and (ii) any directly attributable cost necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the Municipality, plus (iii) an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

VAT is excluded (unless the Municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the Municipality should capitalise the cost of the asset together with VAT).

(i) Cost associated with heritage assets

Costs incurred to enhance or restore a heritage asset to preserve its indefinite useful life should be capitalised as part of the cost of the asset. Such costs should be recognised in the carrying amount of the heritage asset as incurred.

(j) Directly Attributable Costs

(i) Directly attributable costs are defined as –

- (aa) Cost of employee benefits arising directly from the construction or acquisition of the item;
- (bb) Costs of site preparation;
- (cc) Initial delivery and handling;
- (dd) Installation and assembly costs, cost of testing whether the asset is functioning properly, after deduction the net proceeds from selling any item produced while bringing the asset to that location and condition;
- (ee) Commissioning (cost of testing the asset to see if the asset is functioning properly, after deducting the net proceeds from selling an item produced while bringing the asset to its current condition and location); and
- (ff) Professional fees (for example associated with design fees, supervision, and environmental impact assessments) (in the case of all asset classes).

(k) Changes in the existing decommissioning costs or restoration costs included in the costs of an item

(i) Changes in the measurement of an existing decommissioning cost or restoration cost as a result of changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, should be treated as follows –

(aa) If the cost model is used –

- (i) Changes in the liability shall be added to or deducted from the cost of the related asset;
- (ii) If the amount deducted from the cost of the asset exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit; and / or
- (iii) If the adjustment results in an additional to the cost of an asset, the Municipality should consider whether this is an indication that the carrying amount may not be recoverable. In this case the Municipality should test the asset for impairment.

(bb) If the revaluation model is used –

- (i) A decrease in the liability shall be credited to the revaluation surplus, except that it shall be recognised in the surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the surplus or deficit;
- (ii) An increase in the liability shall be recognised in surplus or deficit, except that it shall be debited to the revaluation surplus to the extent that any credit balance may exist in the revaluation surplus in respect of asset;
- (iii) If the decrease in liability exceeds the carrying amount that would have recognised if the asset has been carried under the cost model, the excess shall be recognised immediately in the surplus or deficit; and / or
- (iv) If the change in liability is an indication the asset may have to be re-valued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation shall be taken into account in determining the amounts to be taken

to surplus or deficit and net assets as discussed above.
If a revaluation is necessary, all assets of that class shall be revalued.

(l) Exchanges of Assets

In cases where assets are exchanged, the cost is deemed to be fair value of the acquired asset and the disposed asset is de-recognised. If the acquired asset is not measured at its fair value, its cost price will be the carrying amount of the asset given up.

(m) Finance Leases

A finance lease is recognised by the Municipality (the lessee) at the commencement of a lease as an asset and liability in the statement of financial position at equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease contract, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct cost of the lessee is added to the amount recognised as an asset.

(n) Depreciated replacement cost

(i) The depreciated replacement cost (DRC) approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used –

$$\text{DRC} = (\text{CRC} - \text{RV}) \times \text{RUL} / \text{EUL} + \text{RV}$$

(ii) Capital unit costs vary from site to site and provision is made for site specific influencing factors (e.g. topography). Capital unit costs are also influenced by macro-economic driving forces such as "supply-and-demand", economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the

capital unit rates where applicable. Adjustments of assets for escalation to the valuation date are applied.

(o) Self-constructed PPE

Self-constructed assets relate to all assets constructed by the Municipality itself or another party on instructions from the Municipality. All assets that can be classified as assets and that are constructed by the Municipality should be recorded in the asset register and each component that is part of this asset should be depreciated over its estimated useful life for that category of asset. Proper records are kept such that all costs associated with the construction of these are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect) associated with the construction of the asset are summed and capitalised as an asset.

(p) Construction of future investment property

If property is developed for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use- then it shall be classified as an investment property.

(q) Deferred payment

The cost of an asset is the cash equivalent at the recognition date. If the payment of the cost price is deferred beyond normal credit terms, the difference between the cash price equivalent (the total cost price is discounted to the asset's present value as at the transaction date) and the total payment is recognised as an interest expense over the period of credit.

5.6.2 Policy Statement

- (a) An asset that qualifies for recognition shall be capitalised at cost. Interest on deferred payment will be expensed.
- (b) In cases where complete cost data is not available or cannot be reliably linked to specific assets, the fair value of assets shall be adopted on the following basis:
 - (i) **PPE infrastructure, PPE structures and other facilities, PPE other assets** (movable and immovable) - depreciated replacement cost;
 - (ii) **PPE land and PPE buildings** - values from the valuation roll (or in the event that such is not available, market value);
 - (iii) **Heritage assets** - market value (or in the event that such is not available, no value shall be indicated, but the existence of such heritage assets shall be disclosed by means of an appropriate note);

if the cost or value of heritage assets cannot be measured reliably, a description of the nature of the asset and the fact that the cost cannot be measured reliably should be disclosed;

- (iv) **Investment property** - values from the valuation roll (or in the event that such is not available, market value); and
- (v) **Intangible assets** - depreciated replacement cost.

5.6.3 Responsibilities

- (a) The CFO, in consultation with the City Manager and Executive Directors, shall determine effective procedures for the capitalisation of assets on recognition.
- (b) Every Executive Director shall ensure that all assets under their control are correctly capitalised.
- (c) Every Executive Director shall advise the CFO of any deferred payments from the Municipality, providing the relevant details of such.

5.7 MEASUREMENT AFTER RECOGNITION

5.7.1 Definitions and Rules

- (a) Accounting models
 - (i) Accounting standards allow measurement after recognition of assets as follows –
 - (aa) PPE, Heritage assets and Intangible assets - on either a cost or revaluation model; and
 - (bb) Investment Property - either cost model or the fair value model.
 - (ii) Different models can be applied, providing the treatment is consistent per asset class.
- (b) Cost Model

When the cost model is adopted, an asset is carried after recognition at its cost (or deemed cost) less any accumulated depreciated and any accumulated impairment losses.

(c) Revaluation Model

- (i) When the revaluation model is adopted an asset is carried after recognition at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
- (ii) Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be re-valued. Revaluation is to be executed by persons with suitable professional qualifications and experience. Any change to an asset's carrying amount as a result of revaluation, is credited (or deducted from any surplus from previous revaluations if the re-valued amount decreases from the previous re-valued amount) in the Revaluation Reserve.
- (iii) The revaluation surplus is transferred to the Accumulated Surplus (Deficits) Account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such immovable asset before the revaluation in question may be transferred from the Revaluation Reserve to the Municipality's Accumulated Surplus/Deficit Account. An adjustment of the aggregate transfer is made at the end of each financial year. If carrying amount based on the revaluation is less than the carrying value of the immovable asset recorded in the asset register, the carrying value of such asset is adjusted by increasing the accumulated depreciation of the immovable asset in question by an amount sufficient to adjust the carrying value to the value based on the revaluation. Such additional depreciation expenses form a charge, in the first instance, against the balance in any Revaluation Reserve previously created for such asset, and to the extent that such balance is sufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question in.

(d) Investment Property

When the fair value model is adopted, all investment property should be measured at its fair value except when the fair value cannot be determined reliably on a continuing basis. The gain or loss from the change in fair the fair value of investment property shall be included in the surplus or deficit for the period in which it arises. The fair value of the investment property shall reflect market conditions at the date. Investment property shall be valued on

an annual basis. All fair value adjustments shall be included in the surplus or deficit for the financial year.

(e) Subsequent Expenses

- (i) The Municipality should not recognise the costs of day-to-day servicing of the item in the carrying amount of an item of capital asset. These costs are recognised as expenditure as and when incurred. Day-to-day costs are primarily the costs of labour and consumables and may include the costs of small parts. The purpose of these expenditures is usually for the 'repair and maintenance' of the capital asset.
- (ii) Expenses incurred in the maintenance or repair (reinstatement) of assets that ensures that the useful operating life of the asset is attained, are considered as operating expenses and not capitalised, irrespective of the quantum of the expenses concerned.
- (iii) Parts of some capital assets may require replacement at regular intervals. For example, a road may need resurfacing every few years. It may be necessary to make less-frequently recurring replacement of parts, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle, an entity recognises in the carrying amount of the capital asset the cost of replacing the part of such an item when that cost is incurred if the recognition criteria are met. At the same time the part to be replaced should be derecognised.

(f) Rehabilitation / Enhancements/Renewals of capital assets

- (i) Expenses incurred in the enhancement of assets (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 assets are capitalised. Such expenses are recognised once the Municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) - prior to this, the expenses are recorded as work-in-progress.
- (ii) Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if –
 - (aa) The expenditure satisfies the recognition criteria;
 - (bb) That expenditure is enhancing the service provision of that capital asset beyond its original expectation and either that expenditure –

- (i) Increases the useful life of that capital asset (beyond its original useful life);
 - (ii) Increases the capital asset capacity (beyond its original capacity);
 - (iii) Increases the performance of the capital asset (beyond the original performance);
 - (iv) Increases the functionality of that capital asset;
 - (v) Reduces the future ownership costs of that capital asset significantly; or
 - (vi) Increases the size of the asset or changes its shape.
- (iii) The expenditure to restore the functionality of the capital asset to its original level is a maintenance or refurbishment expense and will not be capitalised to the carrying value of the capital asset. The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or renewed, the amount incurred will be added to the carrying value of the asset.

5.7.2 Policy Statement

- (a) Measurement after recognition shall be on the following basis –
- (i) PPE excluding land and buildings, structures and facilities
Cost Model – assets are stated at cost (or, if acquired through a non-exchange transaction, at its fair value) less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.
 - (ii) Land and buildings PPE
Revaluation Model – *Land and Buildings, structures and facilities* are stated at fair value less accumulated depreciation and accumulated impairment losses subsequent to initial recognition. Depreciation is charged against *Buildings, structures and facilities* over their expected useful lives. Land is not depreciated as it is deemed to have an indefinite useful life. Changes in asset value as a result of revaluation shall be reflected in a Revaluation Reserve.
 - (iii) Investment Property
Fair value Model – after initial recognition, all investment property shall be measured at fair value, which reflects market conditions at the reporting date. Gains or Losses arising from changes in the fair value of investment property are included in the statement of financial performance in the year in which they arise.

(iv) Intangible Assets

Cost Model – assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset.

(v) Heritage Assets excluding land and buildings

Cost Model – these assets are stated at cost (or, if acquired through a non-exchange transaction, at its fair value) less accumulated impairment losses. These heritage assets are not re-valued. If an asset that might be regarded as a heritage asset cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

(vi) Land and buildings Heritage Assets

Revaluation Model – Heritage assets are stated at fair value less accumulated depreciation and accumulated impairment losses subsequent to initial recognition.

(vii) Biological assets

Biological assets, such as livestock and crops, shall be valued annually at fair value less estimated point-of-sales costs.

(viii) Inventory property

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the Municipality's asset register or statement of financial position. Inventory property shall be valued annually at reporting date at the lower of its carrying value or net realisable value, except where they are held for –

(aa) Distribution at no charge or for a nominal charge, or

(bb) Consumption in the production process of goods to be distributed at no charge or for a nominal charge:

Then they shall be measured at the lower of cost and current replacement cost.

5.7.3 Responsibilities

- (a) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Directors, shall determine effective procedures for the capitalisation of assets on recognition.
- (b) Every Executive Director shall ensure that all assets under their control are correctly capitalised.

- (c) Every Executive Director shall ensure that revaluations are conducted where applicable to assets under their control.

5.8 DEPRECIATION AND ESTIMATED USEFUL LIVES

5.8.1 Definition and Rules

(a) Depreciation

- (i) Depreciation is the systematic allocation of the depreciation amount of an asset over its remaining useful life. The amortisation of intangible assets is identical.
- (ii) Land, servitudes and heritage assets are considered to have unlimited life and are not depreciated.

(b) Useful life

- (i) Useful life is defined as the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by an entity.
- (ii) The expected useful life of a depreciable asset is the total expected period (or number of production units) for which an asset can be used economically by the Municipality. The remaining useful life of a depreciable asset is the time remaining until an asset ceases to provide required standard of performance or economic usefulness.
- (iii) Although various guidelines exist that includes directives for useful lives of assets, GRAP requires municipalities to use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for particular classes of assets. The calculation of useful life is based on a particular level of planned maintenance.

(c) Residual value

- (i) The residual value is the estimated amount that the Municipality would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
- (ii) The residual values of most assets are however considered to be insignificant and therefore immaterial in the calculation of the depreciable amount. The reason is that the majority of municipal

assets are hardly ever recovered through sale i.e. disposed of for amounts that are significant, but rather recovered through use of the asset until the end of its useful life, after which insignificant amounts, if any, are expected to be obtained, as these assets will most probably be replaced in its entirety.

- (iii) Assets typically not sold by the Municipality are land, buildings, other structures and facilities, and infrastructure assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle. Residual values will only be applicable to assets that are normally disposed of by selling them once the Municipality does not have a need for such assets anymore, e.g. motor vehicles. Past experiences of municipal auctions held revealed that furniture, computer equipment and other movable assets does not reach selling prices that are material.

(d) Depreciation Method

Depreciation of assets is applied at the component level. A range of depreciation methods exist and can be selected to model consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, percentage on reducing balance method, sum of the year digits method, production unit method). The approach used should reflect the consumption of the future economic benefits or services potential, and should be reviewed annually where there has been a change in the pattern of consumption.

(e) Remaining useful life

- (i) The remaining useful life of a depreciable asset is the time remaining until an asset ceases to provide required standard of performance or economic usefulness.
- (ii) The remaining useful lives of all depreciable assets at initial recognition are the same as the expected useful lives.

(f) Review of remaining useful life

The remaining useful lives of depreciable PPE and Intangible assets are assessed every year at the reporting date for any indication that the expectations have changed since the preceding reporting date. If any such indication exists, the expected useful life shall be revised accordingly.

Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments (as contemplated in Section 5.9 of this policy). Depreciation and amortisation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.

(g) Depreciation charge

Depreciation starts once an asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, and ceases when it is de-recognised. Depreciation is initially calculated from the day when an asset item is acquired or - in the case of construction works and plants and machinery - the day when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, until the end of the calendar month concerned. Depreciation charges are calculated monthly.

(h) Carrying Amount

The carrying amount is the cost price/fair value amount after deducting any accumulated depreciation and accumulated impairment losses.

(i) Spares

The depreciation of capital spares commences immediately when it is available and in the location and condition necessary for it to be capable of operating in the manner intended by management. The depreciation continues once they are placed in services, or subsequently removed from services.

(j) Finance Lease

Depreciation assets financed through a finance lease will give rise to a depreciation expense and finance cost which will occur for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with the policy of depreciable owned assets, and the depreciation recognised shall be calculated in accordance with GRAP 17 on Property, Plant and Equipment. If there is no reasonable certainty that the Municipality will obtain ownership by the end of the lease term, the asset will be fully depreciated over the shorter of the lease term and the asset's useful life.

5.8.2 Policy Statement

(a) Depreciation

- (i) All PPE except land shall be depreciated over their remaining useful lives. Intangible assets (except servitudes) will be amortised over their remaining useful life.
- (ii) The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other PPE.
- (iii) Depreciation shall generally take the form of an expense both calculated and debited on an annual basis against the appropriate line

item in the department or vote in which the item of PPE is used or consumed.

(b) Useful lives

- (i) The expected useful lives applied at DM are indicated in **Annexure A**. These figures have been established using available information on industry norms, experience of local influencing factors (such as climate, geotechnical conditions and operating conditions), the life-cycle strategy of the Municipality, potential technical obsolescence, and legal limits on the use of the assets.
- (ii) The remaining useful lives of depreciable PPE and Intangible assets are assessed annually for any indication that the expectations have changed since the preceding reporting date. If any such indication exists, the expected useful life and/or residual value are revised accordingly. Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments. Depreciation and amortisation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.
- (iii) During annual physical verification of movable assets, an assessment of condition and use shall determine the appropriateness of the remaining useful lives, while for infrastructure assets, the useful lives shall be deemed to be appropriate unless an event has occurred or conditions of use have changed, which may have an effect on the remaining useful lives of these assets.

(c) Depreciation method

The method of depreciation shall be reviewed on an annual basis, though the straight line basis shall be used in all cases unless determined otherwise.

(d) Residual values

- (i) Residual values shall be determined upon initial recognition of assets that are normally disposed of by selling them once the Municipality does not have a need for such assets anymore, e.g. motor vehicles and earthmoving equipment. The basis of the residual value estimates shall be determined by the results of past sales of these types of assets at auctions when it reaches the end of its useful lives.

- (ii) The residual value of assets shall be assessed annually for any indication that the expectations have changed since the preceding reporting date. If any such indication exists, the residual value shall be revised accordingly if significantly different from values previously determined. Changes in depreciation charges emanating from such reviews shall be accounted for as a change in accounting estimates in terms of GRAP 3.

5.8.3 Responsibilities

- (a) Every Executive Director shall ensure that a budgetary provision is made for the depreciation of assets under their control in the ensuing financial year, in consultation with the CFO.
- (b) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Directors, shall assign a useful operating life to each depreciable asset item recorded on the Municipality's asset register. In determining such a useful life, the useful lives set out in the **Annexure A** to this document shall be used as a guideline.
- (c) In the case of an asset item which is not listed in **Annexure A**, the Manager: Assets and Insurance Management shall determine a useful operating life, if necessary in consultation with the Executive Director controlling or using the item in question, 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.
- (d) The CFO shall ensure that the expected useful lives stated in **Annexure A** are applied.
- (e) Depreciation rates (expected useful lives) used shall be included in the approved accounting policy.
- (f) Every Executive Director shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such item attain their useful operating lives.
- (g) The CFO shall indicate an annual date for the review of the remaining useful life of assets under the control of the respective Executive Directors.

- (h) The Manager: Assets and Insurance Management, in consultation with the CFO and Executive Directors, shall ensure that the useful lives of all depreciable assets in the asset register are annually reviewed.
- (i) Every Executive Director shall ensure that the expected useful lives of all assets under their control are annually reviewed.
- (j) The Manager: Assets and Insurance Management shall annually review the residual values of assets that are normally disposed of by selling them, and which reach selling prices that are material.
- (k) The Manager: Assets and Insurance Management shall ensure that depreciation calculations are correctly applied and posted in the general ledger.
- (l) The Manager: Assets and Insurance Management shall ensure that depreciation charges are debited on a regular basis (preferably monthly) and that the asset register is reconciled with the general ledger.

5.9 IMPAIRMENT

5.9.1 *Definition and Rules*

- (a) Impairment
Impairment is defined as the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the assets future economic benefits or service potential through depreciation.
- (b) Indications of impairment
 - (i) The Municipality must review assets for impairment when one of the indicators below occurs or at least at the end of each reporting period. In assessing whether there is any indication that an asset may be impaired, an entity shall consider as a minimum the following indicators:
 - (aa) External Sources of Information –
 - (i) Decline or cessation in demand;
 - (ii) Changes in the technological. Legal or government policy environment;
 - (iii) The carrying amount on the net assets of the entity is more than its market capitalisation; or

- (iv) Market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an assets value in use and decrease the assets recoverable amount materially.
- (bb) A halt in construction could indicate impairment. Where construction is delayed or postponed to a specific date in the future, the project may be treated as work in progress and not considered as halted.
- (cc) Internal Sources of Information –
 - (i) Evidence of physical damage;
 - (ii) Evidence of obsolescence;
 - (iii) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or a manner in which, an asset is used or is expected date, and reassessing the useful life of an asset as finite rather than indefinite;
 - (iv) Cash flow for acquiring an asset or maintenance cost thereafter is higher than originally budgeted;
 - (v) The actual net cash flow or operating profit or loss flowing from an asset ate significantly worse than those budgeted;
 - (vi) A significant decline in budgeted net cash flow or operating profit, or a significant increase in the budget loss; flowing from the asset;
 - (vii) Operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future; or
 - (viii) Other indications, such as loss of market value.
- (c) Impairment of projects under construction
 In assessing whether a halt in construction would trigger an impairment test, it should be considered whether construction has simply been delayed or postponed, whether the intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postpones to a specific future date, the project may be treated as work in progress and is not considered as halted.
- (d) Intangible assets
 The Municipality must test all intangible assets not yet available for use or which have an indefinite useful life for impairment. This impairment test may

be performed at any time during the reporting period it is performed at the same time every year.

(e) Significant and Enduring Nature

The Municipality must only record impairments that are significant and have an enduring adverse effect (material and long-term impact). The events and circumstances in each instance must be recorded. Where there are indications of impairment, the Municipality must estimate the recoverable services amount of the asset and also consider adjustment of the remaining useful life, residual value, and method of depreciation.

(f) Impairment loss

(i) An impairment loss of a non-cash-generating unit or asset is defined as the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

(ii) An impairment loss of a cash-generating unit (smallest group of assets that generate cash flows) or asset is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and its value in use.

(g) Non-cash generating units

Non-cash-generating units are those assets (or group of assets) that are not held the primary objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit.

(h) Cash-generating unit

Cash-generating units are those assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

(i) Judgement

The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the asset is a cash generating or non-cash generating asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be non-cash generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether extent to which the asset generates cash flows is so significant that

the asset is a non-cash-generating or a cash-generating asset. Judgement is needed in these circumstances.

(j) Recognition of impairment

- (i) The impairment loss is recognised as an expense when incurred (unless the asset is carried at a re-valued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the asset is adjusted for future periods to allocate the assets revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- (ii) When no future economic benefit is likely to flow ab asset, it is derecognised and the carrying amount of the asset at the time of de-recognition, less any economic benefit from the de-recognition of the asset, is debited to the Standard of Financial Performance as a “Loss on Disposal of Asset”.
- (iii) In the event of compensation received for damage to an item of immovable PPE, the compensation is considered as the assets ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired/de-recognised.

(k) Reversing the impairment loss

The Municipality must assess each year from the source of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increase to its recoverable amount (providing that it does not exceed the carrying amount that would have determined had no impairment loss been recognised in prior periods). Any reversal of an impairment loss is recognised as a credit in surplus or deficit.

5.9.2 Policy Statement

- (a) Assets shall be reviewed annually for impairment indicators. If any of the indicators are present, the Municipality shall make an estimate of the recoverable service amount.
- (b) Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.

- (c) In this regard, the Municipality considers itself an entity whose primary objective is to provide goods and services for community or social benefits, and where positive cash flows are generated (such as from sale of trading services such as water services), these are with view to support the primary objective rather than for financial return to equity holders. Consequently, the Municipality adopts the impairment treatment for non-cash generating units in the impairment of its PPE, Heritage assets and Intangible assets.
- (d) Impairment of assets shall be recognised as an expense in the Statement of Financial Performance when it occurs, unless it reverses a previous revaluation in which case it shall be charged to the Revaluation Surplus. The reversal of previous impairment losses recognised as an expense is recognised as an income.

5.9.3 Responsibilities

- (a) The CFO shall indicate an annual date for the review of any impairment that may have occurred on assets under the control of the respective Executive Directors.
- (b) The Executive Directors shall review any impairment on the assets under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material negative effect on the performance of these assets. The Executive Directors shall motivate to the CFO proposed changes to the performance of such assets and the necessary impairment that needs to be recognised on such assets.
- (c) The Executive Directors should evaluate all assets for impairment, taking into consideration any discussions with the Manager: Assets and Insurance Management and other Operating Managers.
- (d) The Manager: Assets and Insurance Management shall ensure that the asset register is updated with the information received, relating to the impairment, from the financial system where the impairment journal has been processed.

5.10 DE-RECOGNITION

5.10.1 Definition and rules

- (a) Alienation / Disposal

- (i) Alienation / Disposal (alienation) is the process of disowning assets by transferring ownership or title to another owner, which is external to the Municipality. The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of capital assets.
 - (ii) Government Gazette no 31346 sets out the regulations regarding municipal asset transferred and disposals, for example type of assets that need approval to be disposed or transferred, timeframes and Council approval.
 - (iii) Disposal of assets should be approved by Council and where applicable at market-related value (or at auction / per tender in the case of movable assets). Section 14 of the MFMA prohibits the disposal of assets needed to provide the minimum level of basic municipal services.
 - (iv) Disposal of assets should be at fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent (the total proceeds discounted to the present value as at the transaction date). The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue.
- (b) De-recognition
- (i) Assets are derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. An asset will remain in the asset register for as long as it is in physical existence or is yet to be written off.
 - (ii) The profit or loss on disposal (difference between carrying amount of the asset and the net disposal proceeds [or cost of de-commissioning and/or disposal of the asset]) shall be included in the statement of financial performance when the item is derecognised.

5.10.2 Policy Statement

- (a) The only reasons for de-recognising assets, other than the alienation of such assets, shall be the loss, theft, destruction, material impairment, or decommissioning of the asset in question.
- (b) Assets for which no future economic benefits or service potential are expected shall be identified and method of disposal and the association costs

or income considered by Council, taking into account SCM regulations and the Municipality's Asset Transfer Policy. The carrying amount of the asset shall be de-recognised and the profit or loss on disposal shall be included in the statement of financial performance.

(c) External Transfer of assets

- (i) When assets are transferred to other Government Departments or municipalities, a document with specific authorisation should be tied to the asset to ensure the validity of the transfer.
- (ii) The document should also include –
 - (aa) Asset description;
 - (bb) Cost of the asset;
 - (cc) Date of acquisition;
 - (dd) Unique asset number;
 - (ee) Effective date of transfer;
 - (ff) Quantity; and
 - (gg) Authorisation by both transferor and transferee.

5.10.3 Responsibilities

- (a) Assets shall be disposed of (alienated) only on the recommendation of the Executive Director of the department controlling the asset.
- (b) If the value of an item of PPE or intangible assets has been reduced to such an extent that it has no or a negligible further useful operating life or value such item shall be fully depreciated in the financial year in which such decrease in value occurs.
- (c) Similarly, if an item of PPE has been lost, stolen or damaged beyond repair, it shall be impaired in the financial year in which such event occurs, and if the item has physically ceased to exist, it shall be de-recognised in the asset register.
- (d) Every Executive Director shall report to the CFO on 31 October and 30 April of each financial year on assets which such Executive Director wishes to have de-recognised, stating in full the reason for such recommendation, indicating whether or not the assets are associated with the provision of basic services.

- (e) The Manager: Assets and Insurance Management shall report to the CFO (or delegated official) on 31 July of each financial year on lost or stolen assets, i.e. assets identified through insurance claims or movable assets not verified during annual verification and not located after follow-up with the asset custodian, and after thorough investigation of incidents.
- (f) The CFO (or delegated official) shall consolidate all such reports, and shall promptly make a submission to the City Manager or Council on the assets to be de-recognised, the proposed method of disposal, and the estimated cost or income from such disposal.
- (g) Council shall delegate to the City Manager the authority to approve the alienation of any movable asset with a carrying value less than R 50,000 (fifty thousand rand). Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R 50 000 (fifty thousand rand) takes place in compliance with Section 14 of the MFMA.
- (h) Council shall consider the submission for approval or, in cases where the carrying value of movable assets do not exceed R 50 000, the City Manager shall consider the submission and make recommendation to the Council for adoption.
- (i) Assets that are replaced in the normal course of the life-cycle renewal should be de-recognised and removed from the asset register. In this regard, Executive Directors shall provide details to the Manager: Assets and Insurance Management (or delegated official) in order to accurately identify in the asset register the assets replaced.
- (j) The Manager: Assets and Insurance Management shall de-recognise all assets disposed of (including assets replaced and written off) and update the asset register.

5.11 INSURANCE

5.11.1 Definition and rules

- (a) Insurance provides selected coverage for the accidental loss of asset value.
- (b) Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury. The Municipality can however elect to insure certain infrastructure risks.

- (c) The Municipality's *Insurance Management Policy* describes the rules and responsibilities **regarding the insuring of municipal assets**.

5.12 FUNDING SOURCES

5.12.1 Definition and rules

- (a) The MFMA provides guidelines on how to utilize funds in financing assets (Section 19 of MFMA). The Municipality utilise any of the following sources to acquire and / or purchase assets –
 - (i) Grants, Subsidies and Public Contributions;
 - (ii) Revenue Contributions;
 - (iii) Capital Replacement Reserve (CRR);
 - (iv) Self-Insurance Reserve (SIR);
 - (v) Cash Surplus; and / or
 - (vi) External / Donor Funds.

5.12.2 Policy Statement

- (a) The annual capital budget shall be funded and the sources of finance disclosed as part of the Council's budget.
- (b) It is the policy of Council to maintain and annually make contributions to a CRR to ensure that the CRR remains a capital funding source for the future. The Municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The IDP, the Municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR.

5.12.3 Responsibilities

- (a) The CFO shall ensure that in respect of all assets financed from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the Municipality, a grants reserve or public contribution reserve for future depreciation is created equal in value to the capitalised value of each asset item in question.

- (b) The CFO shall thereafter ensure that in the case of depreciable assets an amount equal to the annual depreciation expenses of the items concerned are transferred.
- (c) The CFO shall ensure that in respect of all assets financed from the CRR, whenever an asset (including land) is sold by the Municipality, the proceeds on the sale of the assets are transferred from the Accumulated Surplus to the CRR via the statement of changes in net assets, and whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus.
- (d) The CFO shall annually determine the amount to be transferred from the Accumulated Surplus to the Self-Insurance Reserve.

6. POLICY STATEMENT FOR ASSET SAFEGUARDING

6.1 *Definitions and rules*

- (a) The Municipality applies control and safeguards to ensure that assets are protected against improper use, loss, theft, malicious damage or accidental damage.
- (b) The existence of assets is physically verified from time-to-time, and measures adopted to control their use. Budgetary constraints may however restrict the measures adopted.
- (c) The Municipality may allocate day-to-day duties relating to such control, verification and safekeeping to asset custodians, and record such in the asset register.

6.2 *Policy Statement*

- (a) Asset safeguarding directives and procedures shall be prepared for all assets indicating measures that are considered effective to ensure that all assets under control of the Municipality are appropriately safeguarded from inappropriate use or loss, including access controls at municipal buildings and sites. Day-to-day duties relating to such control, verification and safekeeping may be allocated to asset custodians.

- (b) The existence, condition and location of assets are physically verified from time-to-time (annually for movable assets), including a condition assessment to identify indicators of impairment and determine the impact on an asset's remaining useful life.
- (c) No asset may be moved without the prior consent of the respective Executive Director and notification of the Manager: Assets and Insurance Management.

6.3 Responsibilities

- (a) The Manager: Assets and Insurance Management shall prepare and submit to the CFO procedures to be implemented and standard forms to be utilised for the effective management of movement of assets from one location to another (both internal and external), transfers of assets from one custodian to another, and reporting of damage, in consultation with the Executive Directors.
- (b) Executive Directors shall enforce the application of the procedures for controlling and safeguarding the Municipality's assets, including the movement of assets and confirmation of verified assets during annual verification, as prescribed by the CFO.
- (c) It is the responsibility of all municipal staff to adhere and practice strict physical controls of the assets around their work area.
- (d) Executive Directors shall ensure that rented assets, such as photocopy machines, shall not be moved, unless by duly authorised staff.
- (e) Malicious damage, theft, and break-ins must be reported to the City Manager or delegated person within 48 hours of its occurrence or awareness by the respective Executive Director.
- (f) The City Manager must report criminal activities to the South African Police Services.

7. RESPONSIBILITIES

7.1 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 City Manager and other responsible officials as well as between the Council and the Mayor and the Council and the City Manager.

7.2 In accordance with the Municipal Finance Management Act, the City Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him / her. The City Manager is therefore accountable for all transactions entered into by his / her designates.

7.3 The overall responsibility of asset management lies with the City Manager. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing.

7.3.1 City Manager

- (a) The City Manager is responsible for the management of the assets of the Municipality, including the safeguarding and the maintenance of those assets.
- (b) The City Manager shall ensure that –
 - (i) An Asset Management Committee is established, through which all asset processes and procedures will be implemented;
 - (ii) The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality;
 - (iii) The Municipality's assets are valued in accordance with the standards of generally recognised accounting practice (GRAP);
 - (iv) The Municipality has and maintains a system of internal control of assets, including an asset register; and
 - (v) The Executive Directors and their teams comply with this policy.
- (c) As Accounting Officer of the Municipality, the City Manager shall be the principal custodian of all the Municipality's assets, and shall be responsible for ensuring that this policy is effectively applied upon adoption by Council. To this end, the City Manager shall be responsible for the preparation, in consultation with the CFO and Executive Directors, of procedures to effectively and efficiently apply this policy.

7.3.2 ***Chief Financial Officer***

- (a) The Chief Financial Officer (CFO) is responsible to the City Manager to ensure that the financial investment made in the municipal assets is safeguarded and maintained.
- (b) The CFO shall also ensure, in exercising his / her financial responsibilities, that –
 - (i) Appropriate systems of financial management and internal control are established and carried out for all assets;
 - (ii) Processes are established to ensure the appropriate measurement and valuation of different asset types as required by relevant standards of GRAP;
 - (iii) The financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently;
 - (iv) All revenue due to the Municipality related to municipal assets is collected, for example rental income from leasing of immovable assets;
 - (v) The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of effective management;
 - (vi) Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
 - (vii) The City Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
 - (viii) The Executive Directors and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
 - (ix) All acquisitions of assets are in accordance with the Supply Chain Management Policy; and

- (x) This policy and support procedures are established, maintained and effectively communicated.
- (c) The CFO may delegate or otherwise assign responsibilities for performing these functions but will remain accountable for ensuring these activities are performed. 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. No amendments, deletions or additions to the asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

7.3.3 **Executive Directors**

- (a) Executive Directors (the managers directly accountable to the City Manager) shall ensure that –
 - (i) Appropriate systems of physical management and control are established and carried out for all assets;
 - (ii) The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
 - (iii) Procedures are adopted and implemented in conformity with this policy to produce reliable data to be captured into the municipal asset register;
 - (iv) All employees in their departments adhere to the approved Financial Asset Management Policy and Procedures;
 - (v) Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
 - (vi) The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
 - (vii) They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the Municipality's strategic objectives; and
 - (viii) They manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.
- (b) The Executive Directors may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

7.3.4 **Manager: Assets and Insurance Management**

- (a) The CFO shall delegate the following duties to the Manager: Assets and Insurance Management –
 - (i) Ensuring that council assets are accounted for in accordance with Generally Recognised Accounting Practice (GRAP);
 - (ii) Ensuring that the general ledger is reconciled to the asset register;
 - (iii) Reviewing the reconciliation between the general ledger and the asset register; and
 - (iv) Providing the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.
- (b) No amendments to the asset register shall be made other than those authorised by the Manager: Assets and Insurance Management and the Chief Financial Officer.
- (c) The Manager: Assets and Insurance Management, together with the Asset Management Section, shall be responsible for ensuring that –
 - (i) A centralised asset register is implemented and maintained;
 - (ii) Physical asset verification is performed annually to verify movable assets on the asset register. The results of this verification must be reported to the CFO (or delegated official);
 - (iii) Proper accounting processes and procedures are implemented in conformity with the municipal financial policies and the MFMA to produce reliable data for inclusion in the municipal asset register; and
 - (iv) The asset management systems, processes and controls can provide an accurate, reliable and up-to-date account of assets under their control.
- (d) The Manager: Assets and Insurance Management may delegate or otherwise assign responsibility for performing these functions, but he / she will remain accountable for ensuring that these activities are performed.

7.3.5 Manager: Budgets and Cost Accounting

- (a) The Manager: Budgets and Cost Accounting, together with the Budgeting Section, shall be responsible for ensuring that –
 - (i) A clear description is provided with each project and the appropriate funding source is identified; and
 - (ii) Capital funds are released only after receiving written authority and a clear and concise description of the item to be purchased.

7.3.6 Manager: Expenditure

- (a) The Manager: Expenditure, together with the Expenditure Section, shall be responsible for ensuring that –
 - (i) Invoices authorised for payment are matched to a confirmation of goods or services received before processing such payment.

7.3.7 Manager: Supply Chain Management

- (a) The Manager: SCM, together with the SCM Division, shall be responsible for ensuring that –
 - (i) Correct procedures are followed in asset acquisitions as per the Municipality's Supply Chain Management Policy; and
 - (ii) The Bid Specification Committee, Bid Evaluation Committee and Bid Adjudication Committee comply with and be constituted in accordance with the Supply Chain Management Policy.

7.3.8 Manager: Human Resources

- (a) The Manager: Human Resources, together with his / her division, shall be responsible for ensuring that –
 - (i) On termination of service of an employee, the Asset Management Section is informed in writing of the termination and the date of the final working day of the employee, to ensure that verification of assets under the custodianship of the employee is performed.
 - (ii) No monies are paid out on termination of service of an employee without receiving the relevant asset checklist form signed off by the Manager: Assets and Insurance Management.

ANNEXURES

ANNEXURE A: ASSET CLASSIFICATION

PROPERTY, PLANT AND EQUIPMENT			
PPE - INFRASTRUCTURE ASSETS			
HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
ELECTRICITY	WORK IN PROGRESS		n/a
ELECTRICITY	HIGH VOLTAGE	HV OVERHEAD LINE	50
ELECTRICITY	HIGH VOLTAGE	HV UNDERGROUND CABLE	50
ELECTRICITY	HIGH VOLTAGE	OTHER ASSETS	15-50
ELECTRICITY	HIGH VOLTAGE	RING MAIN UNIT	45
ELECTRICITY	HIGH VOLTAGE SUBSTATION	OTHER ASSETS	10
ELECTRICITY	HIGH VOLTAGE SUBSTATION	HV SWITCHGEAR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	OTHER ASSETS	15-50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	BUILDING STRUCTURES	15-50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	ELECTRICAL PLANT	10-35
ELECTRICITY	HIGH VOLTAGE SUBSTATION	OUTDOOR AIS ISOLATOR	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	OUTDOOR AIS ISOLATOR PANTO	50
ELECTRICITY	HIGH VOLTAGE SUBSTATION	PANELS	45
ELECTRICITY	MEDIUM VOLTAGE	DISTRIBUTION TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE	MINI SUBSTATION	50
ELECTRICITY	MEDIUM VOLTAGE	MV OVERHEAD LINE	50
ELECTRICITY	MEDIUM VOLTAGE	MV UNDERGROUND CABLE	50
ELECTRICITY	MEDIUM VOLTAGE	RING MAIN UNIT	45
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	DISTRIBUTION TRANSFORMER	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	MV SWITCHGEAR	50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	OTHER ASSETS	10-50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	BUILDING STRUCTURES	15-50
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	PROTECTION PANEL	45
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	RING MAIN UNIT	45
ELECTRICITY	MEDIUM VOLTAGE SUBSTATION	ELECTRICAL PLANT	10-35
ELECTRICITY	LOW VOLTAGE	LV OVERHEAD LINE	50
ELECTRICITY	LOW VOLTAGE	LV UNDERGROUND CABLE	50
ELECTRICITY	LOW VOLTAGE	CONSUMER CONNECTION CABLE	50
ELECTRICITY	LOW VOLTAGE	ELECTRICAL PLANT	10-35
ELECTRICITY	LOW VOLTAGE	STREET LIGHT	25
ELECTRICITY	LOW VOLTAGE	CONSUMER CONNECTION POINT	50
ELECTRICITY	LOW VOLTAGE	STREET LIGHT CABLE	50

HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
WATER SUPPLY	WORK IN PROGRESS		n/a
WATER SUPPLY	BOREHOLE	CIVIL STRUCTURE	5-50
WATER SUPPLY	BOREHOLE	MECHANICAL PLANT	15-30
WATER SUPPLY	BOREHOLE	CIVIL STRUCTURE	15-100
WATER SUPPLY	BOREHOLE	ELECTRICAL PLANT	5-50
WATER SUPPLY	BOREHOLE	OTHER ASSETS	5-50
WATER SUPPLY	BOREHOLE	BUILDING STRUCTURES	15-50
WATER SUPPLY	BULK WATER PIPELINE	CIVIL STRUCTURE	20-50
WATER SUPPLY	BULK WATER PIPELINE	ELECTRICAL PLANT	15
WATER SUPPLY	BULK WATER PIPELINE	MECHANICAL PLANT	15
WATER SUPPLY	BULK WATER PIPELINE	PIPES	20-100
WATER SUPPLY	CONSUMER CONNECTIONS	ELECTRICAL PLANT	50
WATER SUPPLY	CONSUMER CONNECTIONS	OTHER ASSETS	50
WATER SUPPLY	DAM	CIVIL STRUCTURE	5-100
WATER SUPPLY	DAM	ELECTRICAL PLANT	5-50
WATER SUPPLY	DAM	MECHANICAL PLANT	1-50
WATER SUPPLY	DAM	OTHER ASSETS	10-50
WATER SUPPLY	DAM	BUILDING STRUCTURES	15-50
WATER SUPPLY	DAM	OTHER ASSETS	5-20
WATER SUPPLY	SPRING	CIVIL STRUCTURE	5-100
WATER SUPPLY	SPRING	ELECTRICAL PLANT	5-50
WATER SUPPLY	SPRING	MECHANICAL PLANT	1-50
WATER SUPPLY	SPRING	OTHER ASSETS	5-50
WATER SUPPLY	SPRING	BUILDING STRUCTURES	15-50
WATER SUPPLY	WATER CHANNEL	CIVIL STRUCTURE	5-100
WATER SUPPLY	WATER CHANNEL	MECHANICAL PLANT	15
WATER SUPPLY	WATER CHANNEL	ELECTRICAL PLANT	5-50
WATER SUPPLY	WATER CHANNEL	OTHER ASSETS	15-50
WATER SUPPLY	WATER PIPELINE	CIVIL STRUCTURE	20-50
WATER SUPPLY	WATER PIPELINE	ELECTRICAL PLANT	15
WATER SUPPLY	WATER PIPELINE	MECHANICAL PLANT	15
WATER SUPPLY	WATER PIPELINE	PIPES	20-100
WATER SUPPLY	WEIR	CIVIL STRUCTURE	5-100
WATER SUPPLY	WEIR	ELECTRICAL PLANT	5-50
WATER SUPPLY	WEIR	MECHANICAL PLANT	15-50
WATER SUPPLY	WEIR	OTHER ASSETS	5-50
WATER SUPPLY	WEIR	BUILDING STRUCTURES	10-50
WATER SUPPLY	PUMP STATION	CIVIL STRUCTURE	5-100

HIERARCHY LEVEL 1	HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	ESTIMATED USEFUL LIFE
WATER SUPPLY	PUMP STATION	ELECTRICAL PLANT	5-50
WATER SUPPLY	PUMP STATION	MECHANICAL PLANT	1-50
WATER SUPPLY	PUMP STATION	OTHER ASSETS	5-50
WATER SUPPLY	PUMP STATION	BUILDING STRUCTURES	15-50
WATER SUPPLY	RESERVOIR	CIVIL STRUCTURE	5-100
WATER SUPPLY	RESERVOIR	ELECTRICAL PLANT	5-50
WATER SUPPLY	RESERVOIR	MECHANICAL PLANT	1-50
WATER SUPPLY	RESERVOIR	OTHER ASSETS	5-50
WATER SUPPLY	RESERVOIR	BUILDING STRUCTURES	15-50
WATER SUPPLY	WATER TREATMENT WORKS	CIVIL STRUCTURE	5-100
WATER SUPPLY	WATER TREATMENT WORKS	ELECTRICAL PLANT	5-50
WATER SUPPLY	WATER TREATMENT WORKS	MECHANICAL PLANT	1-50
WATER SUPPLY	WATER TREATMENT WORKS	OTHER ASSETS	5-50
WATER SUPPLY	WATER TREATMENT WORKS	BUILDING STRUCTURES	15-50
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- Kitchen equipment of insignificant or below capital threshold value such as: Kettles, Pump flasks, Toaster, Sandwich pressers, Two plate stoves, Hotplates, cutlery etc.
- Desktop fans
- Element heaters
- Fan heaters
- Mattresses
- IT Equipment of insignificant or below capital threshold value such as: External dvd writer, flash drive, Key-board, Mouse, PC speakers etc. Where the cost of extra items such as a key board is included in the value of the main asset purchase, the cost of this will be included in the cost of the main item
- Stationery equipment, for example punches (not heavy duty), staplers (not heavy duty), etcetera
- Loose tools, for example socket sets, screw drivers, pliers, small tool chargers, tap/die sets etc.
- Cleaning utensils, for example brooms and mops
- Construction/gardening tools, for example trowels, shovels, rakes, picks and wheel barrows
- Decorative items of insignificant or below capital threshold value such as: Mirrors, Pictures, frames, Pots, Wall clocks etc.
- Other, as may be determined by management

ANNEXURE C: ASSET TYPES LISTED IN SUB-REGISTERS

- Water meters
- Electricity meters

- Telephones
- Air conditioners
- Workshop equipment for example angle grinders, drills, jigsaws, etc.
- Toolbox items for example hall chairs
- Other, as may be determined by management



Supply Chain Management Policy

Effective from 1 July 2021

Date of approval / Reviewed by Council	Implementation Date
	1 July 2021
Signed by the City Manager	Signature Date

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1. Definitions

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

1.1.1 **“Act”** means the Municipal Finance Management Act, No. 56 of 2003;

1.1.2 **“Bid”**, unless indicated otherwise, means a written offer in a prescribed or stipulated form in response to an invitation by the municipality for the provision of goods, services or construction works through price quotations, advertised competitive bidding process or proposals;

1.1.3 **“Bidder”** means any person submitting a competitive bid or a quotation;

1.1.4 **“Closing time”** means the time and day specified in the bid documents for the receipt of bids;

1.1.5 **“Competitive bidding process”** means a competitive bidding process referred to in paragraph 12(2)(b)(iii) of this Policy;

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

1.1.7 **“Contract”** means the agreement which is concluded when the municipality accepts, in writing, a competitive bid or quotation submitted by a supplier;

1.1.9 **“Contractor”** means any person or entity whose competitive bid or quotation has been accepted by the municipality;

1.1.10 **“Delegated authority”** means any person or committee delegated with authority by the municipality in terms of the provisions of the Municipal Finance Management Act;

1.1.11 **“Department”** means a section within a specific directorate in terms of the municipal organogram;

1.1.12 **“Electronic format”** means a bid submitted by a bidder via email or made available through a cloud storage service;

1.1.13 **“Emergency dispensation”** means emergency as referred to in paragraph 36(1)(a)(i) of this policy under which one or more of the following is in existence that warrants an emergency dispensation;

- (a) The possibility of human injury or death;
- (b) The prevalence of human suffering or deprivation of rights;
- (c) The possibility of damage to property, or suffering and death of livestock and animals;
- (d) The interruption of essential services, including transportation and communication facilities or support services critical to the effective functioning of the municipality as a whole;
- (e) The possibility of serious damage occurring to the natural environment;
- (f) The possibility that failure to take necessary action may result in the municipality not being able to render an essential community service;
- (g) The possibility that the security of the state could be compromised; or
- (h) The prevailing situation, or imminent danger, should be of such a scale and nature that it could not readily be alleviated by interim measures, in order to allow time for the formal procurement process. Emergency dispensation shall not be granted in respect of circumstances other than those contemplated above.

1.1.14 **“Final award”** in relation to bids or quotations submitted for a contract, means the final decision on which a bid or quote is accepted in terms of the delegated powers as per the System of Delegations;

1.1.15 **“Formal written price quotation”** means quotations referred to in paragraph 12 (1) (d) of this Policy;

1.1.16 **“Green procurement”** means the procurement of environmentally friendly products and services;

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

(a) A member of –

(i) Any municipal council;

(ii) Any provincial legislature; or

(iii) The National Assembly or the National Council of Provinces;

(b) A member of the board of directors of any municipal entity;

(c) An official of any municipality or municipal entity;

(d) An employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the Public Finance Management Act, 1999 (Act No.1 of 1999);

(e) A member of the accounting authority of any national or provincial public entity; or

(f) An employee of Parliament or a provincial legislature;

1.1.18 **“Long term contract”** means a contract with a duration period exceeding one year and does not have the same meaning as contracts of a long term nature referred to in paragraph 22(1)(b)(vi) of this policy;

1.1.19 **“Long term nature contract”** means a contract as defined by section 33(1) of the Municipal Finance Management Act imposing financial obligations on the Municipality beyond the first three years covered in the approved annual budget;

1.1.20 **“List of accredited prospective providers”** means the list of accredited prospective providers, which the Drakenstein Municipality must keep in terms of paragraph 14 of this policy;

1.1.21 **“Other applicable legislation”** means any other legislation applicable to municipal supply chain management, including but not limited to the following:

(a) The Preferential Procurement Policy Framework Act;

(b) The Broad-Based Black Economic Empowerment Act; ~~and~~

(c) The Construction Industry Development Board Act;

(d) The Local Government: Municipal Systems Act;

(e) The Competition Act; and

(f) The Promotion of Administrative Justice Act.

1.1.22 **“Policy”** means the Supply Chain Management Policy of Drakenstein municipality as amended from time to time;

1.1.23 **“Parent municipality”** has the meaning assigned to it in section 1 of the Municipal Systems Act;

- 1.1.24 **“Petty Cash”** means the procurement of goods and services through the supply chain management requisition and order system by means of one verbal and written quotation below a determined amount;
- 1.1.25 **“Single source”** refers to when the competition exist in the market, but from a selected few suppliers due to technical capabilities and abilities comply with the requirements of the municipality;
- 1.1.26 **“Sole Supplier”** refers in instances where there is no competition and only one service provider exist in the market, with sole distribution rights and/or patent rights or manufacturer;
- 1.1.27 **“Strip and quote”** When the repairs and maintenance on machines, vehicles are done by one supplier and/or strip-and-quote, for example a municipal vehicle that needs repairs enters the workshop, however to do the repairs, the vehicle has to be sent to a supplier that determines what repairs should be done;
- 1.1.28 **“Supplier database”** means the list of accredited prospective providers which the municipality or municipal entity must keep in terms of the Regulation 14 of the Supply Chain Management Regulations;
- 1.1.30 **“Treasury guidelines”** means any guidelines on supply chain management issued by the Minister in terms of section 168 of the Act;
- 1.1.31 **“Trust”** means the agreement through which the property of one person is made over or bequeathed to a trustee to administer such property for the benefit of another person;
- 1.1.32 **“Trustee”** means any person, including the founder of a trust, to whom property is bequeathed in order for such property to be administered for the benefit of another person;

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

1.1.34 **“The PPPF Regulations”** means the Preferential Procurement Policy Regulations, 2017 published under Government Notice R.32 in Government Gazette 40553 of 20 January 2017; and

1.1.35 **“Written or verbal quotations”** means quotations referred to in paragraph 12(1)(b) & (c) of this Policy.

CHAPTER 1

IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY

2. Supply chain management policy

(1) All officials and other role players in the supply chain management system of the Drakenstein Municipality must implement this Policy in a way that –

(a) Gives effect to –

(i) Section 217 of the Constitution; and

(ii) Part 1 of Chapter 11 and other applicable provisions of the Act;

(b) Is fair, equitable, transparent, competitive and cost effective;

(c) Complies with –

(i) The Regulations; and

- (ii) Any minimum norms and standards that may be prescribed in terms of section 168 of the Act;
 - (d) Is consistent with other applicable legislation;
 - (e) Does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres; and
 - (f) Is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.
- (2) The municipal entity must, in addition to complying with subparagraph (1), apply this Policy, to the extent determined by the parent municipality, in a way that is consistent with the supply chain management policy of the parent municipality.
- (3) This Policy applies when the Drakenstein Municipality –
- (a) Procures goods or services;
 - (b) Disposes goods no longer needed;
 - (c) Selects contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the Municipal Systems Act applies; or
 - (d) Selects external mechanisms referred to in section 80(1)(b) of the Municipal Systems Act for the provision of municipal services in circumstances contemplated in section 83 of that Act.
- (4) This Policy, except where provided otherwise, does not apply in respect of the procurement of goods and services contemplated in section 110(2) of the Act, including-

- (a) Water from the Department of Water Affairs or a public entity, another municipality or a municipal entity; and
- (b) Electricity from Eskom or another public entity, another municipality or a municipal entity.

3. Amendment of the supply chain management policy

- (1) The Accounting Officer must –
 - (a) At least annually review the implementation of this Policy; and
 - (b) When the Accounting Officer considers it necessary, submit proposals for the amendment of this Policy to the Drakenstein Council.
- (2) If the Accounting Officer submits proposed amendments to the Drakenstein Council that differs from the model policy issued by the National Treasury, the Accounting Officer must -
 - (a) Ensure that such proposed amendments comply with the Regulations; and
 - (b) Report any deviation from the model policy to the National Treasury and the relevant provincial treasury.
- (3) When amending this supply chain management policy the need for uniformity in supply chain practices, procedures and forms between organs of state in all spheres, particularly to promote accessibility of supply chain management systems for small businesses must be taken into account.

4. Delegation of supply chain management powers and duties

- (1) The Drakenstein Council hereby delegates all powers and duties to the Accounting Officer, which are necessary to enable the Accounting Officer –
 - (a) To discharge the supply chain management responsibilities conferred on Accounting Officers in terms of –
 - (i) Chapter 8 or 10 of the Act; and
 - (ii) This Policy;
 - (b) To maximize administrative and operational efficiency in the implementation of this Policy;
 - (c) To enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of this Policy; and
 - (d) To comply with his or her responsibilities in terms of section 115 and other applicable provisions of the Act.
- (2) Sections 79 and 106 of the Act apply to the sub-delegation of powers and duties delegated to an Accounting Officer in terms of subparagraph (1).
- (3) The Accounting Officer may not sub-delegate any supply chain management powers or duties to a person who is not an official of Drakenstein Municipality or to a committee, which is not exclusively composed of officials of the Drakenstein Municipality.
- (4) This paragraph may not be read as permitting an official, to whom the power to make final awards has been delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 26 of this Policy.

5. Sub-delegations

- (1) The Accounting Officer may in terms of section 79 or 106 of the Act sub-delegate any supply chain management powers and duties, including those delegated to the Accounting Officer in terms of this Policy, but any such sub-delegation must be consistent with subparagraph (2) of this paragraph and paragraph 4 of this Policy.
- (2) The power to make a final award –
 - (a) Above R 10 million (VAT included) may not be sub-delegated by the Accounting Officer;
 - (b) Above R 200,000 (VAT included), but not exceeding R 10 million (VAT included), may be sub-delegated but only to –
 - (i) The Bid Adjudication Committee of which the Chief Financial Officer or a senior manager is a member; or
 - (ii) Accounting Officer of the municipality, after due consideration of all facts was done; and
 - (c) Below R 200,000 (VAT included) to be disposed by delegated official according to approved delegatory power and functions issued by Accounting Officer.
- (3) The Bid Adjudication Committee to which the power to make final awards has been sub-delegated in accordance with subparagraph (2) must within five days of the end of each month submit to the official referred to in subparagraph (4) a written report containing particulars of each final award made by such official or committee during that month, including –
 - (a) The amount of the award;
 - (b) The name of the person to whom the award was made; and

- (c) The reason why the award was made to that person.
- (4) A written report referred to in subparagraph (3) must be submitted –
 - (a) To the Accounting Officer, in the case of an award by –
 - (i) The Bid Adjudication Committee of which the Chief Financial Officer or a senior manager is a member; or
 - (b) To the Chief Financial Officer or the senior manager responsible for the relevant bid, in the case of an award by –
 - (i) The Bid Adjudication Committee of which the Chief Financial Officer or a senior manager is not a member.
- (5) Subparagraphs (3) and (4) of this policy do not apply to procurements out of petty cash.
- (6) This paragraph may not be interpreted as permitting an official to whom the power to make final awards has been sub-delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in paragraph 26 of this Policy.
- (7) No supply chain management decision-making powers may be delegated to an advisor or consultant.

6. Oversight role of council

- (1) The Drakenstein Council reserves its right to maintain oversight over the implementation of this Policy.
- (2) For the purposes of such oversight the Accounting Officer must –

- (i) Within 30 days of the end of each financial year, submit a report on the implementation of this Policy and the supply chain management policy of any municipal entity under the sole or shared control of the municipality, to the council of the municipality; and
 - (ii) Whenever there are serious and material problems in the implementation of this Policy, immediately submit a report to Council.
- (3) The Accounting Officer must, within 10 days of the end of each quarter, submit a report on the implementation of the supply chain management policy to the Executive Mayor.
- (4) The reports must be made public in accordance with section 21A of the Municipal Systems Act.

7. Supply chain management unit

- (1) A supply chain management unit is hereby established to implement this Policy.
- (2) The supply chain management unit operates under the direct supervision of the Chief Financial Officer or an official to whom this duty has been delegated in terms of section 82 of the Act.

8. Training of supply chain management officials

- (1) The training of officials involved in implementing this Policy should be in accordance with any Treasury guidelines on supply chain management training.

CHAPTER 2

SUPPLY CHAIN MANAGEMENT SYSTEM

9. Format of supply chain management system

(1) This Policy provides systems for –

- (i) Demand management;
- (ii) Acquisition management;
- (iii) Logistics management;
- (iv) Disposal management;
- (v) Risk management; and
- (vi) Performance management.

Part 1: Demand management

10. System of demand management

- (1) The Accounting Officer must establish and implement an appropriate demand management system in order to ensure that the resources required by Drakenstein Municipality support its operational commitments and its strategic goals outlined in the Integrated Development Plan.
- (2) The demand management system must –

- (a) Include timely planning and management processes to ensure that all goods and services required by Drakenstein Municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost;
 - (b) Take into account any benefits of economies of scale that may be derived in the case of acquisitions of a repetitive nature;
 - (c) Provide for the compilation of the required specifications to ensure that its needs are met; and
 - (d) To undertake appropriate industry analysis and research to ensure that innovations and technological benefits are maximized.
- (3) Green procurement must be incorporated as far as reasonably possible for all specifications of goods, services and construction works.
 - (4) In the development of bid specifications, innovative mechanisms should be explored to render the service or product more resource and energy efficient.

Part 2: Acquisition management

11. System of acquisition management

- (1) The Accounting Officer must implement the system of acquisition management set out in this Part in order to ensure –
 - (a) That goods and services are procured by Drakenstein Municipality in accordance with authorised processes only;
 - (b) That expenditure on goods and services is incurred in terms of an approved budget in terms of section 15 of the Act;

- (c) That the threshold values for the different procurement processes are complied with;
 - (d) That bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with any applicable legislation; and
 - (e) That any Treasury guidelines on acquisition management are properly taken into account.
- (2) When procuring goods or services contemplated in section 110(2) of the Act, the Accounting Officer must make public the fact that such goods or services are procured otherwise than through the Drakenstein Municipality supply chain management system, including –
 - (a) The kind of goods or services; and
 - (b) The name of the supplier.
- (3) The Accounting Officer may on motivation of an Executive Director extend the bid closing date, if circumstances justify the action, provided that the closing date may not be extended unless a notice is published by the Manager: Supply Chain Management in the same newspapers as the original advertisement as well as the website, prior to the original bid closing date. All prospective bidders must also be informed in writing by the relevant Executive Director of the extension of the bid closing date.
- (4) Unless otherwise indicated in the bid documents, the Municipality shall not be liable for any expenses incurred by prospective bidders in the preparation and / or submission of a bid or quotation.

12. Range of procurement processes

- (1) Goods and / or services may only be procured by way of –

- (a) Cash purchases administered by the Expenditure Division up to a transaction value as defined in Council's Petty Cash Policy;
 - (b) Petty cash purchases through one verbal and written quotation for the procurement of goods through the supply chain management requisition and order system of a transaction value between R0 and R2,000 (VAT included);
 - (c) Written or verbal quotations for procurement of goods and/or services of a transaction value between R2,000 and R10,000 (VAT included);
 - (d) Formal written quotations for procurement of goods and/or services of a transaction value between R10,000 and R200,000 (VAT included);
 - (e) Procurements above a transaction value of R200,000 (VAT included); and
 - (f) The procurement of long-term contracts.
- (2) The Accounting Officer may, in writing-
- (a) Lower, but not increase, the different threshold values specified in subparagraph (1); or
 - (b) Direct that –
 - (i) Written quotations are obtained for any specific procurement of a transaction value lower than R2,000;
 - (ii) Written price quotations be obtained for any specific procurement of a transaction value lower than R10,000; or
 - (iii) A competitive bidding process be followed for any specific procurement of a transaction value higher than R200,000.

- (3) Goods or services may not deliberately be split into parts or items of a lesser value merely to avoid complying with the requirements of the policy. When determining transaction values, a requirement for goods or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction.

13. General preconditions for consideration of written quotations or bids

- (1) A written quotation or bid may not be considered unless the provider who submitted the quotation or bid –
 - (a) Has furnished that provider's –
 - (i) Full name;
 - (ii) Identification number or company or other registration number; and
 - (iii) Tax reference number and VAT registration number, if any;
 - (b) Has authorised the Drakenstein Municipality to obtain a tax clearance, if applicable from the South African Revenue Services that the provider's tax matters are in order; and
 - (c) Has indicated –
 - (i) Whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
 - (ii) If the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or

- (iii) Whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

14. Lists of accredited prospective providers

- (1) The Accounting Officer must –
 - (a) Keep a list of accredited prospective providers of goods and services that must be used for the procurement requirements through written or verbal quotations and formal written price quotations;
 - (b) At least once a year through newspapers commonly circulating locally, the website and any other appropriate ways, invite prospective providers of goods or services to apply for evaluation and listing as accredited prospective providers;
 - (c) Specify the listing criteria for accredited prospective providers as stated within the database registration forms; and
 - (d) Disallow the listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector.
- (2) The list must be updated at least quarterly to include any additional prospective providers and any new commodities or types of services. Prospective providers must be allowed to submit applications for listing at any time.
- (3) The list must be compiled per commodity and per type of service.

15. Petty cash purchases

- (1) The Accounting Officer must establish the conditions for the procurement of goods by means of cash purchases and petty cash purchases referred to in paragraph 12(1)(a) of this Policy, which must include conditions –
 - (a) determining the terms on which a manager may delegate responsibility for cash purchases and petty cash purchases to an official reporting to the manager;
 - (b) limiting the maximum number of cash purchases and petty cash purchases or the maximum amounts per month for each manager;
 - (c) excluding any types of expenditure from cash purchases and petty cash purchases, where this is considered necessary;
 - (d) requiring a monthly reconciliation report from each manager to the Chief Financial Officer, including –
 - (i) the total amount of cash purchases and petty cash purchases for that month; and
 - (ii) receipts and appropriate documents for each purchase; and
 - (e) any other conditions determined by the Chief Financial Officer.
- (2) Cash purchases will be dealt with in terms of the Petty Cash Policy of Council.
- (3) Petty cash purchases will be dealt with in terms of the Supply Chain Management Policy of Council.

16. Written quotations

- (1) The conditions for the procurement of goods or services through written or verbal quotations are as follows –
 - (a) Quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the Drakenstein Municipality, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria set out in paragraph 13 of this Policy;
 - (b) Where no suitable providers are available from the list of accredited prospective providers, quotations may be obtained from other possible providers;
 - (c) To the extent feasible, providers must be requested to submit such quotations in writing;
 - (d) If it is not possible to obtain at least three quotations, the reasons must be recorded and reported quarterly to the Accounting Officer or another official designated by the Accounting Officer;
 - (e) The Accounting Officer must record the names of the potential providers requested to provide such quotations with their quoted prices; and
 - (f) If a quotation was submitted verbally, the order may be placed only against written confirmation by the selected provider.

17. Formal written price quotations

- (1) The conditions for the procurement of goods or services through formal written price quotations are as follows:-

- (a) Quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the Drakenstein Municipality. Quotations may be obtained from providers who are not listed, provided that such providers meet the listing criteria set out in paragraph 13 of this Policy;
 - (b) Where no suitable providers are available from the list of accredited prospective providers, quotations may be obtained from other possible providers not registered on the municipal supplier database;
 - (c) If it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the Chief Financial Officer or an official designated by the Chief Financial Officer;
 - (d) The Accounting Officer must record the names of the potential providers and their written quotations; and
 - (e) For the obtaining of quotations for services, Drakenstein Municipality will utilize their notice boards.
- (2) A designated official referred to in subparagraph (1)(c) must within three days of the end of each month report to the Chief Financial Officer on any approvals given during that month by that official in terms of that subparagraph.

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

- (1) The procedure for the procurement of goods or services through written or verbal quotations or formal written price quotations is as follows –
 - (a) When using the list of accredited prospective providers the Accounting Officer must promote ongoing competition amongst

providers by inviting providers to submit quotations on a rotation basis;

- (b) Where no suitable providers are available from the list of accredited prospective providers, quotations may be obtained from other possible providers not registered on the municipal supplier database;
- (c) All requirements in excess of R30,000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of paragraph 17, be advertised for at least seven days on the website and an official notice board of the Drakenstein Municipality;
- (d) Offers received must be evaluated on a comparative basis taking into account unconditional discounts;
- (e) The Accounting Officer or Chief Financial Officer must on a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a sub-delegation;
- (f) Offers below R30,000 (VAT included) must be awarded based on compliance to specification and conditions of contract, ability and capability to deliver the goods and services and lowest price;
- (g) The Accounting Officer must take all reasonable steps to ensure that the procurement of goods and services through written or verbal quotations is not abused;
- (h) Acceptable offers, which are subject to the preference points system (PPPFA and associated regulations), must be awarded to the bidder who scored the highest points; and
- (i) Drakenstein Municipality will maintain a proper record keeping system.

19. Competitive bids

- (1) Goods or services above a transaction value of R200,000 (VAT included) and long term contracts may only be procured through a competitive bidding process, subject to paragraph 11(2) of this Policy.
- (2) No requirement for goods or services above an estimated transaction value of R200,000 (VAT included), may deliberately be split into parts or items of lesser value merely for the sake of procuring the goods or services otherwise than through a competitive bidding process.
- (3) Commodities, services and products covered by a transversal contract concluded by the National Treasury must be considered before approaching the market in order to benefit from economies of scale where lower prices or rates have been negotiated.

20. Process for competitive bidding

- (1) The procedures for the following stages of a competitive bidding process are as follows:-
 - (a) Compilation of bidding documentation as detailed in paragraph 21;
 - (b) Public invitation of bids as detailed in paragraph 22;
 - (c) Site meetings or briefing sessions as detailed in paragraph 22;
 - (d) Handling of bids submitted in response to public invitation as detailed in paragraph 23;
 - (e) Evaluation of bids as detailed in paragraph 28;
 - (f) Award of contracts as detailed in paragraph 29;

- (g) Administration of contracts;
- (h) After approval of a bid, the Accounting Officer and the bidder must enter into a written agreement;
- (i) Proper record keeping; and
- (j) Original / legal copies of written contracts agreements must be kept in a secure place for reference purposes.

21. Bid documentation for competitive bids

- (1) The criteria to which bid documentation for a competitive bidding process must comply, must –
 - (a) Take into account –
 - (i) The general conditions of contract and any special conditions of contract, if specified;
 - (ii) Any Treasury guidelines on bid documentation; and
 - (iii) The requirements of the Construction Industry Development Board, in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure;
 - (b) Include the preference points system to be used, goals as contemplated in the Preferential Procurement Regulations and evaluation and adjudication criteria, including any criteria required by other applicable legislation;
 - (c) Compel bidders to declare any conflict of interest they may have in the transaction for which the bid is submitted;

- (d) If the value of the transaction is expected to exceed R10 million (VAT included), require bidders to furnish –
 - (i) If the bidder is required by law to prepare annual financial statements (AFS) for auditing, their audited AFS –
 - (aa) For the past three years; or
 - (bb) Since their establishment if established during the past three years;
 - (ii) A certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 days;
 - (iii) Particulars of any contracts awarded to the bidder by an organ of state during the past five years, including particulars of any material non-compliance or dispute concerning the execution of such contract;
 - (iv) A statement indicating whether any portion of the goods or services are expected to be sourced from outside the Republic, and if so, what portion and whether any portion of payment from the municipality or municipal entity is expected to be transferred out of the Republic; and
- (e) Stipulate that disputes must be settled by means of mutual consultation, mediation, adjudication (with or without legal representation), or, when unsuccessful, in a South African court of law.

22. Public invitation for competitive bids

- (1) The procedure for the invitation of competitive bids is as follows –

- (a) Any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the Drakenstein Municipality or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin and National Treasury's e-Tender Publication Portal); and
- (b) The information contained in a public advertisement, must at least include:
 - (i) The title of the bid;
 - (ii) The bid number;
 - (iii) The closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to subparagraph (2) of this policy; and
 - (iv) A statement that bids may only be submitted on the bid documentation provided by the Drakenstein Municipality
- (2) The Accounting Officer may determine a closure date for the submission of bids which is less than the 30 or 14 days requirement, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.
- (3) Bids submitted must be sealed and must clearly indicate the bid number on the outside of the envelope for which the bid is being submitted.
- (4) Where bids are requested by the Municipality in electronic format, such bids must be supplemented by sealed hard copies, in which case the hard copy will be bidding.

- (5) The Municipality may require bidders to submit section(s) of their bid in electronic format, but only after the bid closing date. If the electronic copy differs from the original hard copy, the original hard copy will be binding.

23. Procedure for handling, opening and recording of competitive bids and formal written price quotations in excess of R30,000

- (1) The procedures for the handling, opening and recording of bids are as follows—

(a) Bids –

- (i) Must be opened only in public;
 - (ii) must be opened at the same time and as soon as possible after the period for the submission of bids has expired; and
 - (iii) Received after the closing time should not be considered and returned unopened immediately; and
- (b) Any bidder or member of the public has the right to request that the names of the bidders who submitted bids in time must be read out and, if practical, also each bidder's total bidding price;
- (c) No information, except the provisions in subparagraph (b), relating to the bid should be disclosed to bidders or other persons until the successful bidder is notified of the award;
- (d) The Accounting Officer must –
- (i) Record in a register all bids received in time;
 - (ii) Make the register available for public inspection; and
 - (iii) Publish the entries in the register and the bid results on the website.

(e) Bid validity periods

- (i) A minimum bid validity period will apply to all bids and will be calculated from the bid closure date. Bids shall remain in force and binding for the minimum bid validity period as indicated in the invitation to bid and the bid documents, subject to any other applicable legislation and instructions from the National Treasury for specific types of procurement.
- (ii) Unless otherwise indicated in writing by the bidder, the validity of bids submitted will automatically extend beyond the minimum bid validity period as set out in sub-paragraph (e)(i) above and will remain valid for acceptance until the bid award process, including the consideration of any appeals, objections or complaints, has been concluded.
- (iii) Any bidder may at any time withdraw such bid in writing in which case such bid lapses and will not be further considered.

24. Negotiations with preferred bidders

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

25. Two-stage bidding process

- (1) A two-stage bidding process is allowed for –
 - (a) Large complex projects;
 - (b) Projects where it may be undesirable to prepare complete detailed technical specifications; or
 - (c) Long term projects with a duration period exceeding three years.
- (2) In the first stage technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments.
- (3) In the second stage final technical proposals and priced bids should be invited.

26. Committee system for competitive bids

- (1) A committee system for competitive bids is hereby established, consisting of the following committees for each procurement or cluster of procurements as the Accounting Officer may determine as issued within the directive and stating the terms of reference of each bid committee –
 - (a) A Bid Specifications Committee;
 - (b) A Bid Evaluation Committee; and
 - (c) A Bid Adjudication Committee.

- (2) The Accounting Officer appoints the members of each committee, taking into account section 117 of the Act
- (3) A neutral or independent observer, appointed by the Accounting Officer, must attend or oversee a committee when this is appropriate for ensuring fairness and promoting transparency.
- (4) The committee system must be consistent with –
 - (a) Paragraph 27, 28 and 29 of this Policy;
 - (b) Any other applicable legislation; and
 - (c) The Accounting Officer may apply the committee system to formal written price quotations.
- (5) The City Manager may appoint secondis to represent standing members of the Bid Specifications Committee, The Bid Evaluation Committee and the Bid Adjudication Committee. Such secondis will have the same power as the standing members.

27. Bid Specifications Committee

- (1) A Bid Specifications Committee must compile the specifications for each procurement of goods or services by the Drakenstein Municipality.
- (2) Specifications –
 - (a) Must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services;
 - (b) Must take account of any accepted standards such as those issued by Standards South Africa, the International Standards Organisation, or

an authority accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply;

- (c) Must, where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design;
 - (d) May not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labelling of conformity certification;
 - (e) May not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the word “equivalent”;
 - (f) Must indicate the preference points system set out in the Preferential Procurement Regulations 2017;
 - (g) Must be approved by the Accounting Officer prior to publication of the invitation for bids in terms of paragraph 22 of this Policy; and
 - (h) The Accounting Officer may sub-delegate the requirements in subparagraph 2(g) above to the Chairperson of the Bid Specifications Committee.
- (3) A Bid Specifications Committee must be composed of one or more officials of the Drakenstein Municipality preferably the manager responsible for the function involved, and may, when appropriate, include external and / or internal specialist advisors.
 - (4) No person, advisor or corporate entity involved with the Bid Specifications Committee, or director of such a corporate entity, may bid for any resulting contracts.

28. Bid Evaluation Committees

- (1) A Bid Evaluation Committee must –
 - (a) Evaluate bids in accordance with –
 - (i) The specifications for a specific procurement; and
 - (ii) The points system set out in terms of paragraph 27(2)(f);
 - (b) Evaluate each bidder's ability to execute the contract;
 - (c) Check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears; and
 - (d) Submit to the adjudication committee a report and recommendations regarding the award of the bid or any other related matter.
- (2) A Bid Evaluation Committee must as far as possible be composed of –
 - (a) Officials from departments requiring the goods or services; and
 - (b) At least one supply chain management practitioner of the Drakenstein Municipality.
- (3) The relevant user department's official shall carry out a preliminary evaluation of all valid bids received and shall submit a bid evaluation report to the Bid Evaluation Committee for consideration.
- (4) Any evaluation of a bid shall consider the bids received and shall note for inclusion in the evaluation report, a bidder –

- (a) Whose bid does not comply with the provisions of paragraph 38 of this Policy;
 - (b) Whose bid does not comply with the provisions of paragraph 13 of this Policy;
 - (c) Whose bid is not in compliance with the specification;
 - (d) Whose bid is not in compliance with the terms and conditions of the bid documentation;
 - (e) Who is not registered and verified on the municipality's supplier database by the closing time for bids. In this regard bid documentation shall state that the responsibility for registration and verification rests solely with the bidder;
 - (f) Who, in the case of construction works acquisitions, does not comply with the requirements of the Construction Industry Development Board Act regarding registration of contractors. Verification of compliance with this requirement shall be by means of Drakenstein Municipality's Supplier Database;
 - (g) Who has failed to submit a valid tax compliance certificate from the South African Revenue Services (SARS) certifying that the taxes of the bidder are in order or that suitable arrangements have been made with SARS; and
 - (h) Who fails to comply with any applicable Bargaining Council agreement.
- (5) Bids shall be evaluated according to the following as applicable –
- (i) Bid price (corrected if applicable and brought to a comparative level where necessary);
 - (ii) The unit rates and prices;

- (iii) The bidder's ability to fulfil its obligations in terms of the bid documents;
 - (iv) Any qualifications to the bid;
 - (v) The bid ranking obtained in respect of Preferential Procurement as required;
 - (vi) The financial standing of the bidder, including its ability to furnish the required institutional guarantee, where applicable; and
 - (vii) Any other criteria specified in the bid documents.
-
- (6) The Bid Evaluation Committee shall check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears.
 - (7) The evaluation of bids on an equitable basis may be considered during the evaluation process.
 - (8) Additional information or clarification of bids may be called for if required.
 - (9) Alternative bids may be considered, provided that a bid free of qualifications and strictly in accordance with the bid documents is also submitted. Drakenstein Municipality shall not be bound to consider alternative bids. The alternative offer is to be submitted with the main offer together with a schedule that compares the specifications of the bid documents with the alternative offer.
 - (10) If a bidder requests in writing, after the closing of bids, that his/her bid be withdrawn, then such a request may be considered and reported in the bid evaluation report.
 - (11) If, after bids have been brought to a comparative level, two or more scores equal total adjudication points, regulation 10 of the Preferential Procurement Regulations of 2017 will apply.

- (12) If two or more bids are equal in all respects after applying regulation 10(2) Preferential Procurement Regulations of 2017, the Bid Evaluation Committee shall draw lots to decide on the recommendation for award.
- (13) All disclosures of conflict of interest shall be considered by the Bid Evaluation Committee and if the conflict of interest is of a material nature, this shall be reported to the Bid Adjudication Committee.
- (14) The relevant Executive Director or the Manager: Supply Chain Management may, before the bid is considered by the Bid Evaluation Committee, provide a reasonable opportunity to a bidder who made an innocent error and / or omission in their bid document, to correct the innocent error and / or omission, provided that such opportunity will not unduly prejudice any of the other bidders.
- (15) In an event as described in sub-paragraph 14, bidders shall be afforded a minimum of two (2) working days up to a maximum of five (5) working days (on discretion of the relevant Executive Director or the Manager: Supply Chain Management) from time of notification to correct such innocent errors and / or omissions. If no response is received from such bidders at the deadline the bid may be deemed to be non-responsive.
- (16) The provisions of subparagraph 14 and 15 does not apply to matter related to tax matters, which is governed by paragraph 43 of this Policy.

29. Bid Adjudication Committees

- (1) A Bid Adjudication Committee must –
 - (a) Consider the report and recommendations of the Bid Evaluation Committee; and
 - (b) Either –

- (i) Depending on its delegations, make a final award or a recommendation to the Accounting Officer to make the final award; or
 - (ii) Make another recommendation to the Accounting Officer how to proceed with the relevant procurement.
- (2) A Bid Adjudication Committee must consist of at least four senior managers of the Drakenstein Municipality, which must include –
 - (a) The Chief Financial Officer or, if the Chief Financial Officer is not available, another manager in the budget and treasury office reporting directly to the Chief Financial Officer and designated by the Chief Financial Officer;
 - (b) At least one senior supply chain management practitioner who is an official of the Drakenstein Municipality; and
 - (c) A technical expert in the relevant field who is an official, if such an expert exists.
- (3) The four senior managers referred to in subparagraph (2) are managers envisaged by section 56 of the Municipal Systems Act.
- (4) The Chief Financial Officer cannot fulfil the role of both the Chief Financial Officer and the senior supply chain management practitioner.
- (5) The Accounting Officer must appoint the chairperson of the committee. If the chairperson is absent from a meeting, the members of the committee who are present must elect one of them to preside at the meeting.
- (6) Neither a member of a Bid Evaluation Committee, nor an advisor or person assisting the evaluation committee, may be a member of a Bid Adjudication Committee.
- (7) (a) If the Bid Adjudication Committee decides to award a bid other than the one recommended by the Bid Evaluation Committee, the Bid Adjudication Committee must prior to awarding the bid–

- (i) Check in respect of the preferred bidder whether that bidder's municipal rates and taxes and municipal service charges are not in arrears; and
 - (ii) Notify the Accounting Officer.
- (b) The Accounting Officer may –
 - (i) After due consideration of the reasons for the deviation, ratify or reject the decision of the Bid Adjudication Committee referred to in paragraph (a); and
 - (ii) If the decision of the Bid Adjudication Committee is rejected, refer the decision of the Adjudication Committee back to that committee for reconsideration.
- (8) The Accounting Officer may at any stage of a bidding process, refer any recommendation made by the Evaluation Committee or the Adjudication Committee back to that committee for reconsideration of the recommendation.
- (9) The Accounting Officer must comply with section 114 of the Act within 10 working days

30. Procurement of banking services

- (1) A contract for banking services –
 - (a) Must be procured through competitive bids;
 - (b) Must be consistent with section 7 or 85 of the Act; and

- (c) May not be for a period of more than five years at a time.
- (2) The process for procuring a contract for banking services must commence at least nine months before the end of an existing contract.
- (3) The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in a newspaper in terms of paragraph 22(1). Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990).

31. Procurement of IT related goods or services

- (1) The Accounting Officer may request the State Information Technology Agency (SITA) to assist with the acquisition of IT related goods or services through a competitive bidding process.
- (2) Both parties must enter into a written agreement to regulate the services rendered by and the payments to be made to SITA.
- (3) The Accounting Officer must notify SITA together with a motivation of the IT needs if –
 - (a) The transaction value of IT related goods or services required in any financial year will exceed R 50 million (VAT included); or
 - (b) The transaction value of a contract to be procured whether for one or more years exceeds R 50 million (VAT included).
- (4) If SITA's comments on the submission and the Drakenstein Municipality disagree with such comments, the comments and the reasons for rejecting or not following such comments must be submitted to the council, the National Treasury, the relevant provincial treasury and the Auditor General.

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

- (1) The Accounting Officer may procure goods or services under a contract secured by another organ of state, but only if –
 - (a) The contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state, subject to the following;
 - (i) The municipality must obtain copies of the bid advertisements, bid documents, minutes of the Bid Evaluation Committee and Bid Adjudication Committee, and any other relevant documents relating to the contract in order to review whether the other organ of state complied with applicable legislation and policies when it procured the contract;
 - (b) There is no reason to believe that such contract was not validly procured subject to the following;
 - (i) The Bid Evaluation Committee and Internal Audit Division must review the obtained documentation in order to certify that a competitive bidding process and other due processes was followed by the original contracting organ of state in concluding the contract.
 - (c) There are demonstrable discounts or benefits to do so subject to the following;
 - (i) Drakenstein Municipality will only pursue such procurement if it can utilise the remaining portion of the contract that has not been utilised by the original contracting organ of state. If so, the same terms and conditions to the original contract will apply.
 - (ii) The municipality must assess the contract terms including but not limited to the unit of issue / measurement, type of service, delivery lead times and prices, contract duration and undertaking a comparative research to determine if this form

of procurement is more advantageous than advertising a competitive bid.

- (iii) Should such procurement be possible, subject to subparagraphs (1) to (3), the decision to participate must be informed by a detailed report from the user department.
 - (iv) The detailed report must be submitted to the Bid Evaluation Committee for consideration and recommendation to the Bid Adjudication Committee and thereafter the City Manager. Prior to the submission of the detailed report to the Bid Evaluation Committee, the Internal Audit Division must provide further assurance that the requirements in terms of paragraph 32 of this Policy have been complied with.
 - (v) The City Manager may reject or approve the participation to a contract secured by other organs of state
- (d) That other organ of state and the provider has consented to such procurement in writing subject to the following:
 - (i) The written consent from the other organ of state as well as confirmation of the supplier's contractual performance must be obtained; and
 - (ii) the service provider's written consent
- (2) Subparagraphs (1)(c) and (d) do not apply if –
 - (a) A municipal entity procures goods or services through a contract secured by its parent municipality; or
 - (b) A municipality procures goods or services through a contract secured by a municipal entity of which it is the parent municipality.
- (3) In addition to the above the following requirements must also be met:

- (a) The municipality will not participate on a tender where a panel of consultants or a list of service providers or a panel of approved service providers has been secured by another organ of state.
 - (b) The municipality may only consider to participate on framework agreements arranged by the State Information Technology Agency (SITA), National Treasury and other state departments that are empowered by legislation to arrange such on behalf of the municipality.
 - (c) The contract between the original organ of state and the service provider/s must be valid. The municipality will only become a participant to an existing contract and can only conclude an addendum to the original agreement that stipulates the duration which may not exceed the end date of the original contract.
 - (d) The municipality must assess whether the remaining contract period is sufficient for the service provider/s to deliver on its requirements. The contract cannot be extended by the participating municipality. Should the contract between the original organ of state and the service provider be terminated for any reason before the contract end date, such termination will also apply to the participating municipality.
 - (e) In the event that the original organ of state validly extends a contract with a service provider/s, such an extension will also apply to the participating municipality if so approved by the City Manager.
- (4) Contracts entered into by Drakenstein Municipality under this paragraph shall not be deemed to be a deviation from the official procurement process.
 - (5) The Accounting Officer shall report to Council on a monthly basis all contracts entered into in terms of this paragraph.

33. Procurement of goods necessitating special safety arrangements

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

- (2) Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership, cost advantages and environmental impact and must be approved by the Accounting Officer.

34. Proudly SA Campaign

- (1) Drakenstein Municipality supports the Proudly SA Campaign to the extent that, all things being equal, preference is given to procuring local goods and services from -
 - (a) Firstly: Suppliers and businesses within the municipality or district;
 - (b) Secondly: Suppliers and businesses within the relevant province; and
 - (c) Thirdly: Suppliers and businesses within the Republic.

35. Appointment of consultants

- (1) The Accounting Officer may procure consulting services provided that any Treasury guidelines in respect of consulting services, Construction Industry Development Board guidelines and Council's Cost Containment Policy in respect of services related to the built environment and construction works are taken into account when such procurements are made.
- (2) Consultancy services must be procured through competitive bids if –
 - (a) The value of the contract exceeds R200,000 (VAT included); or
 - (b) The duration period of the contract exceeds one year.
- (3) In addition to any requirements prescribed by this policy for competitive bids, bidders must furnish particulars of –

- (a) All consultancy services provided to an organ of state in the last five years; and
 - (b) Any similar consultancy services provided to an organ of state in the last five years.
- (4) The Accounting Officer must ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, thing, system or process designed or devised, by a consultant in the course of the consultancy service is vested in the Drakenstein Municipality .
- (5) Where the estimated value of fees is less than R 200,000 and the duration of the appointment is less than one year, any Treasury guidelines in respect of consulting services, Construction Industry Development Board guidelines and Council's Cost Containment Policy in respect of consulting services are taken into account.

36. Deviation from and ratification of minor breaches of procurement processes

- (1) The Accounting Officer may –
 - (a) Dispense with the official procurement processes established by this Policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –
 - (i) In an emergency (as per definition);
 - (ii) If such goods or services are produced or available from a single source or sole provider only (as per definition);
 - (iii) For the acquisition of special works of art or historical objects where specifications are difficult to compile;

- (iv) Acquisition of animals for zoos and/or nature and game reserves; or
 - (v) In any other exceptional case where it is impractical or impossible to follow the official procurement processes; and
- (b) Ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties, which are purely of a technical nature.
- (2) The Accounting Officer must record the reasons for any deviations in terms of subparagraphs (1)(a) and (b) of this policy and report them to the next meeting of the council and include as a note to the annual financial statements.
- (3) Subparagraph (2) does not apply to the procurement of goods and services contemplated in paragraph 11(2) of this policy.

37. Unsolicited bids

- (1) In accordance with section 113 of the Act there is no obligation to consider unsolicited bids received outside a normal bidding process.
- (2) The Accounting Officer may decide in terms of section 113(2) of the Act to consider an unsolicited bid, only if –
 - (a) The product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
 - (b) The product or service will be exceptionally beneficial to, or have exceptional cost advantages;
 - (c) The person who made the bid is the sole provider of the product or service; and

- (d) The reasons for not going through the normal bidding processes are found to be sound by the Accounting Officer.
- (3) If the Accounting Officer decides to consider an unsolicited bid that complies with subparagraph (2) of this policy, the decision must be made public in accordance with section 21A of the Municipal Systems Act, together with –
 - (a) Reasons as to why the bid should not be open to other competitors;
 - (b) An explanation of the potential benefits if the unsolicited bid were accepted; and
 - (c) An invitation to the public or other potential suppliers to submit their comments within 30 days of the notice.
- (4) The Accounting Officer must submit all written comments received pursuant to subparagraph (3), including any responses from the unsolicited bidder, to the National Treasury and the relevant provincial treasury for comment.
- (5) The adjudication committee must consider the unsolicited bid and may award the bid or make a recommendation to the Accounting Officer, depending on its delegations.
- (6) A meeting of the adjudication committee to consider an unsolicited bid must be open to the public.
- (7) When considering the matter, the adjudication committee must take into account –
 - (a) Any comments submitted by the public; and
 - (b) Any written comments and recommendations of the National Treasury or the relevant provincial treasury.
- (8) If any recommendations of the National Treasury or provincial treasury are rejected or not followed, the Accounting Officer must submit to the Auditor

General, the relevant provincial treasury and the National Treasury the reasons for rejecting or not following those recommendations.

- (9) Such submission must be made within seven days after the decision on the award of the unsolicited bid is taken, but no contract committing the Drakenstein Municipality to the bid may be entered into or signed within 30 days of the submission.

38. Combating of abuse of supply chain management system

- (1) The Accounting Officer must –
 - (a) Take all reasonable steps to prevent abuse of the supply chain management system;
 - (b) Investigate any allegations against an official or other role player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with this Policy, and when justified –
 - (i) Take appropriate steps against such official or other role player; or
 - (ii) Report any alleged criminal conduct to the South African Police Service;
 - (c) Check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector;
 - (d) Reject any bid from a bidder –
 - (i) If any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the Drakenstein Municipality or to any other municipality or municipal entity, are in arrears for more than three months; or

- (ii) Who during the last five years has failed to perform satisfactorily on a previous contract with the Drakenstein Municipality or any other organ of state after written notice was given to that bidder that performance was unsatisfactory;
- (e) Reject a recommendation for the award of a contract if the recommended bidder or any of its directors, or trust or its trustees has committed a corrupt or fraudulent act in competing for the particular contract;
- (f) Cancel a contract awarded to a person if –
 - (i) The person committed any corrupt or fraudulent act during the bidding process or the execution of the contract; or
 - (ii) An official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of the contract that benefited that person; and
- (g) Reject the bid of any bidder if that bidder or any of its directors –
 - (i) Has abused the supply chain management system of the Drakenstein Municipality or has committed any improper conduct in relation to such system;
 - (ii) Has been convicted for fraud or corruption during the past five years;
 - (iii) Has wilfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years; or
 - (iv) Has been listed in the Register for Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004).

- (2) The Accounting Officer must inform the National Treasury and relevant provincial treasury in writing of any actions taken in terms of subparagraphs (1)(b)(ii), (e) or (f) of this Policy.
- (3) The performance of service providers will be measured against the stipulations within the municipality's Blacklisting Policy.

Part 3: Logistics, Disposal, Risk and Performance Management

39. Logistics management

- (1) The Accounting Officer must establish and implement an effective system of logistics management, which must include –
 - (a) The monitoring of spending patterns on types or classes of goods and services incorporating, where practical, the coding of items to ensure that each item has a unique number;
 - (b) The setting of inventory levels that includes minimum and maximum levels and lead times wherever goods are placed in stock;
 - (c) The placing of manual or electronic orders for all acquisitions other than those from petty cash;
 - (d) Before payment is approved, certification by the responsible officer that the goods and services are received or rendered on time and is in accordance with the order, the general conditions of contract and specifications where applicable and that the price charged is as quoted in terms of a contract;
 - (e) Appropriate standards of internal control and warehouse management to ensure that goods placed in stores are secure and only used for the purpose for which they were purchased;

- (f) Regular checking to ensure that all assets including official vehicles are properly managed, appropriately maintained and only used for official purposes; and
- (g) Monitoring and review of the supply vendor performance to ensure compliance with specifications and contract conditions for particular goods or services.

40. Disposal management

- (1) A supply chain management policy must provide for an effective system of disposal management for the disposal or letting of assets, including unserviceable, redundant or obsolete assets, subject to sections 14 and 90 of the Act
- (2) A supply chain management policy must specify the ways in which assets may be disposed of, including –
 - (a) Transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
 - (b) Transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
 - (c) Selling the asset; and
 - (d) Destroying the asset.
- (3) The Accounting Officer must ensure that –
 - (a) Immovable property is sold only at market related prices except when the public interest or the plight of the poor demands otherwise;
 - (b) Movable assets are sold either by way of written price quotations, a competitive bidding process, auction or at market related prices,

whichever is the most advantageous, except when the public interest or the plight of the poor demands otherwise;

- (c) Firearms are not sold or donated to any person or institution within or outside the Republic unless approved by the National Conventional Arms Control Committee;
 - (d) Immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise;
 - (e) All fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed;
 - (f) Where assets are traded in for other assets, the highest possible trade in price is negotiated; and
 - (g) In the case of the free disposal of computer equipment, the provincial department of education is first approached to indicate within 30 days whether any of the local schools are interested in the equipment.
- (4) All matters relating to the alienation of movable and immovable assets shall be dealt with in terms of Council's Asset Transfer Policy and the Asset Transfer Regulations, 2008.
- (5) Notwithstanding the provisions of paragraph 3 hereof, the following statutory powers of Drakenstein Council in respect of the alienation of immovable property, are reserved to be exercised by Council –
- (a) To decide on reasonable grounds that an asset is not needed to provide the minimum level of basic municipal services; and
 - (b) To considered the fair market value of the asset and the economic and community value to be received in exchange for the asset, and
- (6) Notwithstanding sub-paragraph (3)(b) & (g) above, the Accounting Officer must determine the most advantageous way for the disposal or letting of movable capital assets, i.e. written price quotations, competitive bidding, or

auction, except when public interest or the plight of the poor demands otherwise.

- (7) The Accounting Officer is hereby authorized to dispose of movable capital assets below a value of R500,000 (excluding the approval for selling of assets via public auction process) and to make the determinations in terms of Section 14(2)(a) and (b) of the Act, provided that, in respect of capital assets above a value of R200,000 not being auctioned, the Accounting Officer shall first consider a recommendation from the Supply Chain Management Bid Adjudication Committee.

41. Risk management

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

42. Performance management

- (1) The Accounting Officer must establish and implement an internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised supply chain management processes were followed and whether the objectives of this Policy were achieved. The retrospective analysis will link to the regulatory reports and submissions on the implementation of the supply chain management policy to the delegated authorities as prescribed in terms of supply chain management regulations and the delegation system of council, as amended from time to time.

Part 4: Other matters

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

- (1) No award above R30,000 (including VAT) may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service to be in order.
- (2) Before making an award in excess of R30,000 (including VAT) to a person, the Accounting Officer must first check with SARS whether that person's tax matters are in order. Where the recommended bidder is not tax compliant on the date of award the bidder should be notified of the non-compliant status and be requested to submit written proof of tax compliance from SARS within 7 working days from the date of award. The proof of tax compliance submitted by the bidder must be verified by the Municipality. The Municipality will reject a bid submitted by the bidder if such bidder fails to provide proof of tax compliance within the timeframe as set out in this subparagraph.
- (3) It is not required of the Accounting Officer to check with SARS whether a person's tax matters are in order during the execution of any contract procured through the supply chain management system. Subject to subparagraph (1) and (2), tax matters are only confirmed when the delegated authority makes the award.

- (4) Subparagraph (1), (2) and (3) applies when contracts are amended by the delegated authority in terms of paragraph 54 of this Policy.
- (5) Subparagraph (1) and (2) applies where the accumulative value of transactions per supplier per financial year will exceed R30,000 (incl VAT).
- (6) If SARS does not respond within 7 days such person's tax matters may for purposes of subparagraph (1) be presumed to be in order.

44. Prohibition on awards to persons in the service of the state

- (1) Irrespective of the procurement process followed, no award may be made to a person in terms of this Policy –
 - (a) Who is in the service of the state;
 - (b) If that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state; or
 - (c) A person who is an advisor or consultant contracted with the Drakenstein Municipality.

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

- (1) The Accounting Officer must ensure that the notes to the annual financial statements disclose particulars of any award of more than R2,000 to a person who is a spouse, child, grandchild, parent, grandparent, in-law, brother or sister of a person in the service of the state, or has been in the service of the state in the previous twelve months, including –
 - (a) The name of that person;
 - (b) The capacity in which that person is in the service of the state; and

- (c) The amount of the award.

46. Ethical standards

- (1) A code of ethical standards as set out in subparagraph (2) / the “National Treasury’s code of conduct for supply chain management practitioners and other role players involved in supply chain management, which also include all other municipal officials not involved in supply chain management system” is hereby established for municipal officials and other role players in the supply chain management system of the Drakenstein Municipality in order to promote-
 - (a) Mutual trust and respect; and
 - (b) An environment where business can be conducted with integrity and in a fair and reasonable manner.
- (2) A municipal official or other role player involved in the implementation of this Policy–
 - (a) Must treat all providers and potential providers equitably;
 - (b) May not use his or her position for private gain or to improperly benefit another person;
 - (c) May not accept any reward, gift, favour, hospitality or other benefit directly or indirectly, including to any close family member, partner or associate of that person, of a value more than R 350;
 - (d) Notwithstanding subparagraph (2)(c), must declare to the Accounting Officer details of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person;

- (e) Must declare to the Accounting Officer details of any private or business interest which that person, or any close family member, partner or associate may have in any proposed procurement or disposal process of, or in any award of a contract by, the Drakenstein Municipality;
 - (f) Must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of a contract in which that person, or any close family member, partner or associate, has any private or business interest;
 - (g) Must be scrupulous in his or her use of property belonging to Drakenstein Municipality;
 - (h) Must assist the Accounting Officer in combating fraud, corruption, favouritism, unfair and irregular practices in the supply chain management system; and
 - (i) Must report to the Accounting Officer any alleged irregular conduct in the supply chain management system which that person may become aware of, including –
 - (i) Any alleged fraud, corruption, favouritism or unfair conduct;
 - (ii) Any alleged contravention of paragraph 47(1) of this Policy; or
 - (iii) Any alleged breach of this code of ethical standards.
- (3) Declarations in terms of subparagraphs (2)(d) and (e) –
- (a) Must be recorded in a register, which the Accounting Officer must keep for this purpose; and

- (b) By the Accounting Officer must be made to the Executive Mayor of the municipality who must ensure that such declarations are recorded in the register.
- (4) The National Treasury's code of conduct and Schedule 2 of the Systems Act must be adhered to by supply chain management practitioners and other role players involved in supply chain management.
- (5) A breach of the code of ethics must be dealt with as follows –
 - (a) In the case of an employee, in terms of the disciplinary procedures of the Drakenstein Municipality envisaged in section 67(1)(h) of the Municipal Systems Act;
 - (b) In the case a role player who is not an employee, through other appropriate means in recognition of the severity of the breach;
 - (c) In all cases, financial misconduct must be dealt with in terms of chapter 15 of the Act; and
 - (d) All cases of non-compliance to this Policy should be reported to the Accounting Officer.

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

- (1) No person who is a provider or prospective provider of goods or services, or a recipient or prospective recipient of goods disposed or to be disposed of may either directly or through a representative or intermediary promise, offer or grant –
 - (a) Any inducement or reward to the Drakenstein Municipality for or in connection with the award of a contract; or
 - (b) Any reward, gift, favour or hospitality to –

- (i) Any official; or
 - (ii) Any other role player involved in the implementation of this Policy.
- (2) The Accounting Officer must promptly report any alleged contravention of subparagraph (1) to the National Treasury for considering whether the offending person, and any representative or intermediary through which such person is alleged to have acted, should be listed in the National Treasury's database of persons prohibited from doing business with the public sector.
- (3) Subparagraph (1) does not apply to gifts less than R 350 in value.
- (4) Council's Gift Policy will apply which is consistent with subparagraphs (1) to (3).

48. Sponsorships

- (1) The Accounting Officer must promptly disclose to the National Treasury and the relevant provincial treasury any sponsorship promised, offered or granted, whether directly or through a representative or intermediary, by any person who is –
 - (a) A provider or prospective provider of goods or services; or
 - (b) A recipient or prospective recipient of goods disposed or to be disposed.
- (2) Council's Gift Policy will apply which is consistent with subparagraph (1).

49. Objections and complaints

- (1) Persons aggrieved by decisions or actions taken in the implementation of this supply chain management system, may lodge within 14 days of the decision or action, a written objection or complaint against the decision or action.

50. Resolution of disputes, objections, complaints and queries

- (1) The Accounting Officer may, if deem so, appoint an independent and impartial person, not directly involved in the supply chain management processes –
 - (a) To assist in the resolution of disputes between the Drakenstein Municipality and other persons regarding –
 - (i) Any decisions or actions taken in the implementation of the supply chain management system; or
 - (ii) Any matter arising from a contract awarded in the course of the supply chain management system; or
 - (b) To deal with objections, complaints or queries regarding any such decisions or actions or any matters arising from such contract.
- (2) The Accounting Officer, or another official designated by the Accounting Officer, is responsible for assisting the appointed person to perform his or her functions effectively.
- (3) The person appointed should, if appointed –
 - (a) Strive to resolve promptly all disputes, objections, complaints or queries received; and
 - (b) Submit monthly reports to the Accounting Officer on all disputes, objections, complaints or queries received, attended to or resolved.

- (4) A dispute, objection, complaint or query may be referred to the relevant provincial treasury if –
 - (a) The dispute, objection, complaint or query is not resolved within 60 days; or
 - (b) No response is forthcoming within 60 days.
- (5) If the provincial treasury does not or cannot resolve the matter, the dispute, objection, complaint or query may be referred to the National Treasury for resolution.
- (6) This paragraph must not be read as affecting a person's rights to approach a court at any time.

51. Contracts providing for compensation based on turnover

- (1) If a service provider acts on behalf of a Drakenstein Municipality to provide any service or act as a collector of fees, service charges or taxes and the compensation payable to the service provider is fixed as an agreed percentage of turnover for the service or the amount collected, the contract between the service provider and the Drakenstein Municipality must stipulate –
 - (a) A cap on the compensation payable to the service provider; and
 - (b) That such compensation must be performance based.

52. Contracts and agreements procured through the supply chain Management system

- (1) A contract or agreement procured through the supply chain management system is governed by section 116 of the Act and Council's System of Delegations

53. Contracts having budgetary implications beyond three financial years

- (1) Drakenstein Municipality may not enter into any contract that will impose financial obligations beyond the three years covered in the annual budget for that financial year, unless the requirements of Section 33 of the Act have been fully complied with.

54. Amendment of contracts

- (1) Any extension of a contract period not covered in the conditions of the contract and / or any increase and / or extension in the approved contract sum, excluding rates based tenders which do not have a contract sum, that may become necessary as a result of exceptional circumstances during the contract period must be considered by the appropriate bid committees and tabled to Council in terms of section 116(3) of the Act prior to implementation.
- (2) The community must be advised of the proposed amendment and be invited to provide written comment within a minimum period of seven (7) days.

55. Right of appeal

- (1) In terms of Section 62 of the Municipal Systems Act (Act 32 of 2000 as amended), a person whose rights are affected by a decision taken by the Municipality with regards to a competitive bidding process, in terms of a delegated authority, in the implementation of its supply chain management system, may appeal against that decision by giving written notice of the appeal and reasons to the City Manager within 21 days of the date of the notification of the decision.

- (2) Notification of the decision in terms of sub-paragraph 55(1) of this policy must state that any appeal must be submitted in writing to the City Manager and must at least contain the following information:
 - (a) The reasons and / or grounds for the appeal;
 - (b) The way in which the appellants rights have been affected; and
 - (c) The remedy sought by the appellant.
- (3) No award, where a competitive bidding process was followed, shall be formally implemented until a ruling has been made on any appeal/s received. The City Manager may however grant approval for the implementation of bid awards prior to the conclusion of the appeal process in respect of competitive bids which in his / her opinion are deemed as urgent.
- (4) The appeal authority must consider the appeal and confirm, vary or revoke the decision, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.

56. Notification of bid decisions in terms of a competitive bidding process

- (1) The successful and unsuccessful bidders shall be notified in writing by the Corporate Services Division once a competitive bid has been accepted.
- (2) The bidders shall, in addition, be advised of the 21 day appeal period in terms of Section 62 of the Municipal Systems Act and successful bidders shall be notified that no rights will accrue to them until the appeal process is concluded.
- (3) Once the 21 day appeal period has lapsed and a decision has been made by the appeal authority, all affected bidders will be notified in writing of the outcome thereof by the Municipality.

57. Unsuccessful bidder debriefing

- (1) The Municipality will offer an unsuccessful bidder debriefing service to unsuccessful bidders upon request.
- (2) During the debriefing unsuccessful bidders will be informed of how their proposal scored against required criteria and obtain comments from the evaluation team on their bid.
- (3) The debriefing should be a positive and constructive experience that explains how bidders can improve future submissions.
- (4) The debriefing is an opportunity for unsuccessful bidders to –
 - (a) Learn more about the procurement and evaluation process in an informal setting;
 - (b) Find out how their proposal scored against the required criteria;
 - (c) Hear the overall comments from the evaluation team on their bid; and
 - (d) Gather information on how future submissions may be improved.
- (5) The debriefing is not part of the Supply Chain complaint or appeal process in terms of paragraph 49 or 55 of this Policy.
- (6) The debriefing is not a legal proceeding and no legal representation is permitted at the debriefing session.
- (7) At the debriefing session the unsuccessful bid is not compared to other bids, nor will information be provided to the unsuccessful bidder about other bids.
- (8) In scheduling a bidder's debriefings session upon the request of the unsuccessful bidder, the municipality must –

- (a) Confirm the date and time of the debriefing session in writing;
 - (b) Conduct separate debriefings with each unsuccessful bidder;
 - (c) Ensure that proper minutes are kept of each debriefing session; and
 - (d) Retain all correspondence and documentation relevant to the debriefing session as part of the procurement documentation.
- (9) In conducting bidders' debriefings, the municipality may –
- (a) Provide a general overview of the evaluation process set out in the bid documents;
 - (b) Discuss the strengths and weaknesses of the bidder's submission in relation to the specific evaluation criteria and the bidders evaluated score;
 - (c) Provide suggestions on how the supplier may improve future submissions; and
 - (d) Address specific questions and issues raised by the supplier in relation to their submission.

58. Sale and letting of assets

- (1) The preference points systems as prescribed in the PPPFA and the Preferential Procurement Regulations, 2017 does not apply to the sale and letting of assets
- (2) In instances where assets are sold or leased by means of competitive bids or written price quotations or formal written prices quotations, the award must be made to the bidder that offered the highest bid.

- (3) Where applicable, objective criteria may be applied when evaluating offers.

59. Condonation of Policy contraventions

- (1) Council may condone a contravention in terms of this Policy, provided that such contravention is also not a contravention of the Act or the Municipal Supply Chain Management Regulations, 2005
- (2) Any expenditure relating to such condonation by Council in terms of this Policy, will not constitute irregular expenditure as contemplated under section 1 of the Act.
- (3) Contraventions of the Act relating to supply chain management or the Municipal Supply Chain Management Regulations, 2005 must be dealt with in terms of section 32 and section 170 of the Act

60. Preferential Procurement

- (1) The objectives of Preferential Procurement are as follows:
 - (a) To effectively implement the Preferential Procurement Policy Framework Act, 2000 (Act No.5 of 2000) and its subsequent regulations issued in 2017;
 - (b) To redress inequalities and to promote broader inclusion of previously disadvantaged service providers, marginalized into the mainstream of the formal economy, targeting procurement spent on companies with a minimum B-BBEE rating;
 - (c) To promote the award of tenders to service providers within the boundaries of Drakenstein Municipality, where possible, as a means of local economic development;
 - (d) To empower small enterprises in urban, rural and township areas as well as

designated groups such as women and youth, and to promote local industrial development;

- (e) To alleviate unemployment through targeted labor absorption within the local area;
- (f) To promote the development and transfer of skills through training and mentorship in order to enhance the capacity of local small enterprises;
- (g) To promote a fair and equitable awarding of contracts to local service providers;
- (h) To ensure that a target is set annually for total procurement of goods and services by Drakenstein Municipality from local service providers;
- (i) To facilitate capacity building interventions for emerging service providers to grow sustainable businesses;
- (j) To build partnerships with key stakeholders including, but not limited to financial institutions, private sector businesses and interest groups to advance the interests of previously disadvantaged service providers;
- (k) To ensure that all Bid Specification documentation adhere to the principles of Preferential Procurement; and
- (l) To promote timeous payment of service providers in compliance with Section 65 (2)(e) of the Municipal Finance Management Act 56 of 2003 and Drakenstein Municipality's Small and Micro Enterprises payment guideline.

(2) The general principles of the policy are as follows:

- (a) Transparency – The use of local service providers in municipal capital projects and other procurement projects should be public knowledge. As such, granting of contracting opportunities will be done in accordance with the eligibility criteria and principles contained within this policy.
 - (b) Simplicity and Continuity – This policy is customized to fit the Drakenstein environment and to create an enabling environment that provides a supportive platform for local service providers to develop and grow their businesses.
- (3) The list of accredited prospective service providers as described in paragraph 14 of the Drakenstein Municipality's Supply Chain Management Policy will be used when it procures goods and services.
- (4) Service providers must comply with the applicable eligibility criteria as set out in the supplier database application form in order to do business with Drakenstein Municipality.
- (5) The implementation and administration of Preferential Procurement is delegated to the Accounting Officer who is authorized to sub-delegate powers to an official of the Municipality.
- (6) The Accounting Officer must ensure that each budget holder assumes responsibility for the implementation of the Preferential Procurement Plan, where applicable, within his/her area of responsibility and that such responsibility is included in his/her Performance Indicators if so required.

- (7) Supply Chain Management and line departments must ensure that the principles of preferential procurement are applied at the initiation of any procurement process.
- (8) The Economic Growth division will facilitate skills development specifically focusing on capacity building for entrepreneurs.
- (9) Progress in respect of the implementation of the Preferential Procurement must be reported to Council on an annual basis.
- (10) The expenditure on preferential procurement may be mapped spatially to indicate areas where the municipality is making an impact.

61. Short title

- (1) This policy is called the Drakenstein Municipality Supply Chain Management Policy.



ANNEXURE D

DRAKENSTEIN

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Petty Cash Policy

Effective from 1 July 2021

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer		
Council		

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POLICY ON PETTY CASH

1 POLICY STATEMENT

- 1.1 Petty cash are funds to be used for small incidental purchases. Procedures have been established to encourage an effective administration and internal control of cash handling operations throughout the Municipality.

2 POLICY OBJECTIVE

- 2.1 To ensure the cost effective and efficient use of petty cash funds, while maintaining the required levels of control.
- 2.2 To provide a source of funds for low value risk and infrequent purchases whilst safeguarding municipal funds.

3 RULES AND PROCEDURES

3.1 Safeguarding

- 3.1.1 The petty cash fund is to be safeguarded in a lockable cash box, which should be locked, not only after hours, but also during normal business hours in a locked, fire- and thief resistant safe located in the Expenditure Division and at the Secretaries of the Section 56 Appointees and Municipal Manager.
- 3.1.2 The designated official from the Cheque Administration section and the Secretaries of the Section 56 Appointments and Municipal Manager will fulfil the function of Petty Cash officials.
- 3.1.3 Petty cash may also be held at other offices by Petty Cash officials under the supervision of a Manager. Requests for petty cash will be approved by the Chief Financial Officer and may not exceed the amount as referred to in paragraph 3.2(a) below.
- 3.1.4 The Petty Cash official is responsible for the safekeeping of all the keys of the cashbox. The Accountant / Manager/ Section 56 Appointment or Municipal Manager is in possession of a spare key for the safe only.

3.2 Limitation on the use of Petty Cash funds

- 3.2.1 The maximum amount allocated to the Petty Cash Box will be R 1,500 of which an individual claim may not exceed R 150 (VAT included).
- 3.2.2 Loans or advances to employees for personal use from Petty Cash funds are forbidden.
- 3.2.3 Only purchases of less than R 50.00 which is ordinarily available from a supplier on Drakenstein Municipality's database, may be purchased through Petty Cash.
- 3.2.4 The only exception for above would be emergency purchases, after official business hours and this will be authorised by the respective departmental head.
- 3.2.5 Request for reimbursement
 - 3.2.5.1 Request for Petty Cash reimbursement must be authorised (signing on the receipt / invoice) by a delegated official, Head of Department or Manager as approved by Council, on the receipt. The recipient must sign the Petty Cash voucher as proof of receipt and to verify that the amount is correct.
 - 3.2.5.2 The official signatory must ensure that funds are available on the budget, prior to submitting claims.
 - 3.2.5.3 An applicable vote number must be supplied on the Petty Cash voucher.
 - 3.2.5.4 Reason for purchase must be supplied.
 - 3.2.5.5 An official Petty Cash voucher must be used for all the above. (Annexure A)

3.3 Securing of proper receipt for Petty Cash reimbursement

- 3.3.1 An original receipt, signed by the person to be reimbursed and by a delegated official, Head of Department or Manager as approved by Council, must support the Petty Cash voucher.
- 3.3.2 Receipts must set forth the complete description of the purchase. If not identified on the receipt or cash register slip, the purchase must be itemised on the separate document, signed by the salesperson and attached to the receipt.
- 3.3.3 When a vendor's printed invoice is used as a receipt, the invoice must clearly indicate that it has been paid; containing the vendor's name and signed by the salesperson.
- 3.3.4 Receipt that bear evidence of alteration cannot be accepted or processed.

3.4 Documentation control

- 3.4.1 All documentation (Petty Cash voucher and receipts), applicable for the period between replenishments, must be kept in the lockable cash box which will always be kept in a locked, fire- and thief resistant safe.
- 3.4.2 With replenishment, the above documentation together with the reconciliation sheet, must be attached to the float requisition voucher/statement.

3.5 Reconciliation

3.5.1.1 A request for replenishment must be supported by a reconciliation sheet compiled by the Petty Cash official.

3.5.1.2 The above sheet must be signed by the Petty Cash official and authorised by the Accountant / Manager / Section 56 Appointments or Municipal Manager.

3.5.1.3 Such reconciliation must be done at least once a month.

3.5.1.4 A year-end reconciliation and replenishment must be done, at 30 June.

3.6 Shortages / Losses

3.6.1 The Petty Cash official will be held accountable for losses and shortages unless:

- (i) Prescribed procedures were followed.
- (ii) Petty Cash was properly secured.
- (iii) There is physical evidence of breaking-in and no act or omission, on the part of the Petty Cash official, contributed to loss.

NB: Failure to adhere to the above after investigation will lead to the Petty Cash official having to reimburse the losses and shortages.

3.7 Transferral of function

3.7.1 The Petty Cash official must perform reconciliation and a summary report compiled, before possession of Petty Cash, can be handed over.

3.7.2 The summary report must be signed by both the Petty Cash official and the recipient, in order to verify that the amount in cash, correspond with the balance on the summary report.

3.7.3 When the Petty Cash is returned to the Petty Cash official, the same processes must be taken.

3.7.4 In cases where the Petty Cash official is on leave for more than 5 (five)

business days, the responsibility of safeguarding, as well as procedures set out by this policy, may be transferred to the next level official appointed by the respective Manager.

- 3.7.5 Written instruction to the temporarily appointed official must be signed by both the manager and the appointed employee

4 SHORT TITLE

- 4.1 This policy is the Petty Cash Policy of Drakenstein Municipality.



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Credit Control and Debt Collection Policy

Effective from 1 July 2020

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer		
Council		

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1 DEFINITIONS

- 1.1 For the purpose of this policy, the wording or any expression has the same meaning as contained in the Act, except where clearly indicated otherwise:
- 1.1.1 ***“Act”*** The Local Government Act: Systems Act, No 32 of 2000 as amended from time to time.
- 1.1.2 ***“Acknowledgement of debt”*** means an admission of liability and written undertaking by a debtor to repay an amount owing to the Municipality, and includes a consent to judgement and for the purposes of this policy it also means a Credit Authority.
- 1.1.3 ***“Authorised representative”*** means a person or instance legally appointed by the Council to act or to fulfil a duty on its behalf.
- 1.1.4 ***“Chief Financial Officer”*** means the person appointed by Council to administer its finances.
- 1.1.5 ***“Client”*** means a customer or occupier of a property who is receiving a municipal account or owner of the property.
- 1.1.6 ***“Council”*** means the Municipal Council of Drakenstein Municipality.
- 1.1.7 ***“Customer”*** means any occupier of any property to which the municipality has agreed to supply services or already supplies services to, including an occupier who only pays for water and electricity or failing such an occupier, then the owner of the property.
- 1.1.8 ***“Defaulter”*** means a person who owes money to the municipality after the due date has expired.
- 1.1.9 ***“Director”*** means a person appointed by Council in terms of Section 56(a) of the Act as a manager directly accountable to the City Manager.
- 1.1.10 ***“Disconnection of electricity supply”*** means the physical disconnection of conventional or pre-paid electricity supply or the 100% blocking of pre-paid electricity supply.
- 1.1.11 ***“Disconnection of water supply”*** means the restriction of the water supply via a trickle system.
- 1.1.12 ***“Engineer”*** means the person in charge of the civil and / or electrical component of the municipality.

- 1.1.13 ***“Equipment”*** means a building or other structure, pipe, pump, wire, cable, meter, engine or any accessories.
- 1.1.14 ***“Interest”*** means a charge levied with the same legal priority as service fees and calculated at a rate determined by Council from time to time on arrear monies, based on a full month, where part of a month must be deemed as a full month.
- 1.1.15 ***“Late Payment”*** means the amount due to be paid to the municipality does not reflect on municipal bank account on the applicable due date.
- 1.1.16 ***“Household”*** means all persons (registered owner/s, occupier/s, vulnerable person/s or tenant/s) jointly living on a stand or site receiving sanitation, refuse removal, water and/or electricity services that is billed by the Municipality.
- 1.1.17 ***“Household income”*** means the gross sum of all monthly income from all sources including wages, salaries, profits, dividends, pensions, rentals, board & lodging, interest received, grants or investment income and other forms of earnings received by all persons residing on the property.
- 1.1.18 ***“Municipality”*** means the institution that is responsible for the collection of funds and the provision of services to the customers of Drakenstein.
- 1.1.19 ***“Municipal account”*** means an account rendered specifying charges for services provided by the municipality, or any authorised and contracted service provider, and / or assessment rates levies.\
- 1.1.20 ***“City Manager”*** means the person appointed as City Manager in terms of section 82 of the Local Government: Structures Act, 1998, No 117 of 1998, and include any person acting in that position or to whom authority was delegated.
- 1.1.21 ***“Municipal services”*** means those services provided by the Municipality, such as, *inter alia* the supply of water and electricity, refuse removal, sanitation treatment, and for which services charges are levied.
- 1.1.22 ***“Occupier”*** means any person who occupies any property or part thereof, without taking cognisance of the title in which he or she occupies the property.
- 1.1.23 ***“Owner”*** means:
- (a) The person in whose name the property is legally vested;
 - (b) In the case where the person in whose name the property is vested, is insolvent or deceased, or is disqualified in terms of any legal action, the person who is responsible for administration or control of the property as curator, trustee, executor, administrator, legal manager, liquidator, or any other legal representative;

- (c) In the case where Council are unable to establish the identity of such person, the person who are entitled to derive benefit from the property or any buildings thereon;
- (d) In the case of a lease agreement in excess of 30 years was entered into, then the lessee;
- (e) Regarding:
 - (i) A portion of land allotted on a sectional title plan and which is registered in terms of the Sectional Title Act, No 95 of 1986, without limiting it to the developer or managing body to the communal property;
 - (ii) A portion as defined in the Sectional Title Act, the person in whose name that portion is registered in terms of a "sectional title", including the legally appointed representative of such person;
- (f) Any legal entity including but not limited to:
 - (i) A company registered in terms of the Companies Act, No 61 of 1973; a trust *inter vivos*; a trust *mortis causa*; a closed corporation registered in terms of the Close Corporation Act, No 69 of 1984; and, any voluntary organisation;
 - (ii) Any provincial or national government department, and a local authority;
 - (iii) Any council or management body established in terms of any legal framework applicable to the Republic of South Africa; and
 - (iv) Any embassy or other foreign entity.

1.1.24 "Property" any portion of land, of which the boundaries are determined, within the jurisdiction of the Municipality, including in the case of sectional title schemes, a sectional title unit as defined in the Sectional title Act, No 95 of 1986.

1.1.25 "Tenant" a person who occupies land or property rented from a landlord

- 1.1.26 ***“60/40 pre-payment debt recovery”*** means a pre-payment system whereby 60% of payment is allocated to arrears and 40% is allocated to the purchase of electricity., and
- 1.1.27 ***“80/20 pre-payment debt recovery”*** means a pre-payment system whereby 20% of payment is allocated to arrears and 80% is allocated to the purchase of electricity. This prepayment system

2 GENERAL OBJECTIVES

2.1 The objectives of this policy are:

- (a) To provide a framework within which the Municipality can exercise its executive and legislative authority with regard to credit control and debt collection;
- (b) To ensure that all monies due and payable to the Municipality are collected and used to deliver services in the best interest of the community; residents and consumers; and, in a financially sustainable manner;
- (c) To provide a framework for customer care;
- (d) To describe credit control measures and sequence of events;
- (e) To outline debt collection procedures and mechanisms;
- (f) To determine indigent relief measures; and
- (g) To set realistic targets for debt collection.

3 PRINCIPLES

- 3.1 The administrative integrity of the Municipality must be maintained at all costs. The democratically elected councillors are responsible for policy-making, while it is the responsibility of the City Manager to ensure the execution of these policies.
- 3.2 customers must complete an official application form, formally requesting the Municipality to connect them to service supply lines. Existing customers may be required to complete new application forms from time to time, as determined by the City Manager.
- 3.3 A copy of the application form, conditions of services and extracts of the relevant council’s Customer Care, Credit Control, Debt Collection and Indigent Support Policy and by-laws must be handed to every customer on request at such fees as may be determined by Council from time to time.
- 3.4 Billing is to be accurate, timeously and understandable.

- 3.5 The customer is entitled to reasonable access to pay points and to a variety of reliable payment methods.
- 3.6 The customer is entitled to an efficient, effective and reasonable response to appeals.
- 3.7 Enforcement of payment must be prompt, consistent and effective.
- 3.8 Unauthorised consumption, connection and reconnection, the tampering with or theft of meters, service supply equipment and the reticulation network and any fraudulent activity in connection with the provision of municipal services will lead to disconnections, penalties, loss of rights and criminal prosecutions.
- 3.9 Incentives and disincentives determined by Council from time to time may be used in collection procedures.
- 3.10 The collection process must be cost-effective.
- 3.11 Results will be regularly and efficiently reported by the Executive Mayor and Mayoral Committee to Council.
- 3.12 Application forms will be used to, *inter alia*, categorise customers according to credit risk and to determine relevant levels of services and deposits required.
- 3.13 Targets for performance in both customer service and debt collection will be set and pursued and remedies implemented for non-performance.
- 3.14 The principle of paying for services instead of payment for arrear accounts is supported.
- 3.15 Consumers that meet Council's indigent criteria must be identified and supported.

4 DUTIES AND FUNCTIONS

4.1 Duties and functions of Council

- 4.1.1 To approve a budget consistent with the needs of communities, ratepayers and residents.
- 4.1.2 To impose rates and taxes and to determine service charges, fees and penalties to finance the budget.
- 4.1.3 To facilitate sufficient funds to give access to basic services for the poor.
- 4.1.4 To provide for bad debt provision, in line with the payment record of the community, ratepayers and residents, as reflected in the financial statements of the Municipality.
- 4.1.5 To set an improvement target for debt collection, in line with acceptable accounting ratios and the ability of the Implementing Authority. Section 100 of the Act defines the

Implementing Authority as the City Manager or service provider appointed by the Municipality collect outstanding debt.

- 4.1.6 To approve a reporting framework for customer care, credit control and debt collection.
- 4.1.7 To consider and approve by-laws to give effect to this policy.
- 4.1.8 To monitor the performance of the City Manager via the Executive Mayor and Mayoral Committee (Supervising Authority) regarding customer care, credit control, debt collection and indigent support.
- 4.1.9 To revise the budget should the targets for Council's customer care, credit control, debt collection and indigent support not be met.
- 4.1.10 To revise the budget should the targets for Council's customer care, credit control, debt collection and indigent support not be met.
- 4.1.11 To take disciplinary and / or legal action against councillors, officials and agents who do not execute Council policies and by-laws or act improperly in terms of such policies.
- 4.1.12 To approve a list of attorneys that will act for Council in all legal matters relating to debt collection.
- 4.1.13 To delegate the required authority to monitor and execute the customer care, credit control, debt collection and indigent support policy to the Executive Mayor and Mayoral Committee, City Manager and Service Provider (if required) respectively.
- 4.1.14 To provide sufficient capacity in the Municipality's Department: Financial Services to execute customer care, credit control, debt collection and indigent support actions. Alternatively, if required as such, to appoint a Service Provider or debt collection agent to perform these actions.
- 4.1.15 To assist the City Manager in the execution of his duties, if and when required.
- 4.1.16 To provide funds for the training of staff.

4.2 Duties and functions of Executive Mayor and Mayoral Committee

- 4.2.1 To ensure that Council's budget, cash flow and targets for debt collection are met and executed in terms of the policy and relevant by-laws.
- 4.2.2 To monitor the performance of the City Manager in implementing this policy and by-laws.

4.2.3 To review and evaluate the policy and by-laws in order to improve the efficiency of Council's customer care, credit control, debt collection and indigent support procedures, mechanisms and processes.

4.2.4 To report to Council.

4.3 Duties and functions of the City Manager

4.3.1 To implement good customer care management systems.

4.3.2 To implement council's Customer Care, Credit Control, Debt Collection and Indigent Support Policy.

4.3.3 To install and maintain an appropriate accounting system.

4.3.4 To provide credible billing to customers.

4.3.5 To demand payment on due dates.

4.3.6 To raise penalties / interest for defaults.

4.3.7 To appropriate payments received.

4.3.8 To collect outstanding debt through a debt collection management system.

4.3.9 To provide different payment methods.

4.3.10 To determine customer care, credit control, debt collection and indigent support measures.

4.3.11 To determine all relevant work procedures for, *inter alia*, public relations, arrangements, disconnections of services, summonses, attachments of assets, sales in execution, write-off of debts, sundry debtors and legal processes.

4.3.12 To instruct attorneys to proceed with the legal process (i.e. attachment and sale in execution of assets, emolument attachment orders, etc.).

4.3.13 To set performance targets for staff.

4.3.14 To appoint staff to execute Council's policy and by-laws in accordance with Council's recruitment policy.

4.3.15 To delegate certain functions to executive directors in charge of departments.

4.3.16 To determine control procedures.

4.3.17 To monitor contracts with Service Providers in connection with credit control and debt collection.

4.3.18 To report to the Executive Mayor and Mayoral Committee.

4.3.19 To adhere to the Code of Conduct for Officials.

4.3.20 To confirm any payment of judgment amounts (or a delegated official) for matters instituted by the court of law.

4.4 Duties and functions of communities, ratepayers and residents

4.4.1 To fulfil certain responsibilities, as brought about by the privilege and or right to use and enjoy public facilities and municipal services.

4.4.2 To pay service fees, rates on property and other taxes, levies and duties imposed by the Municipality on or before due date.

4.4.3 To observe the mechanisms and processes of the Municipality in exercising their rights.

4.4.4 To allow municipal officials reasonable access to their property to execute municipal functions.

4.4.5 To comply with the by-laws and other legislation of the Municipality.

4.4.6 To refrain from tampering with municipal services and property.

4.5 Duties and functions of councillors

4.5.1 To hold regular ward meetings (Ward Councillors).

4.5.2 To adhere to and convey council policies to residents and ratepayers.

4.5.3 To adhere to the Code of Conduct for Councillors.

5 PERFORMANCE EVALUATION (Annexure “A”)

5.1 The Municipality must establish a mechanism to set targets for debt collection, customer care and administrative performance, evaluate and take corrective actions on a regular basis to enhance credit control and debt collection.

5.2 Revenue collection targets

5.2.1 Council to create targets that include the reduction in present monthly increase in debt in line with performance agreements determined by Council.

5.3 Customer service targets

5.3.1 Council to create targets that would include:

- (a) Response time to customer queries;
- (b) Date of first account delivery to new customers;
- (c) Reconnection time lapse; and
- (d) Meter reading cycle.

5.3.2 Above-mentioned to be reflected in Standard Operating Procedures of Council.

5.4 Administrative performance

5.4.1 Council to create targets that will include:

- (a) Cost efficiency of debt collection;
- (b) Query and appeal periods; and
- (c) Enforcement mechanism ratios.

6 REPORTING

6.1 The Chief Financial Officer shall report monthly to the City Manager in a suitable format to enable the City Manager to report to the Executive Mayor and Mayoral Committee as Supervisory Authority in terms of section 99 of the Systems Act, read with section 100(c). This report shall contain particulars on:

6.2 Cash collection statistics, showing high-level debt recovery information (numbers of customers; enquires; arrangements; default arrangements; growth or reduction of arrear debt). Where possible, the statistics should ideally be divided into wards, business (commerce and industry), domestic, state, institutional and other such divisions; and

6.3 Performance of all areas against targets agreed to in paragraph 5 of this policy document.

6.4 If in the opinion of the Chief Financial Officer, Council will not achieve cash receipt revenue equivalent of the revenue projected in the annual budget as approved by Council, the Chief Financial Officer will report this with motivation to the City Manager who will, if he / she agrees with the Chief Financial Officer, within legislative prescripts,

immediately move for a revision of the budget according to realistically realisable income levels.

- 6.5 The Executive Mayor and Mayoral Committee as Supervisory Authority shall, at least at intervals of 3 months, report to Council as contemplated in section 99(c) of the Systems Act.

7 CUSTOMER CARE

7.1 Objective

- 7.1.1 To focus on the client's need in a responsible and pro-active way, to enhance the payment for services and to create a positive and co-operative relationship between the persons responsible for the payment for services received and the Municipality, and where applicable, any service provider.

7.2 Communication

- 7.2.1 The Municipality will, within its financial and administrative capacity, conduct an annual process of compiling and communicating its budget, which will include targets for credit control.
- 7.2.2 Council's Credit Control and Debt Collection Policy or relevant extracts thereof, will be available in English (Xhosa and Afrikaans on request) and will be made available by general publication and on specific request, and will also be available for perusal at Council's offices.
- 7.2.3 Council will endeavour to distribute a regular newsletter, which will give prominence to customer care and debt issues, in a cost-effective manner.
- 7.2.4 Ward councillors will be required to hold regular ward meetings, at which customer care and debt collection issues will be given prominence.
- 7.2.5 The press will be encouraged to give prominence to Council's Credit Control and Debt Collection Policy, and will be invited to Council or Committee meetings where these are discussed.
- 7.2.6 Council will endeavor to create partnerships with civil society organisations in promoting customer care, credit control, debt collection and indigent support issues.

7.3 Metering

- 7.3.1 The Municipality will endeavor, within practical and financial limits, to provide meters to every paying client for all consuming services.

- 7.3.2 All meters will be read monthly, if at all possible. If meters are not read on a monthly basis, Council will estimate the consumption in terms of Council's operational procedures.
- 7.3.3 Customers are entitled to request verification of meter readings and accuracy within reason, but may be held liable for the cost thereof.
- 7.3.4 Customers may be informed of a meter replacement.
- 7.3.5 If a service is metered but it cannot be read due to financial and human resource constraints or circumstances out of the control of the Municipality or its authorised agent, and the customer is charged for estimated consumption, the account following the reading of the metered consumption must articulate the difference between the actual consumption and the average consumption, and the resulting credit or debit adjustments.
- 7.4 Accounts and billing
- 7.4.1 Customers on the billing system will receive an understandable and accurate bill from the Municipality, which bill will consolidate all service costs for that property.
- 7.4.2 Accounts will be produced in accordance with the meter reading cycle and due dates will be linked to the statement date.
- 7.4.3 Accounts will be rendered monthly in cycles of approximately 30 days at the address last recorded with the Municipality or its authorised agent.
- 7.4.4 It is the customer's responsibility to ensure that postal address and other contact details are correct.
- 7.4.5 It is the customer's responsibility to ensure timeous payment in the event of accounts not received.
- 7.4.6 Settlement or due dates will be as indicated on the statement.
- 7.4.7 Where an account is not settled in full, any lesser amount tendered and accepted shall not be deemed to be in full and final settlement of such an account.
- 7.4.8 Where any payment made to the Municipality or its authorised representative by negotiable instrument is later dishonored by a bank, the municipality or its authorised agent:
- (a) May recover the average bank charges incurred relating to dishonoured negotiable instruments against the account of the customer; and
 - (b) Shall regard such an event as a default on payment.

- 7.4.9 The Municipality or its authorised agent must, if administratively possible, issue a duplicate account to a customer on request, at a cost determined by Council from time to time.
- 7.4.10 The Municipality will no longer open water and electricity accounts for tenants as from 01 July 2016. All new water and electricity connections after 1 July 2016 shall be levied on the owner's accounts. The existing tenant accounts will thus be phased out as tenants are moving out. Deposits for water and electricity are paid by the owners, in the case where there are still tenant's accounts and owners do not apply for the water and electricity, the Municipality will have the discretion to raise a deposit and transfer all levies from the date of registration to the owners account.
- 7.4.11 The only exception to paragraph 7.4.10 will be in cases where a qualifying indigent tenant applies for a water and electricity connection in order to be registered as an indigent consumer.
- 7.4.12 Adjustments made to a customer's account in favour of the customer, will be made for a maximum of three years preceding the date on which the error was detected.
- 7.4.13 Adjustments made to a customer's account, in favour of the municipality, will be made for the three years preceding the date on which the error was detected.
- 7.4.14 The owner will stay responsible for the payment of the outstanding accounts for electricity and water supply notwithstanding any agreement with an occupier or tenant of a property.
- 7.5 Payment facilities and methods
- 7.5.1 The Municipality will operate and maintain suitable payment facilities (internet payment facilities included), and which facilities will be accessible to all users.
- 7.5.2 The Municipality will at its discretion allocate a payment between service debts and a debtor, who has overdue debt, may not specify that the payment is for a specific portion of the account.
- 7.5.3 The Municipality may in terms of section 103 of the Systems Act, with the consent of a customer, approach an employer to secure a debit or stop order arrangement.
- 7.5.4 The customer will acknowledge, in the customer's agreement that the use of customer agents in the transmission of payments to the municipality is at the risk of the customer – also for the transfer time of the payment.
- 7.6 Incentives for prompt payment and final settlements
- 7.6.1 Council may, to encourage prompt payment and / or to reward regular payers, consider from time to time incentives for the prompt payment of accounts or payment by debit or stop order.

- 7.6.2 Such incentive schemes, if introduced, will be reflected in annual budgets as additional expenditure.
- 7.6.3 The Chief Financial Officer may accept full and final settlement offers arising from a dispute, where the last 12 months surcharges and interest may be waived after full payment of the capital amount has been made upon resolving the dispute.
- 7.6.4 The Chief Financial Officer may reverse interest and surcharges levied for a late payment, where a consumer was promptly paying an account for the last 12 months prior to the late payment.
- 7.7 Enquiries, appeals and service complaints
- 7.7.1 Within its administration and financial ability the Municipality will establish:
- (a) A central complaints / feedback office;
 - (b) A centralised complaints database to enhance co-ordination of complaints, their speedy resolution and effective communication with customers;
 - (c) Appropriate training for officials dealing with the public to enhance communications and service delivery; and
 - (d) A communication mechanism to give council feedback on service, debt and other issues of concern.
- 7.7.2 If a customer is convinced that his or her account is inaccurate, he or she can lodge a query with the Municipality for investigation of this account, and where necessary the relevant alterations.
- 7.7.3 In the interim the debtor must pay the average of the last three months accounts where such history of the account is available. Where no such history is available, the debtor is to pay an estimate provided by the Municipality before payment due date until the matter is resolved.
- 7.7.4 The relevant department will investigate and inform the debtor within 60 days or as determined by the City Manager from time to time.
- 7.7.5 Failure to make the payment(s) mentioned in paragraph 7.7.3 above, will result in the Municipality collecting the balance outstanding on the customers' account using the normal credit control procedures as detailed in paragraph 8 here-under.
- 7.7.6 A customer or its authorised agent may appeal against the findings of the Municipality in terms of paragraph 7.7.2.
- 7.7.7 An appeal and request in terms of paragraph 7.7.6 must be made and lodged with the municipality within 21 (twenty-one) days after the customer became aware of the finding referred to in paragraph 7.7.4 and must:
- (a) Set out the reasons for the appeal; and

- (b) Be accompanied by any fee determined for the testing of a measuring device, if applicable.

7.8 Customer assistance programmes

7.8.1 Water Leakages

- (a) If the leakage is on the customer's side of the meter, the customer will be responsible for the payment of all water supplied to the property.
- (b) Where the consumer can provide an invoice and proof of payment from the service provider (e.g. Plumber) that repaired the leakage, the municipality may at its sole discretion provide relief based on a calculation to be done on the corresponding months of the previous' years consumption to determine the water lost due to the leak.
- (c) A consumer to provide a sworn affidavit with proof of purchase of material used to repair a leakage. A consumer (indigents included) whom has repaired the leak themselves must provide Council with a sworn affidavit that the consumer fixed the leak themselves.
- (d) The calculated consumption will be deducted from the higher leakage amount, where after the balance will be payable by the consumer.
- (e) Should the leakage be for more than a year or two years, then the consumption will be monitored for 3 months after the leakage has been repaired, where after the account will be rectified as per above sub-paragraph (d).
- (f) Where there is an abnormal water consumption that cannot be substantiated after the meter test results are obtained, the Executive Manager: Infrastructure or his delegated official must furnish the Chief Financial Officer with a recommendation in terms of reducing the consumption in line with the consumer's average consumption for the previous 12 months.
- (g) The customer has the responsibility to control and monitor his / her water consumption, including where control devices are in use flow.
- (h) The customer will only be entitled to one water leakage credit correction per a financial year (July- June).

7.8.2 Property rate rebates

- (a) Properties used exclusively for residential purposes may qualify for a rebated rate determined annually by Council.
- (b) A rate rebate may be granted according to certain qualifying criteria to social pensioners or the receiver of a State disability grant and / or any category of customer, as determined by Council from time to time.
- (c) These rebates will be determined as per Council's Property Rates Policy.

7.8.3 Arrangements for default settlements (Annexure "B")

- (a) Customers (including municipal employees and councilors) with electricity and water arrears shall be converted to pre-paid meters. When such meters are installed the cost thereof will be for the account of the consumer.
- (b) In the case of households qualifying for indigent support, the conversion costs to a prepayment meter will be funded through that portion of the equitable share contribution to the Municipality made from the national government's fiscus and as provided for in the budget.
- (c) Council reserves the right to raise the deposit requirement of debtors who seek arrangements.

7.8.4 Rates by instalments

- (a) Payment arrangements are determined as per Council's Property Rates Policy.

7.8.5 Customer categories

- (a) Customers will be categorised according to specific classifications based on inter alia the type of entity and applicable tariffs and risk levels. Processes for credit control, debt collection and customer care may differ from category to category, as deemed appropriate from time to time by the City Manager.

8 CREDIT CONTROL

8.1 Objective

- 8.1.1 To implement procedures which ensure the collection of debt, meeting of service targets and the prevention of escalation in arrear debt.
- 8.1.2 To facilitate financial assistance and basic services for the community's poor and provide incentives for prompt payment as well as ensuring limited risk levels by means of effective management tools.

8.2 Service application and agreements (Annexure "F")

- 8.2.1 All customers of services will be required to sign an agreement governing the supply and cost of municipal services (Annexure "F" or similar agreement).
- 8.2.2 Prior to signing these agreements, customers will be entitled to receive the policy document of the Council on request at a cost determined by Council.
- 8.2.3 On the signing of the agreement, customers will receive a copy of the agreement for their records.
- 8.2.4 Customers are responsible for costs of collection on a scale as determined between attorney and client, and interest in the event of delayed and / or non-payment. The interest will be charged at the prevailing prime interest rate.
- 8.2.5 Existing customers of services will be required to sign new agreements as determined by the City Manager from time to time. This will particularly be in the case of defaulters.

8.3 Right of access to premises

- 8.3.1 The owner and or occupier of property is to allow an authorised representative of the Municipality access at all reasonable hours to the property in order to read, inspect, install or repair any meter or service connection for reticulation, or to disconnect, stop or restrict, or reconnect, the provision of any service.
- 8.3.2 The owner is responsible for the cost of relocating a meter if satisfactory access is not possible.
- 8.3.3 If a person fails to comply with the Municipality or its authorised representative, the Municipality may:
 - (a) By written notice require such person to restore access at his / her own expense within a specified period;

- (b) If it is the opinion that the situation is a matter of urgency, without prior notice access the premises of such person in order to disconnect or repair any such meter or service connection provided that damage to the property of such person is minimised, minimum force is used and after the Municipality has gained such access that the premises of such person is secured; and
- (c) The cost of gaining such access shall be for the account of the owner of the premises if the reason for the urgency is that of the owner or occupier of the premises.

8.4 Enforcement mechanisms

- 8.4.1 Interest will be raised as a charge on all accounts not paid by the due date in accordance with applicable legislation. The levying of interest does not prevent credit control action to occur.
- 8.4.2 The above interest will not be raised on government accounts with arrears to avoid fruitless and wasteful expenditure in terms of the PFMA.
- 8.4.3 The municipality however reserves the right to disconnect and or restrict the water and electricity meters of government departments in the event of non-payment or late payment of their respective active.
- 8.4.4 Provided that the Municipality has served written notice on both the owners and occupiers (if applicable) of the property of at least seven (7) days, the Municipality shall have the right to restrict or discontinue the supply of services or to implement any other debt collection action necessary due to late or non-payment of accounts, relating to any consumer, owner or property.

8.5 Theft and fraud

- 8.5.1 Any person (natural or juristic) found to be illegally connected or reconnected to municipal services, tampering with meters, the reticulation network or any other supply equipment or committing any unauthorised act associated with the supply of municipal services, as well as theft of and damage to Council property, may be prosecuted and / or is liable for penalties as determined by Council from time to time.
- 8.5.2 Any member of the local community that supply information with regard to any of the illegal actions as set out in paragraph 8.5.1, and the information when verified found to be true, will upon authorisation by the City Manager be rewarded as determined by Council from time to time. The name of the informant and the information supplied

will at all times be kept confidentially so as to protect the informant against any retaliatory action.

- 8.5.3 Upon reasonable notice to both the owner as well as the occupier of the premises, Council will immediately terminate the supply of services to a customer should such conduct as outlined above, be detected.
- 8.5.4 The total bill owing, including penalties, assessment of unauthorised consumption and discontinuation and reconnection fees, and increased deposits as determined by Council, if applicable, will be due and payable before any reconnection can be sanctioned.
- 8.5.5 Council will maintain monitoring systems in order to identify customers who are undertaking such illegal actions.
- 8.5.6 No person may in any manner tamper or interfere with any meter or metering equipment or service connection or service protective device or supply mains or any other equipment of the municipality.
- 8.5.7 Where prima facie evidence exists of a consumer and/or any person having contravened paragraph 8.5.6, the municipality shall have the right to disconnect the supply of electricity upon reasonable notice to both the owner as well as the occupier of the premises. The person shall be liable for all fees and charges levied by the municipality for such disconnection and subsequent reconnection.
- 8.5.8 Where a consumer and / or any person has contravened ~~sub~~section 18(d) of the Customer Care, Credit Control, Debt Collection and Indigent Support By-Law, and such contravention has resulted in the meter recording less than the true consumption, the municipality shall have the right to recover from the consumer the cost of the estimated consumption, that was lost for three preceding years, based on the prevailing tariff in the year that the unauthorized consumption was identified.
- 8.5.9 Where a consumer's meter does not switch off when all the units are consumed, then the municipality shall have the right to recover from the consumer the estimated

consumption that was lost for three preceding years, based on the prevailing tariff in the year the unauthorized consumption was identified.

8.5.10 Council reserves the right to lay criminal charges and / or to take any other legal action against both vandals and thieves, including the recovery of costs of repairing / replacing of damaged devices.

8.5.11 Any person failing to provide information or providing false information to the municipality may face immediate disconnection and / or legal action.

8.6 Customer screening and securities

8.6.1 All applicants for municipal services may be checked for credit-worthiness including checking information from banks, credit bureaus, other local authorities, trade creditors and employers.

8.6.2 Deposits either in cash or any other security acceptable to the Municipality will be required, and may vary according to the risk as determined by the Municipality. A minimum deposit of the equivalent of two months average consumption will be required.

8.6.3 Deposits can be increased by the municipality at any time and at the sole discretion of the Municipality to a maximum of three months average consumption.

8.6.4 Deposits can vary according to the credit-worthiness or legal category of the applicant.

8.6.5 The Municipality will not pay any interest on deposits.

8.6.6 On the termination of the agreement the amount of the deposit, less any outstanding amount due to the Municipality, will be refunded to the consumer.

8.7 Persons and business who tender to the Municipality

8.7.1 The Supply Chain Management Policy and Tender Conditions of the Municipalities will include the following:

- (a) When inviting tenders for the provision of services or delivery of goods, potential contractors may submit tenders subject to a condition that consideration and evaluation thereof will necessitate that the tenderer obtain from the Municipality a certificate stating that all relevant municipal accounts owing by the tenderer and / or its directors, owners or partners have been paid or that suitable arrangements (which include the right to set off in the event of non-compliance) have been made for payment of any arrears;
- (b) No tender will be allocated to a person / contractor until a suitable arrangement for the repayment of arrears, has been made. No further debt may accrue during contract period; and

- (c) A condition allowing the Municipality to deduct any moneys owing to the Municipality from contract payments.

8.8 Cost of collection

- 8.8.1 All costs of legal processes, including interest, penalties, service discontinuation costs and legal costs on attorney and client scale associated with customer care or credit control, wherever applicable, are for the account of the debtor and should reflect at least the cost of the particular action.

8.9 The pre-payment meter system

- 8.9.1 The Municipality will use its pre-payment system to collect all the arrears on the customers municipal account which may include the following services, water, refuse removal, sanitation, property rates and basic charges etc.
- 8.9.2 The arrear debt as described in paragraph 8.9.1 above will be collected from the customer's account as follows:
 - (a) 30 – 60 days older debt = 60/40 pre-payment debt recovery; and
 - (b) 90 days and older debt = 80% 80/20 pre-payment debt recovery
- 8.9.3 In cases where the 80% blocking methodology is not adequate to decrease the outstanding debt, the pre-paid metering system shall on reasonable notice to both the owner and the occupier be blocked at 100% or the electricity supply shall be disconnected.
- 8.9.4 When the owner, tenant or occupier is using the property in his business to earn an income, a basic electricity charge will be levied daily. The owner will be responsible for the daily electricity basic charge, even after a tenant or occupier has vacated the property.

9 DEBT COLLECTION

9.1 Objective

- 9.1.1 To provide procedures and mechanisms to collect all the monies due and payable to Council arising out of the supply of services and annual levies, in order to ensure financial sustainability and delivery of municipal services in the interest of the community.

9.2 Personal contact

- 9.2.1 Telephonic contact, agents calling on clients:

- (a) Council will endeavor, within the constraints of affordability, to make personal or telephonic contact with all arrear debtors to encourage their payment, and to inform them of their arrears state, their rights (if any) to conclude arrangements or to indigent support, other related matters and will provide information on how and where to access such arrangements or subsidies; and
- (b) Such contact is not a right for debtors to enjoy and disconnection of services and other collection proceedings may continue, in the absence of such contact for whatever reason, provided that reasonable notice has been given to both the occupier and the owner of the concerned premises.

9.3 Interruption of service

- 9.3.1 Customers who are in arrears with their municipal account and who have not made arrangements with the Council will have their water and/ or electricity be restricted or supply disconnected of electricity disconnected, provided that reasonable notice has been given to both the occupier and the owner of the concerned premises.
- 9.3.2 The disconnection of electricity services may happen when the municipal account is one (1) day overdue, provided that reasonable notice has been given to both the occupier and the owner of the concerned premises, where there are separate accounts registered on the system.
- 9.3.3 A fourteen (14) day disconnection notice will be issued for the first default. If a consumer defaults again in the following six (6) months or defaults on an arrangement, then a seven (7) day disconnection notice will apply.
- 9.3.4 Provided that Council has demanded payment of arrear rates and other municipal charges, Council reserves the right to deny or restrict the sale of electricity to customers who are in arrears with their rates or other municipal charges.
- 9.3.5 Upon the liquidation of arrears, or the conclusion of acceptable arrangements for term payment, the electricity service will be reconnected and / pre-paid electricity sold as soon as conveniently possible.
- 9.3.6 The cost of the restriction or disconnection, and the reconnection, will be determined by tariffs approved by Council, and will be payable by the customer.
- 9.3.7 The deposit of any defaulter may be adjusted to bring into line with relevant policies.

9.4 Legal process / Use of attorneys / Use of credit bureaus

- 9.4.1 Council may, when a debtor is in arrears, commence legal process against that debtor, which process could involve final demands, summonses, court trials, judgements, garnishee orders and / or sales in execution of property.
- 9.4.2 Council will exercise strict control over this process, to ensure accuracy and legality within it, and will require regular reports on progress from outside parties, be they attorneys or any other collection agents appointed by Council.
- 9.4.3 Council will establish procedures and codes of conduct with these outside parties.
- 9.4.4 Garnishee orders, in the case of employed debtors, are preferred to sales in execution, but both are part of Council's system of debt collection procedures.
- 9.4.5 All steps in the customer care and credit control procedure will be recorded for Council's records and for the information of the debtor.
- 9.4.6 All recoverable costs of this process will be for the account of the debtor.
- 9.4.7 Individual debtor accounts are protected and are not the subject of public information. However, Council may release debtor information to credit bureaus. This release will be in writing or by electronic means.
- 9.4.8 Council may consider the cost effectiveness of the legal process, and will receive reports on relevant matters, including cost effectiveness.
- 9.4.9 Council may consider the use of agents as service providers and innovative debt collection methods and products. Cost effectiveness, the willingness of agents to work under appropriate codes of conduct and the success of such agents and products will be part of the agreement Council might conclude with such agents or service providers; and will be closely monitored by Council.
- 9.4.10 Customers will be informed of the powers and duties of such agents or service providers and their responsibilities including their responsibility to observe agreed codes of conduct.
- 9.4.11 Any agreement concluded with an agent, service provider or product vendor shall include a clause whereby breaches of the code of conduct by the agent or vendor will constitute a breach of the contract.

9.5 Rates clearance

- 9.5.1 On the sale of any property in the municipal jurisdiction, Council will withhold the transfer until all rates and service charges owed by the owner seeking transfer are paid by withholding a rates clearance certificate as contemplated in section 118 of the Act.
- 9.5.2 The amount for the period prior to section 118 of the Municipal Systems Act, will be handed over for legal collection where the previous owner could be held liable for payment of these amounts.

9.6 Abandonment of claims

- 9.6.1 The City Manager must ensure that all avenues are utilised to collect the municipality's debt.
- 9.6.2 There are some circumstances that allow for the valid termination of debt collection procedures as contemplated in section 109(2) of the Act, such as:
 - (a) The insolvency of the debtor, whose estate has insufficient funds;
 - (b) A balance being too small to recover, for economic reasons, considering the cost of recovery; and
 - (c) Where Council deems that a customer or groups of customers are unable to pay for services rendered.
- 9.6.3 The Municipality will maintain audit trails in such an instance, and document the reasons for the abandonment of the action or claim in respect of the debt.
- 9.6.4 Procedures for the abandonment of claims are determined in the Writing-Off of Irrecoverable Debt Policy.

10 MUNICIPAL EMPLOYEES AND COUNCILLOR DEBT

- 10.1 Staff arrears will be dealt with in accordance with Schedule 2 of the Systems Act, and in terms of any procedures, method or actions referred to in this Policy. Notwithstanding any other procedure, method or action that may be taken in terms of this Policy, the Municipality shall deduct any outstanding amount from such staff members' salary after this three (3) month period.
- 10.2 In accordance with Schedule 1, item 12A of the Systems Act, a Councillor of the Municipality may not be more than 3 (three) months in arrears for municipal service fees, surcharges on fees, rates or any other municipal taxes, levies and duties levied by

the Municipality. Notwithstanding any other procedure, method or action that may be taken in terms of this Policy, the Municipality shall deduct any outstanding amount from such Councillor's remuneration after this three (3) month period.

ANNEXURE A: REVENUE COLLECTION TARGETS

1 Computerised credit control and debt collection management system

- 1.1 It is Council's intention to collect all revenue due to Council from customers who can afford to pay.
- 1.2 For this purpose, it is acknowledged that the Municipality is in need of a computerised credit control and debt collection management system.
- 1.3 This system will be procured through the supply chain management process or alternatively the City Manager may obtain the services of an external service provider to perform this function.

2 Payment level on current accounts

- 2.1 The total outstanding debtors as at 28 February 2021 amounted to R352,875,296 of which R143,234,136 represented current debtors (February 2021 billing run levies) and R209,641,160 represented arrear debtors.
- 2.2 It is acknowledged that the current payment level of all customers for the eight months of the 2020/2021 financial year was 95.2%.

3 Recovery of arrears (Accumulated before the January 2018 billing run)

- 3.1 The Municipal Council reviewed on 31 May 2018 the Policy on the Writing-Off of Irrecoverable Debt with the following two incentives to their customer base to assist them to get out of their spiral of debt provided that all levies since the January 2018 billing run is paid up to date:
 - (a) Council will write-off 50% of the outstanding debt before the January 2018 billing run if a customer (all customers except for government or school debtors who are treated on an ad hoc basis) will pay the other 50% of the outstanding debt; and
 - (b) Council will write-off any outstanding debt before the January 2018 billing run that a household customer accrued that the household customer cannot afford to pay back over the next three years after his arrear and current payments has been capped at 20% of the household income.
- 3.2 To collect with the assistance of a computerised credit control and debt collection management system or an appointed service provider, all recoverable arrears over a maximum period of three years by using the incentives in the Writing-Off of

Irrecoverable Debt Policy. Irrecoverable arrears (estimated between 40% and 60% of the arrear debtors' book) will have to be written-off.

- 3.3 The Senior Manager: Revenue and Expenditure or delegated person can in extreme cases accept a longer period of repayment based on the financial position of the customer and other circumstances if the incentives in the Writing-Off of Irrecoverable Debt Policy do not assist the customer to get out of their spiral of debt within three years.

4 Recovery of arrears

- 4.1 It is acknowledged that not all customers might have been in arrears before the January 2018 billing run. Customers who accumulated arrears as from the January 2018 billing run will be recovered over a maximum period of one year.

5 Customer service targets

(a)	Response time to customer queries:	Initial response within 5 working days
(b)	Date of first account delivery to new customers:	By second billing cycle after date of application or occupation whichever is the latest
(c)	Reconnection time:	Within 24 hours after appropriate payment / arrangement
(d)	Electricity meter reading cycle:	90% of meters being read on a monthly basis with a maximum of 3 consecutive months estimated
(e)	Water meter reading cycle:	80% of meters being read on a monthly basis with a maximum of 3 consecutive months estimated

6 Administrative performance targets

Cost Efficiency of Debt Collection:

6.1.1 Cost efficiency of debt collection:

- (a) Cost of collection not to exceed the capital debt amount;
- (b) All reasonable steps to be taken to limit cost to Council or the customer;
- (c) Cost of collection is to be recovered from the defaulting customers; and

- (d) Total cost of collection to be recovered by means of applicable credit control tariffs.

6.2 Query and appeal periods:

- 6.2.1 Sixty (60) working days to resolve queries and appeals through Council committees, the Executive Mayor and Mayoral Committee and Council.

7 ANNEXURE B: ARRANGEMENTS

1. ARRANGEMENTS

- 1.1 If a customer cannot pay his / her account with the Municipality then the Municipality may enter into an extended term of payment not exceeding 36 months. The customer must:
- 1.1.1 Sign an acknowledgement of debt;
 - 1.1.2 Sign consent to judgement;
 - 1.1.3 Provide a garnishee order / emolument order / stop order (if he or she is in employment);
 - 1.1.4 Acknowledge that interest will be charged at the prescribed rate;
 - 1.1.5 Pay the current portion of the account in cash;
 - 1.1.6 Sign an acknowledgement that, if the arrangements being negotiated are later defaulted on, that no further arrangements will be possible and that disconnection of water and electricity will follow immediately, as will legal proceedings; and
 - 1.1.7 Acknowledge liability of all costs incurred.
- 1.2 Consumer to agree to signing an electronic Acknowledgement of Debt form, which stipulates all of the above and acknowledges the arrangements made.

2. THE FOLLOWING ACCEPTABLE ARRANGEMENTS CAN BE ENTERED INTO WITH:

2.1 Domestic consumers

- 2.1.1 The customer may have two accounts in making such acceptable arrangements. A current account that must be paid up to date on a monthly basis, a suspended account that will carry the monthly arrangements instalments to be paid over a maximum of 36 months.
- 2.1.2 The prescripts of the Writing-Off of Irrecoverable Debt Policy will be used to determine the acceptable arrangements on arrears where the 20% of the gross salary of the consumer, does not cover the monthly account, the whole account will be placed on

an abeyance account to be written off over a three year period, with the proviso that the monthly account is paid up to date every month.

2.1.2 If the consumers default in terms of the above arrangement after three consecutive months this 20% option agreements fall away and whole arrear amount becomes due and payable.

2.1.3 The suspended accounts will bear no interest on arrears.

2.2 Churches, welfare organisations, sporting bodies, emerging farmers, etcetera

2.2.1 The customer may have two accounts in making such acceptable arrangements. A current account that must be paid up to date on a monthly basis and a suspended account that will carry the monthly arrangements instalments to be paid over a maximum of 36 months.

2.2.2 The suspended account will bear no interest on arrears.

2.3 Business, industrial and agriculture customers

2.3.1 The customer may have two accounts in making such acceptable arrangements. A current account that must be paid up to date on a monthly basis and a suspended account that will carry the monthly arrangements instalments to be paid over a maximum of 12 months.

2.3.2 The suspended account will bear no interest on arrears.

2.4 Government departments and schools

2.4.1 1st default in financial year:

- (a) Three (3) weeks' notice – no arrangements; and
- (b) Deposit may be adjusted to 3 months consumption.

2.4.2 2nd default in financial year:

- (a) Two (2) weeks' notice – no arrangements; and
- (b) Deposit may be adjusted to 3 months consumption.

2.4.3 3rd default in financial year:

- (a) Forty-eight (48) hours' notice – no arrangements; and
- (b) Deposit may be adjusted to 3 months consumption.

2.5 Administrations

2.5.1 Where a person has been placed under administration the following procedures will be followed:

- (a) The debt as at the date of the administration court order will be placed on hold, transferred to an interest-bearing account to be collected in terms of the court order by the administrator's dividend;
- (b) The consumer will be compelled to install a prepaid electricity meter, should one not already be in place. The Municipality will be entitled to recover the cost of the basic services by means of purchases made on the prepaid meter/s; and
- (c) Should there be any default on the current account, the supply of services is to be limited or terminated on reasonable notice to the owner and consumer, and the administrator handed over for the collection of this debt.

2.6.1 Indigent households

2.6.1 All consumers qualifying as indigent households will receive monthly indigent support provided that a pre-paid water and/or pre-paid electricity meter may be installed on Council's cost. All arrear debt will be written-off as a once-off exercise per financial year.

2.6.2 Council acknowledges that pre-paid water and electricity meters cannot be installed at once and that this can only be done as and when the operating budget of the Municipality has available funds to install these meters.

2.6.3 Council also acknowledges that indigent households cannot afford to replace broken conventional and pre-paid electricity and water meters with new ones. They are also not in a financial position to replace broken electricity and water connections as well as to pay for minor repairs to sewerage connections and blockages. For this purpose, Council will budget in their operating for such costs. Pre-paid electricity and water meters and minor repairs to service connections may therefore be done from Council's budgeted funds provided that the relevant Executive Manager has motivated such a request, that adequate funds on the operating budget is still available and that the City Manager or Chief Financial Officer has approved such a request.

8 ANNEXURE C : MUNICIPAL SERVICES APPLICATION FORM



DETAILS NEEDED TO OPEN AN ACCOUNT AT DRAKENSTEIN MUNICIPALITY

CONSUMER/VERBRUIKER :
FULL NAMES/VOLLE NAME :
SURNAME/VAN :
ID OR PASSPORT NUMBER/NR :
METER LOCATION/ADRES :
POSTAL ADDRESS/POS ADRES :
CONTACT TEL NO/KONTAK TEL NR. :
EMAIL ADDRESS/EPOS ADRES :
FAX NUMBER/FAKS NR. :
AANSKAKELINGS DATUM/
CONNECTION DATE :

CONTACT DETAILS OF A REFERENCE PERSON AT ANOTHER ADDRESS. KONTAK BESONDERHEDE VAN 'N VERWYSINGS PERSOON BY ANDER ADRES. NAME & SURNAME/VOORNAME & VAN:

ADDRESS/ADRES :
TELEPHONE NO/TEL NR. :

IF THE PREMISES IS REGISTERED IN THE NAME OF A COMPANY PLEASE SUPPLY AS PERSEEL IN MAATSKAPPY SE NAAM GEREGISTREER IS VERSKAF ASB.

COMPANY NAME/MAATSKAPPY NAAM :
REG NO./REG NR. :
VAT REG NO/BTW REG NR. :

IN RESPECT OF A COMPANY WE ALSO NEED A LETTER WITH ALL THE DIRECTORS NAMES, SURNAMES AND ID NUMBERS PLEASE.

*I HEREBY AGREE THAT THE PROVISION OF ELECTRICITY AND WATER SUPPLY TO ME IS SUBJECT TO THE COUNCIL
ELECTRICITY AND WATER SUPPLY REGULATIONS AS AMENDED FROM TIME TO TIME.
EK KOM HIERMEE OOREEN DAR DIE VOORSIENING VAN ELEKTRISITEIT EN OF
WATERTOEOVER AAN MY ONDERWORPE IS AAN DIE RAAD SE ELEKTRISITEIT EN
WATERVOORSIENINGSREGULASIE SOOS VAN TYD TOT TYD GEWYSIG MAG WORD.*

HANTEKENING/SIGNATURE

Indigent Support Policy

Effective from 1 July 2021

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer		
Council		

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1 DEFINITIONS

For the purpose of this policy, the wording or any expression has the same meaning as contained in the Act, except where clearly indicated otherwise:

- 1.1 ***“Accountholder”*** means the registered holder of an account held with Drakenstein municipality for property rates and services rendered by the municipality or on behalf of the municipality.
- 1.2 ***“Act”*** The Local Government Act: Systems Act, No. 32 of 2000 as amended from time to time.
- 1.3 ***“Authorized representative”*** means a person or instance legally appointed by the Council to act or to fulfil a duty on its behalf.
- 1.4 ***“Chief Financial Officer”*** means the person appointed by Council to administer its finances.
- 1.5 ***“City Manager”*** means the person appointed by Council in terms of Section 57 of the Municipal Systems Act
- 1.6 ***“Child headed households”*** means a household where the main caregiver of said household is not older than 18 years of age and is still a child as defined in section 28(3) of the Constitution.
- 1.7 ***“Client”*** means a customer or occupier of a property who is receiving a municipal account or owner of the property.
- 1.8 ***“Council”*** means the Municipal Council of Drakenstein Municipality.
- 1.9 ***“Director”*** means a person appointed by Council in terms of Section 56(a) of the Act as a manager directly accountable to the City Manager.
- 1.10 ***“Director of Company”*** means a legal person or entity registered in terms of the Companies Act, No.61 of 1973”
- 1.11 ***“Interest”*** means a charge levied with the same legal priority as service fees and calculated at a rate determined by Council from time to time on arrear monies, based on a full month, where part of a month must be deemed as a full month.
- 1.12 ***“Household”*** means all persons (registered owner/s, occupier/s, vulnerable person/s or tenant/s) jointly living on a stand or site receiving sanitation, refuse removal, water and/or electricity services that is billed by the Municipality.
- 1.13 ***“Household income”*** means the gross sum of all monthly income from all sources including wages, salaries, profits, dividends, pensions, rentals, board & lodging, interest received, grants

or investment income and other forms of earnings received by all persons residing on the property.

- 1.14 **“Indigent Household”** means any household that is at or below the poverty threshold as determined by Drakenstein municipality.
- 1.15 **“Municipality”** means the institution that is responsible for the collection of funds and the provision of services to the customers of Drakenstein.
- 1.16 **“Municipal account”** means an account rendered specifying charges for services provided by the municipality, or any authorised and contracted service provider, and / or assessment rates levies.
- 1.17 **“Municipal services”** means those services provided by the Municipality, such as, *inter alia* the supply of water and electricity, refuse removal, sanitation treatment, and for which services charges are levied.
- 1.18 **“Occupier”** means any person who occupies any property or part thereof, without taking cognisance of the title in which he or she occupies the property.
- 1.19 **“Owner”** means:
- (a) The person in whose name the property is legally vested;
 - (b) In the case where the person in whose name the property is vested, is insolvent or deceased, or is disqualified in terms of any legal action, the person who is responsible for administration or control of the property as curator, trustee, executor, administrator, legal manager, liquidator, or any other legal representative;
 - (c) In the case where Council are unable to establish the identity of such person, the person(s) who are entitled to derive benefit from the property or any buildings thereon;
 - (d) In the case of a lease agreement in excess of 30 years was entered into, then the lessee;
 - (e) A person(s) who has lifelong use of an immovable property (Usufruct).
 - (f) Regarding:
 - (i) A portion of land allotted on a sectional title plan and which is registered in terms of the Sectional Title Act, No 95 of 1986, without limiting it to the developer or managing body to the communal property;
 - (ii) A portion as defined in the Sectional Title Act, the person in whose name that portion is registered in terms of a “sectional title”, including the legally appointed representative of such person;
 - (f) Any legal entity including but not limited to:

- (i) A company registered in terms of the Companies Act, No. 61 of 1973; a trust *inter vivos*; a trust *mortis causa*; a closed corporation registered in terms of the Close Corporation Act, No 69 of 1984; and, any voluntary organisation;
- (ii) Any provincial or national government department, and a local authority;
- (iii) Any council or management body established in terms of any legal framework applicable to the Republic of South Africa; and
- (iv) Any embassy or other foreign entity.

1.20 **“Property”** any portion of land, of which the boundaries are determined, within the jurisdiction of the Municipality, including in the case of sectional title schemes, a sectional title unit as defined in the Sectional title Act, No 95 of 1986.

1.21 **“Tenant”** a person(s) who occupies land or property rented from a landlord

1.22 **“Usufruct”** means a legal right accorded to a person(s), that confers the temporary right to use and derive income or benefit from someone else’s property.

2 PREAMBLE

2.1 Drakenstein Municipality has a constitutional mandate to ensure the provision of basic services to poorer communities.

2.2 The municipality shall provide basic municipal services to poor households in an affordable and sustainable manner.

3 POLICY OBJECTIVES

The objectives of this policy are:

3.1 To develop a framework within which the municipality can execute its legislative authority to identify consumers who qualify for subsidised basic municipal services;

3.2 To enable the sustainable provision of subsidised municipal basic services to qualifying consumers within the financial and administrative resources of the municipality; and

3.3 To provide a financial assistance subsidy, in line with national government regulations and guidelines to assist indigent households in the Drakenstein municipal area. The subsidy will be provided by means of a rebated basket of basic municipal services.

4 POLICY PRINCIPLES

4.1 The following guiding principles will be promoted through this policy:

- (a) The adherence to the Municipal Systems Act, No.32 of 2000 and other related legislation.

- (b) The provision of relief to registered residential consumers of municipal services.
- (c) To ensure that the relief provided by Drakenstein Municipality is constitutional, practical, fair, equitable and justifiable.

5 QUALIFICATION CRITERIA

5.1 The indigent and financial assistance subsidy is available only to domestic households that conform to the following criteria:

- (a) The household meets the definition of an indigent household and household income as defined in paragraphs 1.13 and 1.14 of this policy.
- (b) The household is headed by children who meet the definition stipulated under paragraph 1.6 and 1.12 of this policy.
- (c) The account holders own one property, or;
- (d) In the case where an account holder owns more than one property but can prove that they derive no income from the other property registered in their name, the subsidy will only be granted to the property that is occupied by the account holder.
- (e) In the case where the second property is in another municipal jurisdiction the account holder must provide proof that they do not receive an indigent subsidy on that property.
- (f) The account holders are deceased and the occupiers of the property qualify in terms of the eligible income threshold as determined by Council on an annual basis.
- (g) Tenants of municipal rental property who meet the criteria of a household and household income as per paragraph 1.13 and 1.14 of this policy.
- (h) Pensioners who have usufruct of a dwelling belonging to a non-qualifying owner (e.g. children or relative).
- (i) Indigent households where qualifying account holders do not occupy their properties for various reasons, leaving qualifying persons over the age of 18 years to reside on the property.
- (j) Directors of companies where the household income calculated by the online verification system is less / equal to the subsidy income threshold determined by Council.

6 FUNDING

6.1 The source of funding of the indigent support is derived from that portion of the equitable share contribution to the Municipality from the national government's fiscus and as provided for in the budget.

7 INDIGENT CONSUMER QUALIFYING INCOME THRESHHOLDS

7.1 For the 2021/2022 financial year the total monthly household income has been determined as follows.

- (a) Category A: R 0 to R4,450 per month
- (b) Category B: R4,551 to R4,950 per month
- (c) Category C: R4,951 to R6,200 per month
- (d) Category D: R6,201 to R6,500 per month

7.2 Category A consumers will receive the benefit of all the subsidies listed in paragraph 8 below, whilst Category B consumers will receive a benefit of 80% of the subsidies listed in paragraph 8 (Excluding Water and Property Rates), Category C consumers will receive a benefit of 50% and Category D consumers a benefit of 20% of the subsidies listed in paragraph 8 (Excluding Water and Property Rates).

7.3 The Municipality retains the right to refuse the financial support if the details supplied in the application form were incomplete, incorrect or false.

7.4 The City Manager, in consultation with the Chief Financial Officer, may in extra ordinary circumstances migrate a household from Category D ,C, or B to a higher category.

7.5 In the case of the underutilization of the equitable share, the Executive Mayor, in consultation with the City Manager, may adjust the determined income thresholds in paragraph 7.1 above upwards.

7.6 The online income verification system used by the municipality calculates household income on the basis of the applicants' credit activity by means of obtaining information relating to the applicants', economic activity, combined household income , employment, directorships, validity of applicants' information, benefit Scale, property ownership of applicants and current or active bonds on applicants' name.

8 SUBSIDY CONDITIONS AND SUBSIDISED SERVICES

8.1 Electricity

8.1.1 Subsidy Conditions

- (a) Basic electricity charges will only be subsidized for qualifying indigent consumers with a 30 Amp connection. Those with a greater than 30 Amp connection will receive no subsidy for basic charges.

8.1.2 Electricity Subsidy

- (a) 100 kWh per month for Category A and B consumers.
- (b) 50 kWh per month for Category C and D consumers.
- (c) Monthly basic electricity charges only for a 30 Amp electricity connection will be subsidized.

8.2 Water

8.2.1 Subsidy Condition

- (a) Qualifying indigent consumers that exceed 20kl of water per month and are in arrears may have an automated flow restriction apparatus fitted to their water supply.

8.2.2 Water Subsidy

- (a) 6 kiloliters per month for Category A, B, C and D consumers.
- (b) The water rebate threshold will remain the same irrespective of the Category of the indigent consumer and will not be apportioned.
- (c) Monthly basic charges for a 15mm water connection will be subsidized.
- (d) Where there is more than one structure (backyarder), on the property, the indigent households will be allowed to apply for a further subsidy.

8.3 Property Rates

8.3.1 Subsidy Condition

- (a) Qualifying indigent consumers shall be subsidized for property rates to a maximum property value of R950,000.
- (b) The property rates rebate threshold will remain the same irrespective of the Category of the indigent consumer and will not be apportioned.
- (c) The property rates rebate of R950,000 shall include the normal property rates rebate provided by the municipality to all other residents of the municipality.
- (d) Property rates related to the property value above R950,000 will be due and payable by the consumer.

8.3.2 Property rates Subsidy

- (a) Property rates rebate to a maximum property value of R950,000 for Category A, B, C and D consumers.

8.4 Refuse Removal

8.4.1 Subsidy Condition

- (a) Qualifying indigent consumers residing in formal registered households shall have a 240 litre refuse removal bin at their premises.

8.4.2 Refuse Subsidy

- (a) One refuse removal per week billed monthly.
- (b) Category A consumers qualify for the full monthly refuse removal subsidy;
- (c) Category B consumers qualify for 80% of the monthly refuse removal subsidy;
- (d) Category C consumers qualify for 50% of the monthly refuse removal subsidy; and
- (e) Category D consumers qualify for 20% of the monthly refuse removal subsidy.

8.5 Sanitation

8.5.1 Subsidy Conditions

- (a) One toilet levy per month will be subsidised.
- (b) Basic charges per month equivalent to an erf size 550 square meters will be subsidised.

8.5.2 Sanitation Subsidy

- (a) Category A consumers qualify for the full monthly sanitation subsidy;
- (b) Category B consumers qualify for 80% of the monthly sanitation subsidy;
- (c) Category C consumers qualify for 50% of the monthly sanitation subsidy; and
- (d) Category D consumers qualify for 20% of the monthly sanitation subsidy.

8.6 Municipal Rental Stock

8.6.1 Municipal rental houses

8.6.1.1 Subsidy Conditions

- (a) Category A consumers qualify for the full monthly rental subsidy;
- (b) Category B consumers qualify for 80% of the monthly rental subsidy;
- (c) Category C consumers qualify for 50% of the monthly rental subsidy; and
- (d) Category D consumers qualify for 20% of the monthly rental subsidy.

8.6.1.2 Municipal Rental Stock Subsidy for houses

- (a) 100 kWh electricity per month for Category A and B consumers.
- (b) 50 kWh electricity per month for Category C and D consumers.
- (c) Monthly basic electricity charges only for a 30 Amp electricity connection will be subsidised.
- (d) 6 kiloliters per month for Category A, B, C and D consumers.
- (e) Monthly basic charges for a 15mm water connection will be subsidised.
- (f) A rebate equivalent to the municipal rental amount for all qualifying indigent consumers to the maximum amount of the total basket of basic services provided to domestic indigent consumers will be granted.

8.6.2 Municipal rental flats

8.6.2.1 Subsidy Conditions

- (a) Category A consumers qualify for the full monthly rental subsidy;
- (b) Category B consumers qualify for 80% of the monthly rental subsidy;
- (c) Category C consumers qualify for 50% of the monthly rental subsidy; and
- (d) Category D consumers qualify for 20% of the monthly rental subsidy.

8.6.2.2 Municipal Rental Stock Subsidy for flats

- (a) 100 kWh electricity per month for Category A and B consumers.
- (b) 50 kWh electricity per month for Category C and D consumers.
- (c) Monthly basic electricity charges only for a 30 Amp electricity connection will be subsidized.
- (d) A rebate equivalent to the municipal rental amount for all qualifying indigent consumers to the maximum amount of the total basket of basic services provided to domestic indigent consumers will be granted.

8.7 Other Subsidies

8.7.1 Free Bulk Services

- (a) Free bulk services shall be the provision of services (water stand pipes, high mast lighting, toilets and refuse removal (skip bins) to informal settlements.
- (b) The cost of the provision of free bulk services is recovered from the Equitable Share allocation.

8.7.2 Building Plans

- (a) 50% rebate of building plan fees as per the approved tariff structure of the Municipality.

8.7.3 Municipal Fire Brigade Fees

- (a) 50% rebate on municipal fire brigade fees as per the approved tariff structure of the Municipality.

8.7.4 Sewerage Blockage Fees

- (a) 50% rebate on municipal sewer blockage fees as per the approved tariff structure of the Municipality.

8.7.5 Water leakages and stolen water meters

- (a) Council may replace stolen water meters or repair basic water leakages within reason in the property of indigent consumers.

9 INDIGENT APPLICATION PROCESS AND DOCUMENTATION

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

- (a) The latest municipal account in his/her possession;
- (b) The account holder's identity document;
- (c) An online application will be captured where, applicants will be required to undergo biometric verification (facial recognition) and fingerprint scanning.
- (d) Documentary proof of income and marital status (e.g. letter from an employer, salary advice, pension card, UIF card, etc.) must be presented in order to qualify for indigent and financial assistance. This information will support the online application and will be scanned in.
- (e) Employed applicants will be required to provide pay slips to substantiate the permutated income from the only verification system.
- (f) In addition, applicants will be required to sign and submit a sworn affidavit to the effect that all information supplied is true and that all income from formal and/or informal sources of all the occupants on the property has been declared.
- (g) Special note should be taken that any person who supplies false information will be disqualified from further participation in the indigent support scheme.
He/she will also be liable for the immediate repayment of all indigent support received, the debt written-off on the account will also be reversed and the institution of criminal proceedings, as Council may deem fit;
- (h) Approved pensioner indigent applications (disabled persons and child headed families included) will be valid for a period of three financial years, starting from 2018/2019, and will be renewed in the financial year 2021/2022;
- (i) For all other indigent applications, If the application is approved, the indigent support will only be valid until the end of the financial year (30 June) for which the indigent application has been evaluated with no guarantee of renewal, as it is funded by a grant from National Government to the Municipality. The onus is on account holders to re-apply for relief three month before the end of the financial year (April) , failing which the assistance will cease automatically;

- (j) No backdated subsidies will be granted to late applicants.
- (k) Council reserves the right to send officials to premises/households receiving relief for the purpose of conducting an on-site lifestyle audit of the details supplied.

9.2 Appeal Procedure

9.2.1 Indigent consumers who do not agree with their categorization in terms of paragraph 7.1 above will have the opportunity to lodge an appeal where the following process will be followed:

- a) Lodge an appeal after receiving the results of the application where the required supporting documents to substantiate the appeal will be requested from the accountholder.
- b) If the accountholder is not satisfied with the results of the appeal, then the appeal request will be escalated to the CFO and the City Manager for their consideration in terms of paragraph 7.4 of this Policy.

10 GENERAL INDIGENT SUBSIDY CONDITIONS

10.1 General Conditions

- (a) Qualifying indigent consumers' debt will be written-off once a year upon approval of the indigent subsidy.
- (b) If a consumer's consumption or use of the municipal service is less than the subsidized service, the unused portion may not be accrued by the customer and will not entitle the customer to cash or a rebate in respect of the unused portion.
- (c) If a customer's consumption or use of a municipal service is in excess of the subsidised service, the customer will be obliged to pay for such excess consumption at the applicable rates.
- (d) If consumers do not pay the excess accounts as per paragraph 10.1 (b) above then then the necessary credit control and debt collection actions as per the Municipality's Credit Control and Debt Collection Policy will apply.
- (e) All consumers who qualify for an indigent and financial assistance subsidy that have a conventional electricity meter will be converted pre-paid electricity meters.
- (f) All consumers who qualify for an indigent and financial assistance subsidy will be placed on restricted service levels in order to limit further escalation of debt.

- (g) Where applicable, these consumers may be exonerated from a portion of their arrear debt.
- (h) Where a qualifying customer's account is paid in full at the date of application, or regularly maintains a paid-up account after receiving the subsidy, the restriction on service levels will be waived.
- (i) An indigent customer must immediately request de-registration by the municipality or its authorised agent if his / her circumstances have changed to the extent that he / she no longer meets the criteria.
- (j) An indigent customer may at any time requests de-registration.
- (k) A list of indigent customers will be maintained and may be made available to the general public.
- (l) No indigent application will be approved if there is a rates clearance application on the system on date of indigent application. Such applications will only be approved in cases where the rates clearance is in terms of section 45(1) of the Deeds Registries Act, No. 47 of 1937.



Tariff Policy

Effective from 1 July 2021

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer		
Council		

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PREAMBLE

Whereas section 74 of the Local Government: Municipal Systems Act, No 32 of 2000, requires a municipal council to adopt a tariff policy on the levying of fees for municipal services;

And whereas the tariff policy at least should include the principles contained in section 74(2) of the Act; thus giving effect to the By-Law required in terms of section 75 of the Act;

And whereas the tariff policy may differentiate between different categories of users, debtors, service providers, service standards and geographical areas as long as such differentiations do not amount up to unfair discrimination;

Now therefore the Municipal Council of Drakenstein Municipality adopts the following Tariff Policy:

1. DEFINITIONS

- 1.1 In this Tariff Policy, unless inconsistency with the context, a word or expressions to which a meaning in the Act has been attached means:
- 1.1.1 ***“Accounting Officer”*** means the Accounting Officer appointed in terms of section 82 of the Local Government: Municipal Structures Act, No 117 of 1998, and being the head of administration and Accounting Officer in terms of section 55 of the Local Government: Municipal Systems Act 2000, No 32 of 2000.
- 1.1.2 ***“Basic Charge”*** means a fixed charge to recover fixed costs such as capital, meter reading, billing, vending, maintenance, etc. It may be recovered as a daily or monthly charge, but it is not applicable to subsidised tariffs. It is applicable irrespective of whether any services were used or not.
- 1.1.3 ***“Basic municipal services”*** means municipal services that are necessary to ensure an acceptable and reasonable quality of life and, if not provided, could endanger public health or safety of the environment. For Drakenstein Municipality this shall include *inter alia* electricity, water, refuse removal and sewerage services.
- 1.1.4 ***“Break-even”*** occurs when the revenue is equal to the total of the fixed and variable cost associated with the provision of the service.
- 1.1.5 ***“Co-generation”*** means the self-generation of electricity for consumption purposes used in conjunction with electricity from the municipal grid.
- 1.1.6 ***“Community services”*** are services that the Council has classified as such and the tariffs have been compiled with the intention that the costs of the services cannot be recovered fully from public service charges and are of a regulatory nature.
- 1.1.7 ***“Connection fee”*** means the fee payable as a contribution towards the cost of providing supply. This may be subsidised to facilitate the provision of services to poor households;
- 1.1.8 ***“Consumption based tariff”*** means a tariff set as a Rand amount per measurable unit of service;
- 1.1.9 ***“Cost reflective tariff”*** means a two part tariff consisting of a Basic Charge and an Energy Charge or a three part tariff which includes a Demand Charge;

- 1.1.10 **“Consumer, customer, owner, occupier and account-holder”** in this policy refers to individuals and other legal entities against whom a tariff, fee, charge or other levy specific to identifiable services are levied.
- 1.1.11 **“CPIX”** means the consumer price index excluding mortgage costs as measured by Stats SA;
- 1.1.12 **“Credit Meter”** means a meter where an account is issued subsequent to the consumption of the service (water or electricity);
- 1.1.13 **“Demand Charge”** means the charge payable for each kilovolt-ampere (kVa) for the maximum demand supplied during any 30 consecutive minutes of a calendar month;
- 1.1.14 **“Economic services”** are services that Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers.
- 1.1.15 **“Energy Charge”** means a charge for each kilowatt-hour (kWh) of electrical energy;
- 1.1.16 **“Executive Director”** means a person appointed by Council in terms of section 56(1) (a) of the Act as a manager directly accountable to the municipal manager.
- 1.1.17 **“Green Energy”** means energy generated from a sustainable source such as solar, wind or wave;
- 1.1.18 **“Interest”** means the prime bank lending rate
- 1.1.19 **“Low Voltage (LV)”** means 230 volts single phase / 400 volts three phase;
- 1.1.20 **“Medium Voltage (MV)”** means the set of voltage levels greater than 1kV up to and including 44kV;
- 1.1.21 **“Meter”** means a device that records the demand and / consumption of a specific service (water or electricity) and includes Credit and Prepayment meters;
- 1.1.22 **“Poor households”** means those households in the municipal area defined as indigent households in the Indigent Policy.
- 1.1.23 **“Prepayment Meter”** means a meter that can be programmed to allow the flow of a pre-purchased amount of energy or water in an electrical circuit or water circuit.

- 1.1.24 ***“Refuse removal service point”*** means any inhabitable unit on an erf (dwelling, flat, etcetera) where a standard refuse collection service is rendered notwithstanding the number of bins collected at the service point.
- 1.1.25 ***“Resident”*** means a person who ordinary resides in the jurisdictional area of Drakenstein Municipality.
- 1.1.26 ***“Schedule of Tariffs”*** means a schedule containing details pertaining to levels and application of various tariffs as approved by the Municipality from time to time;
- 1.1.27 ***“Special Tariffs”*** means a special tariff which may be introduced from time to time in terms of sub-paragraph 74(2) (g) of the Municipal Systems Act
- 1.1.28 ***“Sundry Tariff”*** means a charge for additional general services rendered such as reconnections, disconnections, meter testing, etc. These will be published in a tariff schedule, which may be adjusted from time to time;
- 1.1.29 ***“The Act”*** refers to the Local Government: Municipal Systems Act, No 32 of 2000.
- 1.1.30 ***“Total cost”*** is the sum of all fixed and variable costs associated with a service.
- 1.1.31 ***“Trading services”*** are services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services.
- 1.1.32 ***“Units consumed”*** are the number of units consumed of a particular service.
- 1.1.33 ***“Variable costs”*** are costs that vary with consumption or volume produced.
- 1.2 About translation
- 1.2.1 In the event of any discrepancy between the Xhosa, Afrikaans or English versions of this policy, the English version will be regarded as the official version of the said policy.

2. PURPOSE OF THIS POLICY

2.1 Drakenstein Municipality wishes to achieve the following objectives by adopting this Tariff Policy:

- (a) To comply with the provisions of section 74 of the Local Government: Municipal Systems Act, No 32 of 2000;
- (b) To prescribe procedures for calculating tariffs where the municipality wishes to appoint service providers in terms of section 76(b) of the Act; and
- (c) To give guidance to the Executive Mayor and Mayoral Committee regarding tariff proposals that must be submitted to Council annually during the budget process.

3. TARIFF PRINCIPLES

3.1 Drakenstein Municipality wishes to record that the following tariff principles will apply:

- (a) All users of municipal services will be treated equitably;
- (b) The amount payable by consumers and / or owners will generally be in proportion to usage of the service;
- (c) Poor households must have access to basic services, however relief will be granted to poor households on a targeted approach;
- (d) Free basic services will depend on the equitable share grant received from the National Government which covers the full costs of the free basic services;
- (e) Tariffs must reflect the total cost of services;
- (f) Tariffs must be set at a level that facilitates the sustainability of services. Sustainability will be achieved by ensuring that:
 - (i) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made;
 - (ii) Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services in order to subsidise rates and general services; and
 - (iii) By ensuring that service providers retain a fair rate of return on their investments;
- (g) Provision may be made in appropriate circumstances for levying interest;
- (h) Efficient and effective use of resources may be encouraged by providing for penalties to prohibit or restrict exorbitant use;

- (i) The extent of subsidisation of tariffs will be disclosed and such disclosure will include the extent of subsidisation of the poor or incentives for local economic development;
- (j) Provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- (k) VAT is excluded from all tariffs and will be additional to these tariffs when applicable; and
- (l) This policy shall be binding on all tariffs other than those governed by legislation, which supersedes the Local Government: Municipal Systems Act, No 32 of 2000.

3.2 Notwithstanding any of the above principles, indigent households and households qualifying for financial assistance identified as such would qualify for relief in terms of section 6 of this Policy.

4. CATEGORIES OF CUSTOMERS

4.1 Council may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.

4.2 Where there are substantial differences between the infrastructures used to provide services to specific groups of users within a category and / or standard of services provided, the Council can, after considering a report by the Accounting Officer or the relevant executive manager of a Department determine differentiated tariffs for the different consumers within the specific category.

5. INVESTMENTS AND INCENTIVE POLICY

5.1 Tariffs will not reflect incentives for investment or to promote economic development. Such incentives will be developed as a separate policy and be subject to the discretion of Council in order to enhance sustainability.

5.2 All such incentives will be reflected, accounted for and disclosed separately in invoices, account statements, budgets, financial statements or reports.

6. INDIGENT AND FINANCIAL ASSISTANCE

- 6.1 Tariffs will not reflect relief granted to poor households. Such incentives are developed in separate policies (Indigent Support Policy and Property Rates Policy) and be subject to the discretion of Council in order to enhance sustainability.
- 6.2 As such relief will be reflected, accounted for and disclosed separately in invoices, account statements, budgets, financial statements or reports.
- 6.3 During implementation of these policies, cognisance will be taken of the fact that the existing tariffs and procedures may require amendment to accommodate the above clauses and that such amendments may be phased in over time.
- 6.4 Poor households are expected to manage their consumption beneath the levels of relief granted and are responsible for the payment of electricity and water consumption above the levels of relief granted.
- 6.5 Assistance and management of poor households is contained in the Indigent Support Policy and Property Rates Policy with their applicable by-laws. The Municipality, however, retains the right to limit consumption through prepaid meters or restriction of services if the account of an assisted household falls into arrears.

7. SERVICE- AND EXPENDITURE CLASSIFICATIONS AND COST ELEMENTS

7.1 Service Classification

- 7.1.1 To isolate the costs associated with a service, the Chief Financial Officer shall, subject to guidelines provided by National Treasury of the Department of Finance and / or the Municipal Council, make provision for *inter alia* the following classification of services:

(a) Trading Services

- (i) Water; and
- (ii) Electricity

These services must generate a surplus which will be used to subsidize community services other than economical services.

(b) Economic Services

- (i) Refuse removal;
- (ii) Sanitation disposal;
- (iii) Fixed billboards and the display of advertisements in public places; and
- (iv) Holiday resorts

These services' charges must cover the cost of providing the services, i.e. it must at least break even. In the event of the latter not being possible within a period, the shortfall will be financed from the Municipal Property Rates revenue

(c) Rates Services

The revenue from Municipal Property Rates is utilized for Rates related services.

(d) Housing Services

These services are ring-fenced in the Housing Development Fund and the net operating balance is set off as a contribution to/from the Housing Development Fund.

(e) Community Services

- (i) Air pollution;
- (ii) Administration and treasury services;
- (iii) Firefighting services;
- (iv) Local tourism;
- (v) Town planning;
- (vi) Municipal public works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law;
- (vii) Storm water management system in built-up areas;
- (viii) Trading regulations;
- (ix) Cemeteries;
- (x) Control of public nuisances;
- (xi) Control of undertakings that sell liquor to the public;
- (xii) Crime prevention;
- (xiii) Facilities for accommodation, care and burial of animals;

- (xiv) Fencing and fences;
- (xv) Housing facilitation;
- (xvi) Licensing of dogs;
- (xvii) Licensing and control of undertakings that sell food to the public;
- (xviii) Local Economic development;
- (xix) Local amenities;
- (xx) Local sport facilities;
- (xxi) Marketing;
- (xxii) Municipal parks and recreation;
- (xxiii) Municipal roads;
- (xxiv) Noise pollution;
- (xxv) Pounds;
- (xxvi) Public places;
- (xxvii) Street trading / street lighting;
- (xxviii) Trading licenses;
- (xxix) Traffic and parking;
- (xxx) Building control;
- (xxxi) Licensing of motor vehicles and transport permits; and
- (xxxii) Nature reserves

(f) Subsidised Services

- (i) Health and ambulance;
- (ii) Libraries and museums; and
- (iii) Proclaimed roads.

7.2 Expenditure Classification

- 7.2.1 Expenditure categories will be classified in accordance with Generally Recognised Accounting Practice (GRAP).

7.3 Cost Elements

- 7.3.1 The following cost elements may be used to calculate the tariffs of the different services:

(a) Fixed Costs:

Fixed costs consist of:

- (i) Employee related costs applicable to the service to ensure that the service can be rendered on an on-going basis at the desired service level;
- (ii) Capital costs (interest and depreciation) on external loans; depreciation on assets obtained through grants; as well as depreciation on assets obtained through own funds, whichever are applicable to the service; and
- (iii) Any other costs of a permanent nature as determined by the Council from time to time.

(b) Variable Cost:

This includes all other variable costs that have reference to the service.

(c) Total Cost:

This is equal to the fixed cost plus variable cost.

8. TARIFF TYPES

- 8.1 In determining the type of tariff applicable to the type of service, the municipality shall make use of any of the following six options or a combination thereof.

(a) Single tariff:

This tariff shall consist of a cost per unit consumed. All costs will be recovered through unit charges at the level where income and expenditure breaks even. Subject to a recommendation by the Chief Financial Officer, the Council may decide to approve profits on trading services during the budget meeting. Such profits will be added to the fixed and variable cost of the service for the purpose of calculating the tariffs.

(b) Cost related two to four part tariff:

This tariff shall consist of two to four parts. Management, capital, maintenance and operating costs may be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and may be recovered by a fixed charge, independent of consumption for all classes of consumers; or the total costs may be recovered by a unit charge per unit consumed. Three and four part tariffs will be used to calculate the tariff for electricity and to provide for maximum and notified demand (KVA

charges) and usage (kWh charges) during peak, standard and off-peak (Time-of-use charges) periods.

(c) Inclining block tariff:

This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase.

(d) Regulating tariff:

This tariff is only of a regulatory nature and the Municipality may recover the full or a portion of the cost associated with rendering the service.

(e) Cost plus mark-up tariff:

This tariff is for other services rendered.

9. CALCULATION OF TARIFFS FOR MAJOR SERVICES

9.1 In order to determine the tariffs which must be charged for the supply of the four major services (electricity, refuse removal, sanitation and water), the Municipality shall use service and expenditure classifications and cost elements contained in paragraph 7 above and identify all the costs associated with the service concerned, including specifically the following:

- (a) Cost of bulk purchases in the case of water and electricity;
- (b) Distribution costs, including distribution losses in the case of water and electricity;
- (c) Depreciation and finance charges;
- (d) Maintenance of infrastructure and other fixed assets;
- (e) Administration and service costs, including:
 - (i) Service charges levied by other support services such as finance, human resources, legal services, information technology services, etcetera;
 - (ii) Reasonable general overheads such as the costs associated with the office of the Accounting Officer etcetera;
 - (iii) Adequate contributions to the provisions for bad debts, working capital and obsolescence of stock; and
 - (iv) All other ordinary operating expenses associated with the service concerned including in the case of the electricity service, the cost of providing street lighting in the municipal area;

- (f) The cost of the democratic process in the municipality – that is all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenues and shall also be included into the costing of the major services of the municipality;
- (g) The intended surplus to be generated for the financial year, such surplus to be applied:
 - (i) As an appropriation to the capital replacement reserve; and / or
 - (ii) Generally in relief of rates and general services; and
- (h) The municipality shall provide the first 6kl of water per month free of charge to all approved indigent households and households qualifying for financial assistance.

9.2 **Electricity**

- 9.2.1 The guidelines and policy issued by the National Electricity Regulator from time to time will form the basis of calculating tariffs.
- 9.2.2 To make electricity affordable to certain categories of consumers, cross subsidisation between and within categories of consumers, will be allowed based on the load factors of the categories and consumers within the category.
- 9.2.3 To cater for alternative sources of energy generation a co-generation tariff based on the amount of green energy pushed back into the municipal grid based on the rules published in the annual tariff list.
- 9.2.4 The fixed costs or portions thereof will be recovered through an energy or time-of-use charge.
- 9.2.5 To apply the abovementioned principles, the consumer types and cost allocations reflected in the following table will be used:

Categories of consumers	Fixed Charge Rand/Customer /Month	Active Energy Charge Cents/kWh	Seasonally Time-of-Use Energy Charge Peak/Standard/ Off-Peak (kWh)	Capacity Charge Rand/KVA/ Month
Domestic Pre-paid	X	X		X
Domestic	X	X		X
Business Pre-paid	X	X		X
Small business >60A	X	X		X

Small business <60A	X	X		X
Business = 400 V	X	X		X
Business = 11 kV	X		X	X
Co-Generation	X	X	X	

9.2.6 Fixed charges and capacity charges may be combined to a single basic charge to be levied per month.

9.2.7 The basic charges for both credit and pre-paid electricity shall be the same.

9.2.8 Where a property or registered erf is not connected to the electricity reticulation system, but can reasonably be so connected, an availability tariff will be payable per registered erf.

9.3 **Water**

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

9.3.2 **Categories of consumption and charges**

9.3.2.1 **Domestic Consumers**

- (a) The first 6 (six) Kl of water consumption per month shall be supplied free of charge to all indigent households and to households qualifying for financial assistance.
- (b) Erven with more than one dwelling must furnish the municipality with an affidavit stipulating the number of dwellings on the erf, to qualify to be billed on the sliding scale for all the dwellings on the erf.
- (c) Because water is a scarce national resource and this municipality is committed to the prudent conservation of such resources, the tariff levied for domestic consumption of water shall escalate according to the volume of water consumed.
- (d) The tariffs for conventional domestic consumption shall be based on the levels reflected in the following table:

Kilolitres per month			
Step 1	0	to	≤6
Step 2	> 6	to	≤10
Step 3	>10	to	≤15
Step 4	>15	to	≤30
Step 5	>30	to	≤50
Step 6	>50	to	≤80
Step 7	>80	and	above

- (e) Gated estates on the municipal grid where water is supplied through a bulk water meter, will also be billed according to the above sliding scale. An affidavit with the number of dwellings in the gated estate must be furnished to the municipality.
- (f) Gated estates partially or fully off the municipal grid will have the choice to be billed according to the flat rate or the above sliding scale. An affidavit with the number of dwellings in the gated estate must be furnished to the municipality if the gated estate elects to be billed on the sliding scale.
- (g) The pre-paid domestic consumers' tariff shall be based on the levels reflected in the following table:

Kilolitres per month			
Step 1	0	to	≤6
Step 2	>6	to	≤10
Step 3	>10	to	≤15
Step 4	>15	to	≤30
Step 5	>30	to	≤50
Step 6	>50	to	≤80
Step 7	>80	and	above

- (h) Domestic Untreated water:

Kilolitres per month			
Step 1	0	to	≤6
Step 2	>6	to	≤10
Step 3	>10	to	≤15
Step 4	>15	to	≤30

Step 5	>30	to	≤50
Step 6	>50	to	≤80
Step 7	>80	and	above

- (i) A basic charge per water meter size as determined by the Council from time to time will be charged on all water consumers.
- (j) The basic charges for boreholes will be determined on an annual basis as per the approved tariffs of Council.
- (k) Where consumers are not connected to the water services and these consumers or registered erven can reasonably connect to the service within an approved township establishment, an availability tariff will be payable per registered erf.
- (l) A water restriction tariff is approved by Council annually to be implemented during times of water restrictions forced onto us by our suppliers of water or drought conditions. This increased tariff will be applied to all the categories and their usage levels as illustrated in paragraph c and e above.

9.3.2.2 Other Water consumers

Categories of consumers	Single Tariff	Sliding Scale
Sport Purposes, Schools, College, Churches (for irrigation purposes)		X
Irrigation Purposes		X
Industrial Purposes		X
Any other purposes other than above	X	
Waste water effluent	X	
Sport Organisation hosting national or international events	X	
Prisons	X	
Caravan Park Gouda	X	
Businesses Saron		X
Business Rural Area	X	
Special Agreements		X
Municipal Usage	X	
Water sold at Paarl Waterworks Depot (To be paid in advance)	X	
Usage due to transgression	X	
Standpipes	X	

9.3.3 A basic/availability charge per month shall be charged to every vacant erf.

9.4 **Refuse Removal**

9.4.1 A fixed monthly refuse removal charge shall apply to each category of users based on the full costs of the service concerned and the applicable level of service that can vary from once a week up to seven times a week.

9.4.2 The fixed charge referred to in paragraph 9.4.1 above will apply to every refuse removal service point as defined and the costs associated with its disposal.

9.4.3 A basic/availability charge per month shall be charged to every vacant erf.

9.4.4 A basic/availability charge per month shall be charged to each developed erf within a gated village, sectional title estate or any other property that make use of a private contractor for collection and disposal of refuse. The basic/availability charges per month for the above categories will be based on the difference between the number of refuse bins and the number of waste generators (registered sectional title units, lettable space, flats etc.)

9.5 **Sewerage**

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

9.5.2 **Categories of usage and charges**

- (a) A basic (availability) charge per month shall be charged for vacant erven.
- (b) A separate fixed monthly sewerage charge shall apply to each category of users based the size of a developed plot.
- (c) An additional monthly fee may be charged per toilet or any other type of measurement Council may determine from time to time.
- (d) An effluent fee shall further be payable by factories and other industrial users where the waste water emanating from such users requires special purification measures by the municipality. Such fees shall be based on the toxic content of the waste water concerned and the costs of the purification.

9.6 **Minor tariffs**

9.6.1 All minor tariffs shall be standardised within the municipal region.

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

9.6.3 Minor tariffs shall include but not limited to the following:

- (a) Cemetery fees;
- (b) Housing rentals;
- (c) Library fees (e.g. membership fees, fines, lost books, lost membership cards);
- (d) Rentals for the use of municipal premises;
- (e) Rentals for the use of municipal sports grounds;
- (f) Rentals for the lease of municipal property;
- (g) Building plan fees;
- (h) Advertising sign fees;
- (i) Plastic bag sales;
- (j) Refuse bin sales;
- (k) Cleaning of stands;
- (l) Sewerage connection fees;
- (m) Photostat copies and faxes;
- (n) Clearance certificates;
- (o) Pound fees;
- (p) Electricity: disconnection and reconnection fees;
- (q) Electricity: new connection fees;
- (r) Water: disconnection and reconnection fees;
- (s) Water: new connection fees;
- (t) Penalty and other charges in terms of the Credit Control, Debt Collection Policy;
- (u) Supply of information;
- (v) Garden refuse removal;
- (w) License fees (drivers, learner license and road worthy);
- (x) Sale of livestock; and
- (y) Sale of miscellaneous items.

- 9.6.4 The Accounting Officer shall maintain a list of all minor services indicating their unit of service for the purpose of determining tariffs, fees, charges and levies. Such list shall be reviewed annually together with the proposed tariffs, fees, charges and levies.

10. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES

- 10.1 After a draft budget as required by the Local Government: Municipal Finance Management Act (MFMA) has been tabled, the Accounting Officer must invite the local community to submit representations for consideration by Council. Such invitation includes the draft resolutions on taxes and tariffs proposed.
- 10.2 After approval of the annual budget in terms of section 24 of the MFMA, Council will give notice in terms of section 75A of the Act of all tariffs approved at the annual budget meeting and the Municipal Manager shall without delay conspicuously display a copy of the resolution for a period of at least 30 days at the main administrative office of the Municipality and at such other places within the Municipality to which the public has access as the Municipal Manager may determine.
- 10.3 A notice stating the purpose of the Council Resolution, date on which the new tariffs shall become operational and invitation for objections, will be advertised by the Municipality in terms of section 75A(3)(b) of the Act.
- 10.4 All tariffs approved must have been considered at the annual budget meeting.

11. IMPLEMENTING AND PHASING IN OF THE POLICY

- 11.1 The principle contained in this policy will be reflected in the various budget proposals submitted to Council on an annual basis, service by-laws as promulgated and adjusted by Council from time to time and the tariff by-laws referred to in Section 75 of the Act.
- 11.2 Council may determine conditions applicable to a community service of a regulatory nature. These conditions will be reflected in the standing orders of Council.
- 11.3 Jurisdiction and other differences in tariffs, if applicable, will be phased in over three financial years after the 2012/2013 financial year.

12. PROCEDURES AND ACCOUNTABILITY

- 12.1 The Accounting Officer shall ensure that procedures to manage all aspects of this policy are prepared in the form of a manual, reviewed regularly and that these are formally adopted by him / her for implementation. These procedures will include aspects in this policy and subscribe to sound principles of internal control.
- 12.2 The executive manager of a Department shall ensure compliance with the procedures as approved from time to time by the Accounting Officer to give effect to the provisions of this policy.

13. SHORT TITLE

- 13.1 This policy is the Tariff Policy of Drakenstein Municipality.



Property Rates Policy

Effective from 1 July 2021

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer		
Council		

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DRAKENSTEIN MUNICIPALITY

PROPERTY RATES POLICY

1. LEGISLATIVE CONTEXT

- 1.1 Section 229 of the Constitution of the Republic of South Africa, No 108 of 1996, determines that a municipality may impose rates on property subject to any regulated national legislation.
- 1.2 Section 2 of the Local Government: Municipal Property Rates Act, No 6 of 2004, determines that a municipality may levy a rate on property in its area subject to:
- (a) Section 229 and any other applicable provisions of the Constitution;
 - (b) The provisions of the Municipal Property Rates Act (MPRA); and
 - (c) The rates policy it must adopt in terms of section 3.
- 1.3 Section 3 of the MPRA determines that the council of a municipality must adopt a policy consistent with the MPRA on the levying of rates on rateable property in the municipality.
- 1.4 Section 4(1)(c)(ii) of the Local Government: Municipal Systems Act, No 32 of 2000, determines that the council of a municipality has the right to finance the affairs of the municipality by imposing, *inter alia*, rates on property.
- 1.5 Section 62(1)(f)(ii) of the Local Government: Municipal Finance Management Act, No 56 of 2003, the Municipal Manager must ensure that the municipality has and implements a rates policy.
- 1.6 This policy must be read together with, and is subject to the stipulations of the MPRA and any regulations promulgated in terms thereof.

2. DEFINITIONS

- 2.1 **“Accommodation”** means accommodation in an accommodation establishment: a room, dwelling-house or second dwelling unit, self-catering room, self-catering apartment or freestanding building let to transient guests;

- 2.2 ***“Accommodation establishments”*** means the provision of overnight accommodation for paying guests on a short-term basis (where the same guests stay for periods typically less than 30 days) and includes examples such as self-catering dwelling units, bed and breakfast facilities, guest house, guest lodge, backpackers’ accommodation, camping and includes ancillary facilities to serve such guests only, but excludes a hotel.
- 2.3 ***“Act”*** means the Local Government: Municipal Property Rates Act, No 6 of 2004 (amended 01 July 2015).
- 2.4 ***“Agent”***, in relation to the owner of a property, means a person appointed by the owner of the property:
- (a) To receive rental or other payments in respect of the property on behalf of the owner; or
 - (b) To make payments in respect of the property on behalf of the owner.
- 2.5 ***“Agricultural purpose”*** means a farm or small holding property that is used for the cultivation of soils for purposes of planting and gathering crops; forestry in the context of the planting, growing and sawing-off of trees in a managed and structured fashion; the rearing of livestock and game or the propagation and harvesting of fish; and:
- (a) In relation to the use of property, excludes the use of the property for the purpose of eco-tourism or for the trading in or hunting of game;
 - (b) In relation to an agricultural unit used for irrigation purposes, includes all irrigation stands being operated by the same farmer as a single agricultural unit in the sole discretion of the Municipality; and
 - (c) In relation to an agricultural unit used for stock-farming purposes, includes all stock-farms being operated by a farmer as a single agricultural unit in the sole discretion of the Municipality.
- 2.6 ***“Agricultural property”*** means property that is used primarily for agricultural purposes but, without derogating from section 9, excludes any portion thereof that is used commercially for hospitality of guests, and excludes the use of the property for the purpose of eco-tourism or for the trading in or hunting of game;

- 2.7 ***“Annually”*** means once every financial year.
- 2.8 ***“Business and commercial property”*** means:
- (a) Property used for the activity of buying, selling or trading in commodities or services and includes any office or other accommodation on the same property, the use of which is incidental to such activity; or
 - (b) Property on which the administration of the business of private or public entities take place.
- 2.9 ***“Category”***
- (a) In relation to property, means a category of properties determined in terms of paragraph 6 of this policy; and
 - (b) In relation to owners of properties, means a category of owners determined in terms of paragraph 7 of this policy.
- 2.10 ***“Child-headed household”*** means a household where the main caregiver of the said household is younger than 18 years of age. Child-headed household means a household headed by a child as defined in terms of section 28(3) of the Constitution.
- 2.11 ***“Definitions, words and expressions”*** as used in the Act are applicable to this policy document wherever it is used.
- 2.12 ***“Household”*** means all persons (registered owner/s, occupier/s, vulnerable person/s or tenant/s) jointly living on a stand or site receiving sanitation, refuse removal, water and/or electricity services that is billed by the Municipality.
- 2.13 ***“Household income”*** means the gross sum of all monthly income from all sources including wages, salaries, profits, dividends, pensions, rentals, board & lodging, interest received, grants or investment income and other forms of earnings received by all persons residing on the property.
- 2.14 ***“Industrial property”*** means property used for construction, repair, trade or manufacturing, production, assembly or processing of finished or partially finished products from raw materials or fabricated parts on such a large scale that capital and labour are significantly involved, and includes any office or other accommodation on the same property, the use of which is incidental to such activity.

- 2.15 ***“Land reform beneficiary”***, in relation to a property, means a person who -
- (a) Acquired the property through -
 - (i) The Provision of Land and Assistance Act, No 126 of 1993; or
 - (ii) The Restitution of Land Rights Act, Act No 22 of 1994;
 - (b) Holds the property subject to the Communal Property Associations Act, No 28 of 1996; and
 - (c) Holds or acquires the property in terms of such other land tenure reform legislation as may pursuant to section 25(6) and (7) of the Constitution be enacted after this Act has taken effect.
- 2.16 ***“Land tenure right”*** means a land tenure right as defined in section 1 of the Upgrading of Land Tenure Rights Act, 1991 (Act No 112 of 1991).
- 2.17 ***“Mining property”***, means a property used for mining operations as defined in the Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002).
- 2.18 ***“Multiple purposes”*** in relation to a property means the use of a property for more than one purpose, subject to section 9.
- (a) The different uses will be grouped into two or more components. The first will be the primary component; the other components (sub-components) will be identified by their generalised functional name.
 - (b) The category of the primary component of such a property will be directed in the first instance by the permitted use of the property, but at the sole discretion of the Municipality.
- 2.19 ***“Municipality”*** means the Local Municipality of Drakenstein.
- 2.20 ***“Newly rateable property”*** means any rateable property on which property rates were not levied before the end of the financial year preceding the date on which the Act took effect, excluding:

- (a) A property which was incorrectly omitted from a valuation roll and for that reason was not rated before that date; and
- (b) A property identified by the Minister by notice in the Gazette where the phasing-in of a rate is not justified.

2.21 **“Officer bearer”** in relation to places of public worship, means the primary person who officiates at the services at that place of worship.

2.22 **“Official residence”** in relation to places of public worship, means –

- (a) A portion of the property used for residential purposes; or
- (b) one residential property, if the residential property is not located on the same property as the place of public worship,

registered in the name of the religious community or registered in the name of a trust established for the sole benefit of a religious community and used as a place of residence for the office bearer.

2.23 **“Owner”**:

- (a) In relation to a property referred to in paragraph (a) of the definition of “property”, means a person/s in whose name ownership of the property is registered;
- (b) In relation to a right referred to in paragraph (b) of the definition of “property”, means a person/s in whose name the right is registered;
- (c) In relation to a time sharing interest contemplated in the Property Time-Sharing Control Act, 1983 (Act No.75 of 1983), means the management association contemplated in the regulations made in terms of section 12 of the Property Time-Sharing Control Act, 1983, and published in Government Notice R327 of 24 February 1984;
- (d) In relation to a share in a share block company, the share block company as defined in the Share Block Control Act, 1980 (Act No. 59 of 1980);
- (e) In relation to buildings, other immovable structures and infrastructure referred to in section 17(1)(f), means the holder of the mining right or the mining permit;

- (f) In relation to a land tenure right referred to in paragraph (c) of the definition of “*property*”, means a person/s in whose name the right is registered or to whom it was granted in terms of legislation; or
- (g) In relation to public service infrastructure referred to in paragraph (d) of the definition of “*property*”, means the organ of state which owns or controls that public service infrastructure as envisaged in the definition of “publicly controlled”:

Provided that a person mentioned below may for the purposes of this Policy be regarded by the Municipality as the owner of a property in the following cases:

- (i) A trustee, in the case of a property in a trust excluding state trust land;
- (ii) An executor or administrator, in the case of a property in a deceased estate;
- (iii) A trustee or liquidator, in the case of a property in an insolvent estate;
- (iv) A judicial manager, in the case of a property in the estate of a person under curatorship;
- (v) A person in whose name a usufruct or other personal servitude is registered, in the case of a property that is subject to a usufruct or other personal servitude;
- (vi) A lessee, in the case of a property that is registered in the name of a municipality and is leased by it;
- (vii) A buyer, in the case of a property that was sold by a municipality and of which possession was given to the buyer pending registration of ownership in the name of the buyer; or
- (viii) A lessee, in the case of property to which a land tenure right applies and which is leased by the holder of such right.

2.24 **“Place of public worship”** means property used primarily for the purposes of congregation, excluding a structure that is primarily used for educational instruction in

which secular or religious education is the primary instructive medium: Provided that the property is –

- (a) Registered in the name of the religious community;
- (b) Registered in the name of a trust established for the sole benefit of a religious community or;
- (c) Subject to a land tenure right.

2.25 ***“Private cemeteries and Memorial wall”*** means land which is used as a cemetery (any land containing one or more grave / memorial wall) but not owned by Drakenstein Municipality.

2.26 ***“Private Open Space”***, means any land in private ownership used primarily as a private site for play, rest or recreation without financial gain.

2.27 ***“Property”*** means:

- (a) Immovable property registered in the name of a person/s, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person/s;
- (b) A right registered against immovable property in the name of a person/s, excluding a mortgage bond registered against the property;
- (c) A land tenure right registered in the name of a person/s or granted to a person/s in terms of legislation; or
- (d) Public service infrastructure.

2.28 ***“Public service infrastructure”*** means publicly controlled infrastructure of the following kinds:

- (a) National, provincial or other public roads on which goods, services or labour move across a municipal boundary;
- (b) Water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer scheme serving the public;

- (c) Power stations, power substations or power lines forming part of an electricity scheme serving the public;
- (d) Gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels;
- (e) Railway lines forming part of a national railway system;
- (f) Communication towers, masts, exchanges or lines forming part of a communications system serving the public;
- (g) Runways, aprons and the air traffic control unit at national or provincial airports, including the vacant land known as the obstacle free zone surrounding these, which must be vacant for air navigation purposes;
- (h) Breakwaters, sea walls, channels, basins, quay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar services of ports, or navigational aids comprising lighthouses, radio navigational aids, buoys, beacons or any other device or system used to assist the safe and efficient navigation of vessels;
- (i) Any other publicly controlled infrastructure as may be prescribed; or
- (j) Rights of way, easements or servitudes in connection with infrastructure mentioned in sub-paragraphs (a) to (i) above.

2.29 ***“Public service purposes”*** in relation to the use of a property, means property owned and used by the state as -

- (a) Hospitals or clinics;
- (b) Schools, pre-schools, early childhood development centres or further education and training colleges;
- (c) National and provincial libraries and archives;
- (d) Police stations;

(e) Correctional facilities; or

(f) Courts of law,

but excludes property contemplated in the definition of “public service infrastructure”.

2.30 **“Ratio”** in relation to section 19 of the Act, means the relationship between the cent amount in the Rand applicable to residential properties and different categories of non-residential properties:

2.31 **“Residential property”** means a property included in a valuation roll in terms of section 48(2)(b) of the Act in respect of which the primary use or permitted use is for residential purposes without derogating from section 9. For more clarity residential property in this policy will refer to improved property (structural improvements) that:

- (a) Is used predominantly for residential purposes including any adjoining property registered in the name of the same owner and used together with such residential property as if it were one property. Any such grouping shall be regarded as one residential property for rate rebate or valuation reduction purposes;
- (b) Is a unit registered in terms of the Sectional Title Act and used predominantly for residential purposes;
- (c) Is owned by a share-block company and used solely for residential purposes;
- (d) Is a residence used for residential purposes situated on property used for or that is related to educational purposes;
- (e) Is property which is included as residential in a valuation roll in terms of section 48(2)(b) of the Act;
- (f) Is retirement schemes and life right schemes used predominantly (60% or more) for residential purposes;
- (g) All residential properties with more than one use, irrespective of its zoning, will be multi purposed by the valuer to enable Council to levy the correct property rates levy on the intended use.

- 2.32 ***“Rural communal settlements”*** means the residual portion of rural communal land excluding identifiable and rateable entities within the property and excluding State Trust Land and land reform beneficiaries as defined in the Act.
- 2.33 ***“Sport property”*** means property (grass or other surfaces sport fields as well as clubhouses) predominantly used for amateur sporting activities.
- 2.34 ***“State trust land”*** means land owned by the state:
- (a) In trust for persons communally inhabiting the land in terms of a traditional system of land tenure;
 - (b) Over which land tenure rights were registered or granted; or
 - (c) Which is earmarked for disposal in terms of the Restitution of Land Rights Act, No 22 of 1994.
- 2.35 ***“Wind Farms”*** means an area of land with a group of energy-producing windmills or wind turbines.

3. OBJECTIVES OF THE POLICY

3.1 The objectives of this policy are: –

- (a) To comply with the provisions of section 3 of the Act;
- (b) To determine criteria to be applied for:
 - (i) Levying different property rates for different property or categories or sub-categories as determined in terms of section 8 of the Act;
 - (ii) Exemptions;
 - (iii) Reductions;
 - (iv) Rebates; and
 - (v) Rate increases or decreases;

- (c) To determine or provide criteria for the determination of:
 - (i) Categories of properties or sub-categories for the purpose of levying different property rates; and
 - (ii) Categories of owners of properties or categories of properties or sub-categories for the purpose of granting exemptions, rebates and reductions;
- (d) To determine how the Municipality's powers should be exercised in terms of multiple-used properties;
- (e) To identify and quantify the following for the Municipality in terms of cost and the benefit to the community:
 - (i) Exemptions, rebates and reductions;
 - (ii) Exclusions; and
 - (iii) Rates on properties that must be phased in;
- (f) To take into account the effect of property rates on the poor;
- (g) To take into account the effect of property rates on organisations that perform activities for public benefit activities;
- (h) To take into account the effect of property rates on public services infrastructure;
- (i) To determine measures to promote local economic and social development;
- (j) To identify all rateable revenue not being rated; and
- (k) In respect of agricultural property, give effect to the regulations promulgated in terms of section 83 and 19(1)(b) of the Act.

4. POLICY PRINCIPLES

- 4.1 Property rates are levied in accordance with the Act as an amount in the rand based on the market value of all rateable property contained in the Municipality's valuation roll and supplementary valuation roll.
- 4.2 As allowed for in the Act, the municipality has chosen to differentiate between various categories of property and categories of owners of property as contemplated in paragraph 6 and 7 of this policy. Some categories of property and categories of owners are granted relief from rates. The Municipality however does not grant relief in respect of payments of property rates to any category of owners or properties, or to owners of properties on an individual basis.
- 4.3 There shall be no phasing in of property rates based on the new valuation roll, except as prescribed by legislation and in accordance with paragraph 15 of this policy.
- 4.4 In accordance with section 3(3) of the Act, the property rates policy for the Municipality is based on the following principles:

(a) Equity

The Municipality will treat all ratepayers with similar properties the same.

(b) Affordability

The ability of a person to pay rates will be taken into account by the Municipality. In dealing with the poor / indigent ratepayers the Municipality will provide relief measures through exemptions, reductions, rebates and cross subsidy from the equitable share allocation.

(c) Sustainability

Rating of property will be implemented in a way that:

- (i) It supports sustainable local government by providing a stable and buoyant revenue source within the discretionary control of the Municipality;
- (ii) Supports local, social and economic development; and
- (iii) Secures the economic sustainability of every category of ratepayer.

(d) Cost efficiency

Property rates will be based on the value of all rateable property and will be used to fund community and subsidised services after taking into account any profits generated on trading services (water and electricity) as well as economic services (refuse removal and sanitation) and the amounts required to finance exemptions, rebates, reductions and phasing-in of rates as approved by the Municipality from time to time.

5. CLASSIFICATION OF SERVICES

5.1 The City Manager or his / her delegated official must, subject to the guidelines provided by National Treasury and the Municipal Council of the Municipality, through the Municipality's Tariff Policy make provision for the following classification of services:

(a) Trading services

(i) Water.

(ii) Electricity.

(b) Economic services

(i) Refuse removal.

(ii) Sanitation.

(c) Community and subsidised services

These include all those services ordinarily being rendered by the Municipality excluding those mentioned in subparagraph 5.1(a) and (b) above.

5.2 Trading and economic services as referred to in paragraph 5.1(a) and (b) must be ring fenced and financed from service charges while community and subsidised services referred to in paragraph 5.1(c) will be financed from surpluses on trading and economic services, regulatory fees, rates and rates related income.

6. CATEGORIES OF PROPERTIES.

6.1 Subject to section 19 of the Act, Drakenstein Municipality may, in terms of the criteria set out in its property rates policy, levy different property rates for different categories of rateable properties, which may include categories determined according to:

- (a) The use of the property;
- (b) The permitted use of the property;
- (c) The geographical area in which the property is situated; or
- (d) A combination of (a) and (b)

6.2 Categories of rateable property that may be determined in terms of paragraph 6.1 above include the following:

- (a) Residential property;
 - i. Rural Residential
 - ii. Accommodation Establishments
- (b) Property that is vacant (empty stands) with zoning or proposed use earmarked for residential property;
- (c) Property that is vacant (empty stands) with zoning or proposed use earmarked for industrial, business or commercial;
- (d) Industrial property;
 - i. Rural Industrial
- (e) Business and commercial property;
 - i. Rural Business and Commercial
- (f) Agricultural purposes;
 - (i) Agricultural properties which provides potable water, accommodation, electrification, land burial rights and or education and recreational facilities to own and surrounding farm workers.

- (g) Mining properties;
- (h) Properties owned by an organ of state and used for public service purposes;
- (i) Municipal property;
- (j) Public service infrastructure as referred to in the Act;
- (k) Properties owned by public benefit organisations and used for specified public benefit activities;
- (l) Property:
 - (i) Acquired through the Provision of Land and Assistance Act, No 126 of 1993, or the Restitution of Land Rights Act, No 22 of 1994; or
 - (ii) Which is subject to the Communal Property Associations Act, No 28 of 1996;
- (m) Protected areas;
- (n) Amateur sport property.
- (o) Professional sport property;
- (p) Property used for multiple purpose, subject to section 9 of the Act;
- (q) Private open space;
- (r) Any other category of property as may be determined by the Minister, with the concurrence of the Minister of Finance, by notice in the Gazette.
- (s) Sectional Title Garages
- (t) None Residential Properties

6.3 In addition to the above categories of rateable property determines in terms of section 8(2) of the Act, a municipality may determine additional categories of rateable

property, including vacant land: Provided that, with the exception of vacant land, the determination of such property categories does not circumvent the categories of rateable property that must be determined in terms of section 8(2) of the Act.

- 6.4 Where a municipality can, on good cause, show that there is a need to sub-categorise the property categories listed in section 8(2) of the Act, a municipality may apply to the Minister in writing for authorisation to create one or more of such sub categories.
- 6.5 In determining the category or sub-category of a property referred to in paragraph 6.2 above the Municipality shall take into consideration the dominant use of the property, regardless the formal zoning of the property.
- 6.6 Properties used for multiple purposes shall be categorised and rated as provided for in section 9 of the Act and as more fully described in paragraph 8 of this policy.

7. MULTI PURPOSE USE OF PROPERTIES

- 7.1 Properties used for multiple purposes which for example do not fall within the definition of residential properties and, accordingly, do not qualify for the residential rate, may be included into the category of multiple-use properties, as per section 9(1)(c) of the Act, for which an apportionment of value for each distinct use of the property, irrespective of its zoning rights, will be calculated by the municipal valuer and used for billing at the appropriate and applicable rate.
- 7.2 All properties in Drakenstein Municipality with more than one use, irrespective of its zoning rights, will be multiple purposed by the municipal valuer.

8. DIFFERENTIAL RATING

- 8.1 Criteria for differential rating on different categories of properties in terms of section 8(1) of the Act will be according to:
 - (a) The nature of the property including its sensitivity to rating e.g. agricultural properties used for agricultural purposes; and
 - (b) The promotion of local, social and economic development within the Municipality.

8.2 Differential rating among the various property categories will be done by way of:

- (a) Setting a different cent amount in the rand for each property category or sub-category; and
- (b) By way of reductions and rebates as provided for in this policy document.

9. EXEMPTIONS AND IMPERMISSIBLE RATES

9.1 The following categories of property are exempted from rates:

(a) Municipal properties

Municipal properties are exempted from paying property rates as it will increase the rates burden or service charges to property owners or consumers. However, where municipal properties are leased, the lessee will be responsible for the payment of the determined property rates in accordance with the lease agreement.

(b) Residential properties

All residential properties with a market value of less than the amount as annually determined by the municipality are exempted from paying property rates. For the 2021/2022 financial year the maximum reduction is determined as R 180,000. The impermissible rates of R 15,000 contemplated in terms of section 17(1)(h) of the Act is included in the amount referred to above as annually determined by the municipality.

(c) Private Open Spaces

All private open spaces are exempted from the levying of rates.

(d) Public benefit organisations (PBO's)

- (i) Taking into account the effects of property rates on PBO's performing a specific public benefit activity and if registered in terms of Part 1 of the Ninth Schedule to the Income Tax Act, No 58 of 1962, for tax reduction because of those activities, PBO's may apply for the exemption of paying property rates. PBO's may include, *inter alia*:-

- (a) Welfare and humanitarian (charitable) organisations;
 - (b) Cultural organisations (museums, libraries, art galleries and botanical gardens);
 - (c) Sporting organisations (non-professional);
 - (d) Conservation, environmental and animal welfare organisations;
 - (e) Health care organisations; and
 - (f) Education and development.
- (ii) All possible benefiting organisations in paragraph 10.4 must apply initially for exemptions. All applications must be addressed in writing to the Municipality by 31 August for the financial year in respect of which the rate is levied for the first time. If the exemption applied for is granted the exemption will apply for the full financial year till there is a usage or ownership change.
 - (iii) Public benefit organisations must attach a SARS tax exemption certificate issued by the South African Revenue Services (SARS) as contemplated in Part 1 of the Ninth Schedule of the Income Tax Act, 1962 (No 58 of 1962) to all applications.
 - (iv) The Municipality retains the right to refuse the exemption if the details supplied in the application form were incomplete, incorrect or false.
 - (v) The extent of the exemptions implemented in terms of paragraph 10.1 to 10.4 must annually be determined by the municipality and included in the annual budget.
 - (vi) Exemptions in paragraph 9.1(a), 9.1(b) and 9.1(c) will automatically apply and no application is thus required. Exemptions in terms of paragraph 9.1(d) require an initial application where after it will be applied automatically.
- (e) Private Cemeteries and Memorial Walls

10. REDUCTIONS

10.1 Reductions as contemplated in section 15 of the Act will be considered on an *ad hoc* basis in the event of the following:

- (a) Partial or total destruction of a property; and
- (b) Disasters as defined in the Disaster Management Act, No 57 of 2002.

10.2 The following conditions shall be applicable in respect of paragraph 10.1:

- (a) The owner referred to in clause 10.1(a) shall apply in writing for a reduction and the onus will rest on such applicant to prove to the satisfaction of the Municipality that the property has been totally or partially destroyed. He / she will also have to indicate to what extent the property can still be used and the impact on the value of the property. The reduction in property rates will only be considered after the municipality has been supplied with a demolition certificate, demolition invoice or proof of destruction e.g. fire brigade report, photos etc.
- (b) A maximum reduction that may be determined on an annual basis shall be allowed in respect of clauses 10.1(a). From the 2019/2020 financial year the maximum reduction is determined as 80% for properties referred to in clause 10.1 (a) and remains the same until re-determined by Council.
- (c) Property owners will only qualify for a reduction if affected by a disaster as referred to in the Disaster Management Act, No 57 of 2002. The reduction will be determined by Council on an ad-hoc basis based on the nature and financial impact of the disaster.
- (d) An *ad-hoc* reduction as stipulated in paragraph 10.1 a and b will not be given for a period in excess of 3 months, unless the Municipality gives further extension on application.

11. REBATES

11.1. Categories of property

11.1.1 Business, commercial and industrial properties

- (a) The municipality may grant rebates to rateable enterprises that promote local, social and economic development in its area of jurisdiction. The following criteria will apply:
 - (i) Job creation in the municipal area;
 - (ii) Social upliftment of the local community; and
 - (iii) Creation of infrastructure for the benefit of the community;
- (b) A maximum rebate as annually determined by the Municipality will be granted on approval, subject to:
 - (i) A business plan issued by the directors of the company indicating how the local, social and economic development objectives of the municipality are going to be met;
 - (ii) A continuation plan issued by the directors and certified by auditors of the company stating that the objectives have been met in the first year after establishment and how the company plan to continue to meet the objectives; and
 - (iii) An assessment by the Municipal Manager or his / her nominee indicating that the company qualifies; and
- (c) All applications must be addressed in writing to the municipality for the financial year in respect of which the property rates is levied. If the rebate applied for is granted the rebate will apply from the date of receipt of the application.
- (d) The maximum rebate determined for qualifying businesses will be determined in terms of the approved Investment Incentive Policy for the 2019/2020 financial year and onwards.

11.1.2 Agricultural property rebate

- (a) When considering the criteria to be applied in respect of any exemptions, rebates and reductions on any properties used for agricultural purposes the Municipality must take into account:
 - (i) The extent of rates related services rendered by the Municipality in respect of such properties;
 - (ii) The contribution of agriculture to the local economy;
 - (iii) The extent to which agriculture assists in meeting the service delivery and developmental objectives of the Municipality; and
 - (iv) The contribution of agriculture to the social and economic welfare of farm workers.
- (b) In terms of section 84 of the Act the Minister for Provincial and Local Government, and in concurrence with the Minister of Finance as required through section 19 of the Act, may determine that a rate levied by the Council on a category of non-residential property may not exceed the ratio to the rate on residential property. In the absence of any such promulgation the municipality will apply the standard ratio for agricultural properties as 1:0.25 (75% “rebate” on the tariff for residential properties). Since the 2009/2010 financial year the minister has promulgated a ratio of 1:0.25.
- (c) An additional rebate (based on the total property value) of a maximum of 10% will be granted by the municipality in respect of the following:
 - (i) 2.5% for the provision of accommodation in a permanent structure to farm workers and their dependents or families;
 - (ii) 2.5% if these residential properties are provided with potable water;
 - (iii) 2.5% if the residential properties of the farm workers are electrified; and
 - (iv) 2.5% for the provision of land for burial of own farm workers or for educational and / or recreational purposes to own farm workers as well as

for workers from surrounding farms.

- (d) The granting of additional rebates is subject to the following:
 - (i) All applications must be addressed in writing to the Municipality indicating how service delivery and development obligations of the Municipality and contribution to the social and economic welfare of farm workers were met. If the rebate applied for is granted the rebate will apply from the date of receipt of such application and will be regarded as a once off requirement.
 - (ii) Council reserves the right to send officials or its agents to premises/ households receiving relief on annual basis for the purpose of conducting an on-site audit of the details supplied. The onus also rests on recipients to immediately notify Council of any changes in their original application.
 - (iii) The Municipality retains the right to refuse the exemption if the details supplied in the application form were incomplete, incorrect or false.
- (e) No other rebates will be granted to properties that qualify for the agricultural rebate. For the avoidance of doubt, properties that qualify for the agricultural rebate will not be entitled to the residential rate exemption as set out in paragraph 10.2 of this policy.

11.1.3 Rural Residential Properties

- (a) The Municipality grants an additional rebate, to be determined on an annual basis, which applies to residential properties on farms, small holdings and in rural areas serviced by the owner.
- (b) An additional rebate (based on the total property rates value) of a maximum of 22.5% will be granted by the municipality in respect of the following:
 - (i) 7.5% if the owner renders a full water service;
 - (ii) 7.5% if the owner renders a full refuse removal service; and
 - (iii) 7.5% if the owner renders a full sanitation service.

- (c) An additional rebate for disabled persons (based on the total property value) of a maximum of 7.5% will be granted by the municipality in respect of the following:
 - (i) 2.5% if the owner renders a full water service;
 - (ii) 2.5% if the owner renders a full refuse removal service: and
 - (iii) 2.5% if the owner renders a full sanitation service.
- (d) The granting of additional rebates is subject to the following:
 - (i) All applications must be addressed in writing to the Municipality indicating how service delivery and development obligations of the Municipality were met. This application will be required as a once off requirement. Any new applications for the 2021/2022 financial year and onwards must be addressed in writing to the municipality for the financial year in respect of which the rate is levied. If the rebate applied for is granted, the rebate will apply from the date of receipt of such application and will be regarded as a once off requirement. These rebates are over and above the R180,000 exemption on residential properties referred to in paragraph ~~10.2~~ 10.1(b) of this policy.
 - (ii) Council reserves the right to send officials or its agents to premises/households receiving relief on annual basis for the purpose of conducting an on-site audit of the details supplied. The onus also rests on recipients to immediately notify Council of any changes in their original application.
 - (iii) The Municipality retains the right to refuse the exemption if the details supplied in the application form were incomplete, incorrect or false.

12 Categories of owners

12.1 Indigent owners

- (a) Owners who qualify and who are registered as indigents in terms of the adopted indigent policy of the Municipality, regardless of the value of the property, will receive a rebate of up to a property value of R950,000 from payment of property rates.

12.2 Child headed families

- (a) Families headed by children shall receive a 100% rebate from paying property rates, according to monthly household income, subject to the provisions listed below. To qualify for this rebate the head of the family must:
 - (i) Occupy the property as his / her normal residence;
 - (ii) Not be older than 18 years of age;
 - (iii) Still be a scholar or jobless; and
 - (iv) Be in receipt of a total monthly income from all social grant resources not exceeding an amount to be determined annually by the Municipality in the Indigent Policy.
- (b) The family head must apply on the prescribed application form for registration as a child headed household and must be assisted by the Municipality with completion of the application form. If qualifying, this rebate will automatically apply and no further application is thus required.

12.3 Retired persons seventy (70) years and older

- (a) Retired persons seventy years and older, qualify for special rebates according to their pensioner and age status. To qualify for the rebate a property owner must:
 - (i) Occupy the property as his / her normal residence;
 - (ii) Be at least 70 years of age as the breadwinner;
 - (iii) Be in receipt of a monthly pension as the only source of income except that interest on investments will be allowed and must be declared that may not exceed 25% of the pension income; and
- (b) Property owners must apply on the prescribed application form for a rebate as determined by the Municipality. Applications must be accompanied by:
 - (i) A certified copy of the identity document or any other proof of the owner's

age which is acceptable to the Municipality;

- (ii) Sufficient proof of income of the owner and his / her spouse; and
 - (iii) An affidavit from the owner.
- (c) All applications must be addressed in writing to the Municipality for the financial year in respect of which the rate is levied. Any new applications for the 2021/2022 financial year and onwards must be addressed in writing to the municipality for the financial year in respect of which the rate is levied. If the rebate applied for is granted the rebate will apply from the date of receipt of such application and will be regarded as a once off requirement. These rebates are over and above the R180,000 exemption on residential properties referred to in paragraph 10.1(b) of this policy.
- (d) An additional rebate (based on the total property value) of a maximum of 10 % will be granted by the Municipality for the 2021/2022 financial year.
- (e) The Municipality retains the right to refuse the rebates if the details supplied in the application form were incomplete, incorrect or false.

12.4 State-owned properties used for Public Service Purposes

The Municipality shall grant a 20% rebate on the property rates levied for state-owned properties.

12.5 Amateur sporting organisations

- (a) The Municipality shall grant a rebate of 75% on the property rates levied for sport fields with grass or any other surfaces owned by amateur sporting organisations. This will also be applicable on sport fields located in gated villages.
- (b) The Municipality shall grant a rebate of 25% on the property rates levied for the clubhouse, restaurant and other facilities associated with the sporting activities. This will also be applicable to similar facilities associated with sporting activities in privately owned towns.

12.6 Professional sporting organisations

- (a) The Municipality may, on application by a professional sporting organisation, grant a rebate on the property rates levied on property owned by professional sporting organisations.
- (b) Such an application must be accompanied with the latest audited set of financial statements and the audit report issued in terms of the South African Accounting Standards.
- (c) For the 2021/2022 financial year a maximum rebate of 10% on property rates levied is determined, subject to Council's approval of the application submitted by the professional sporting organisation.

12.7 The extent of the rebates granted in terms of paragraphs 12.1 and 12.2 must annually be determined by the Municipality and included in the annual budget.

13. IMPERMISSIBLE RATES

13.1 In terms of section 17(1) of the Act the Municipality may, *inter alia*, not levy a rate:

- (a) On any property referred to in paragraphs (a), (b), (e), (g) and (h) of the definition of 'public service infrastructure'.
- (b) On those parts of a special nature reserve, national park or nature reserve within the meaning of the National Environmental Management: Protected Areas Act, No 57 of 2003, or of a national botanical garden within the meaning of the National Environmental Management: Biodiversity Act, 2004, which are not developed or used for commercial, business, or residential agricultural purposes;
- (c) On mining rights or a mining permit within the meaning of the Mineral and Petroleum Resource Development Act, 2002 (Act No. 28 of 2002), excluding any building, other immovable structures and infrastructure above the surface of the mining property required for the purposes of mining;
- (d) On a property belonging to a land reform beneficiary or his or her heirs, dependants or spouse provided that this exclusion lapses ten years from the date on which such beneficiary's title was registered in the office of the Registrar of

Deeds or upon alienation of the property by the land reform beneficiary or his or heirs, dependants or spouse; and

- (e) On a property registered in the name of and used primarily as a place of public worship by a religious community, including the official residence registered in the name of that community which is occupied by the office-bearer of that community who officiates at services at that place of worship.

14. PAYMENT OF RATES

14.1 The property rates levied on properties shall be payable:

- (a) On a monthly basis; or
- (b) Annually, before 15 October each year.

14.2 Ratepayers may choose paying rates annually in one instalment on or before 15 October each year. If the owner of property that is subject to property rates, notify the Municipal Manager or his / her nominee in writing by not later than 30 June in any financial year, or such later date in such financial year as may be determined by the Municipality that he / she wishes to pay all rates annually, such owner shall be entitled to pay all properties rates in the subsequent financial year and each subsequent financial year annually until such notice is withdrawn by him / her in a similar manner.

14.3 The Municipality shall determine the due dates for payments in monthly instalments and the single annual payment and this date shall appear on the accounts forwarded to the owner or duly authorised.

14.4 Interest on arrear property rates, whether payable on or before 15 October or in equal monthly instalments, shall be calculated in accordance with the provisions of the credit control and debt collection policy of the Municipality.

14.5 If a property owner who is responsible for the payment of property rates in terms of this policy fails to pay such rates in the prescribed manner, it will be recovered from him / her in accordance with the provisions of the credit control and debt collection by-law of the Municipality.

14.6 Arrears rates shall be recovered from tenants, occupiers and agents of the owner, in terms of section 28 and 29 of the Act and the Municipality's credit control and debt collection by-law.

14.7 Where the property rates levied on a particular property have been incorrectly determined, whether because of an error or omission on the part of the Municipality or false information provided by the property owner concerned or a contravention of the permitted use to which the property concerned may be put, the property rates payable shall be appropriately adjusted for the period extending from the date on which the error or omission is detected back to the date on which property rates were first levied in terms of the current valuation roll.

14.8 In addition, where the error occurred because of false information provided by the property owner or as a result of a contravention of the permitted use of the property concerned, interest on the unpaid portion of the adjusted property rates payable shall be levied at the maximum rate permitted by prevailing legislation.

15. ACCOUNTS TO BE FURNISHED

15.1 The Municipality will furnish each person liable for the payment of property rates with a written account, which will specify:

- (a) The amount due for property rates payable;
- (b) The date on or before which the amount is payable;
- (c) How the amount was calculated;
- (d) The market value of the property, and
- (e) Rebates, exemptions, reductions or phasing-in, if applicable.

15.2 A person liable for the payment of property rates must furnish the municipality with an address where correspondence can be directed to.

15.3 A person liable for payment of property rates remains liable for such payment, whether or not such person has received a written account from the municipality. If the person concerned has not received a written account, he / she must make the necessary enquiries with the Municipality.

15.4 In the case of joint ownership the Municipality shall consistently, in order to minimise costs and unnecessary administration, recover rates from one of the joint owners only provided that it takes place with the consent of the owners concerned.

15.5 When an owner's rates account is in arrears for longer than 90 (ninety) days, then the Municipality may initiate the proceedings as described in Sections 28 or 29 of the MPRA. A notice to this effect will be forwarded to the tenant, occupier or agent providing the required legal information regarding their payments to the owner, which are to be redirected to the municipality so as to cover the arrear rates account. A notice will be forwarded to the owner in question to indicate the legal proceedings and the actions that the municipality has initiated.

16. RATES CLEARANCE CERTIFICATES

16.1 The municipality shall issue a rates clearance certificate in terms of Section 118(1) of the Local Government: Municipal Systems Act 2000 (Act no 32 of 2000), after payment of the subscribed administration fee, and once the current account of the rates and services is paid plus 2 months (60 days) in advance in order to facilitate the transfer of immovable property.

16.2 Rates clearance certificates has a validity of 60 days from the date it has been issued, in terms of Section 118(1) (b) of the Local Government: Municipal Systems Act 2000 (Act no 32 of 2000).

16.3 All debt is deemed to be collectable by the municipality in terms of Section 118(3) of the Systems Act. The municipality retains the right to collect debt from a previous owner despite the issuance of a clearance certificate or registration of the transfer of the property in the name of a new owner. After registration of the transfer the outstanding debt of the previous owner may not be collected from the new owner.

16.4 No interest shall be paid by the municipality to the registered seller in respect of these payments which are deemed to be due.

16.5 According to Section 102 of the Systems Act (Act 32 of 2000), a Municipality may:

- (a) Consolidate any separate accounts of persons liable for payments to the municipality;
- (b) Credit a payment by such a person against any accounts/s of that person; and
- (c) Implement any of the debt collection and credit control measures to any arrears on any account/s of that person.

16.6 All credit amounts will firstly be allocated as per above

17. CREDIT REFUNDS

- 17.1 All payments will be allocated to the registered seller's municipal account.
- 17.2 All refunds will be made according to the conveyancer's instruction.
- 17.3 Refunds will only be issued on written request or an application for refund by the conveyancer.
- 17.4 For cost benefit purposes only refunds above an amount of R50.00 will be refunded as per the above criteria.

18 PHASING IN OF RATES

- 18.1 The property rates to be levied on newly rateable property shall be phased in as explicitly provided for in section 21 of the Act.
- 18.2 The phasing-in discount on the properties referred to in section 21 shall be as follows:-
- (a) First year : 75% of the relevant rate;
 - (b) Second year : 50% of the relevant rate; and
 - (c) Third year : 25% of the relevant rate.
- 18.3 No property rates on newly rateable properties that are owned and used by organisations conducting activities that are beneficial to the public and that are registered in terms of the Income Tax Act for those activities, shall be payable during the first year. The phasing-in discount on these properties shall be as indicated below:
- (a) First year : 100% of the relevant rate;
 - (b) Second year : 75% of the relevant rate;
 - (c) Third year : 50% of the relevant rate; and
 - (d) Fourth year : 25% of the relevant rate.

19. SPECIAL RATING AREAS

- 19.1 The municipality will, whenever deemed necessary, by means of a formal Council resolution determine special rating areas in consultation with the relevant communities as provided for in section 22 of the Act.
- 19.2 The following matters shall be attended to in consultation with the committee referred to in paragraph 16.3 whenever special rating is being considered:
- (a) Proposed boundaries of the special rating area;
 - (b) Statistical data of the area concerned giving a comprehensive picture of the number of erven with its zoning, services being rendered and detail of services such as capacity, number of vacant erven and services that are not rendered;
 - (c) Proposed improvements clearly indicating the estimated costs of each individual improvement;
 - (d) Proposed financing of the improvements or projects;
 - (e) Priority of projects if more than one;
 - (f) Social economic factors of the relevant community;
 - (g) Different categories or sub-categories of property;
 - (h) The amount of the proposed special rating;
 - (i) Details regarding the implementation of the special rating; and
 - (j) The additional income that will be generated by means of this special rating.
- 19.3 A committee consisting of 6 members of the community residing within the area affected will be established to advise and consult the Municipality in regard to the proposed special rating referred to above. This committee will be elected by the inhabitants of the area concerned who are 18 years of age or older. No person under the age of 18 may be elected to serve on the committee. The election of the committee will happen under the guidance of the Municipal Manager. The committee will serve in an advisory capacity only and will have no decisive powers.

- 19.4 The required consent of the relevant community shall be obtained in writing or by means of a formal voting process under the chairmanship of the Municipal Manager. A majority shall be regarded as 50% plus one of the households affected. Each relevant household within the special rating area, i.e. every receiver of a monthly municipal account, will have 1 vote only.
- 19.5 In determining the special additional rates the Municipality shall differentiate between different categories as referred to in paragraph 6 of this policy.
- 19.6 The additional property rates levied shall be utilised for the purpose of improving or upgrading of the specific area only and not for any other purposes whatsoever.
- 19.7 The Municipality shall establish separate accounting and other record-keeping systems for the identified area and the households concerned shall be kept informed of progress with projects and financial implications on an annual basis.

20. FREQUENCY OF VALUATION

- 20.1 The Municipality shall prepare a new valuation roll at least every 4 (four) years.
- 20.2 In accordance with the Act the Municipality, under exceptional circumstances, may request the MEC for Local Government and Housing in the province to extend the validity of the valuation roll to 5 (five) years.
- 20.3 Supplementary valuations may be done on a continual basis but at least published once an annual basis in terms section 78 of the Municipal Property Rates Act 6 of 20014 as amended by Act 29 of 2014.
- 20.4 In the event that a property has been transferred to a new owner and rates emanating from a supplementary valuation become due and payable, the new owner will be held responsible from the date of registration.

21. OBJECTION AND APPEALS

- 21.1 Any person may lodge an objection to a valuation subject to Section 50 of the MPRA but within the period stated in the notice referred to in Section 49(1)(a) of the MPRA.
- 21.2 An appeal to an appeal board against a decision of a municipal valuer in terms of section 51 of the MPRA may be lodged in the prescribed manner subject to Section 54

of the MPRA. The appeal must be lodged (as a guideline), within a period of 30 days nonetheless, as set out in Section 54(2) of the MPRA.

21.3 The administrative actions or processes as described in the MPRA for the handling of objections or appeals will be the basis that the Municipality will follow.21.3.1 The lodging of an objection or appeal:

- (a) In terms of Section 50 of the MPRA does not defer liability for the payment of rates in terms of this Policy; or
- (b) In terms of Section 54 of the MPRA does not defer liability for the payment of rates in terms of this Policy.

22. COMMUNITY PARTICIPATION

22.1 Before the Municipality adopts the property rates policy, the Municipal Manager will follow the process of community participation as envisaged in chapter 4 of the Municipal Systems Act and comply with the following requirements:

- (a) Council must establish appropriate mechanisms, processes and procedures to enable the local community to participate and will, if needed, provide for consultative sessions with locally recognised community organisations and where appropriate traditional authorities;
- (b) Conspicuously display the draft property rates policy for a period of at least 30 days at the Municipality's head and satellite offices, libraries and on the website;
- (c) Advertise in the media a notice stating that the draft property rates policy has been prepared for submission to Council and that such policy is available at the various municipal offices and on the website for public inspection;
- (d) Property owners and interest persons may obtain a copy of the draft property rates policy from the municipal offices during office hours at a fee as determined by Council as part of its annual tariffs. Property owners and interest persons are invited to submit written comments or representations to the Municipality within the specified period in the notice;
- (e) Council will consider all comments and /or representations received when considering the finalisation of the property rates policy; and

- (f) The municipality will communicate the outcomes of the consultation process in accordance with section 17(2)(e) of the Municipal Systems Act, No 32 of 2000.

23. REGISTER OF PROPERTIES

- 23.1 The Municipality will compile and maintain a register in respect of all properties situated within the jurisdiction of the Municipality. The register will be divided into Part A and Part B.
- 23.2 Part A of the register will consist of the current valuation roll of the municipality and will include all supplementary valuations done from time to time.
- 23.3 Part B of the register will specify which properties on the valuation roll or any supplementary valuation roll are subject to:
 - (a) Exemption from rates in terms of section 15 of the Act;
 - (b) Rebate or reduction in terms of section 15 of the Act;
 - (c) Phasing-in of rates in terms of section 21 of the Act; and
 - (d) Exclusions as referred to in section 17 of the Act.
- 23.4 The register will be open for inspection by the public at the municipal main offices during office hours or on the website of the Municipality.
- 23.5 The Municipality will update Part A of the register during the supplementary valuation process.
- 23.6 Part B of the register will be updated on an annual basis as part of the implementation of the municipality's annual budget.

24. BY-LAWS TO GIVE EFFECT TO THE PROPERTY RATES POLICY

- 24.1 The municipality will adopt a Property Rates By-law to give effect to the implementation of the Property Rates Policy and such By-law may differentiate between different categories of properties and different categories of owners of properties liable for the payment of property rates.

25. REGULAR REVIEW PROCESSES

- 25.1 The property rates policy must be reviewed on an annual basis to ensure that it complies with the Municipality's strategic objectives as contained in the Integrated Development Plan and current legislation.

26. SHORT TITLE

- 26.1 This policy is the Property Rates Policy of the Drakenstein Municipality.



ANNEXURE I

DRAKENSTEIN

MUNISIPALITEIT • MUNICIPALITY • UMASIPALA

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Writing-off of Irrecoverable Debt Policy

Effective from 1 July 2021

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer		
Council		

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1. INTRODUCTION

- 1.1 To ensure that **Drakenstein** consumers with no or little income are not denied reasonable basic services and that the municipality is not financially burdened with non-payment of these basic services, the Council of Drakenstein Municipality approved policies on property rates, tariffs, customer care, credit control, debt collection and indigent support to be implemented.
- 1.2 Despite strict enforcement of the above policies, Council will continuously be confronted by circumstances requiring the possible writing-off of irrecoverable debt.
- 1.3 The **City** Manager must ensure that all avenues are utilised to collect the municipality's debt. However, for various reasons there will always be bad debt cases that needs to be catered for through a policy on the writing-off of irrecoverable debt for circumstances that allow for the valid termination of debt collection procedures as contemplated in section 109(2) of the Local Government: Municipal Systems Act (No 32 of 2000), such as –
- 1.3.1 The insolvency of a debtor whose estate has insufficient funds;
- 1.3.2 A balance being too small to recover, for economic reasons, considering the cost of recovery; and
- 1.3.3 Where Council deems that a customer or group of customers are unable to pay for services rendered.
- 1.4 The municipality will have to maintain audit **trails** in such instances where bad debt is written-off and document the reasons for the abandonment of the actions or claims in respect of the bad debt.

2. PURPOSE OF THE POLICY

- 2.1 The purpose of this policy is to ensure that the principles and procedures for the writing-off of irrecoverable debt are formalised to ensure that consumers (especially households) are relieved of their spiral of debt.

3. RESPONSIBILITY AND ACCOUNTABILITY

- 3.1 The Council has the overall responsibility and accountability for adopting and approving the Writing-Off of Irrecoverable Debt Policy.

4. POLICY PRINCIPLES

4.1 The following are the guiding principles for the implementing of the Writing-Off of Irrecoverable Debt Policy –

4.1.1 The policy will comply with the Local Government: Municipal Finance Management Act (No 56 of 2003), the Local Government: Municipal System Act (No 32 of 2000) and other related legislation.

4.1.2 Before any debt is written-off it must be proved that the debt has become irrecoverable. To ensure that recommendations for the writing-off of debt are consistent and accurate; irrecoverable debt will be defined as :

- (a) Where the tracing of the debtors is unsuccessful;
- (b) All reasonable steps, in terms of the Customer care, Credit Control and Debt Collection Policy, were taken by the administration to recover the debt; and
- (c) Any debt defined by a committee of Council at their discretion as irrecoverable.
- (d) Where debt has prescribed in terms of the Prescription Act, No.68 of 1969.

4.1.3 Bad debt to be written-off must be considered in terms of cost benefit.

4.1.4 Therefore, when it becomes too costly to recover and the chances of collecting the debt are very slim, a write-off should be considered.

4.1.5 Time value of money is very important because the older the debt becomes, the more difficult and costly it becomes to collect. It is therefore imperative that a proper system of credit control is implemented and maintained to avoid debt reaching the stage of becoming too expensive to recover.

4.1.6 Differentiation must be made between those household consumers who cannot afford to pay for basic services (indigent households) and those who just do not want to pay for basic services.

4.1.7 Debt can only be written-off if the required provision for bad debts exists in the municipality's budget and/or reserves.

5. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR INCENTIVES AND WRITING-OFF OF IRRECOVERABLE DEBT

5.1 Indigent household consumers

5.1.1 Upon approval for registration as an indigent household consumer, the debtor's outstanding balance as at the date of approval will be written-off.

5.1.2 Any new arrears accumulated by the debtor (i.e. any amounts in excess of the indigent allowance for free basic services) whilst registered as an indigent consumer, will not qualify to be written-off and must be dealt with strictly in accordance with the municipality's Customer care, Credit control and debt Collection Policy. Therefore, these arrears can only accumulate for –

- (a) The kWh units of electricity consumed or to be consumed above the 100 or 50 units of free electricity per month and the applicable basic charges for an indigent household who has an installed conventional or pre-paid electricity meter;
- (b) The kiloliters of water consumed or to be consumed above the 10 kiloliters of free water per month by an indigent household who has an installed conventional and pre-paid water meter; and
- (c) Excess rates payable on the rated value of a residential property that are not exempted from paying property rates and that does not qualify for a 100% indigent subsidy in terms of Council's property rates policy.
- (d) The sanitation and refuse charges not subsidized in terms of the indigent policy.

5.2 Small balances

5.2.1 Where final accounts have been submitted and paid by the respective consumer, and the remaining balance after finalisation of any final readings, other administrative costs and consumer deposits taken into consideration results in a balance of one thousand rand (R 1,000) or less, or the amount determined by Council from time to time during the budget approval process, such amount must be written-off with the proviso that:

- (a) When the balance amounts to R 300 or less, or the amount determined by Council from time to time during the budget approval process, the account must be forwarded once to the consumer for payment;
- (b) When the balance amounts to R 600 or less, or the amount determined by Council from time to time during the budget approval process, the account must be forwarded once to the consumer with a follow-up reminder for payment;
- (c) When the balance amounts to R 1,000 or less, or the amount determined by Council from time to time during the budget approval process, the account must be forwarded once to the consumer with a follow-up reminder

and a final reminder for payment.

- 5.2.2 Where such account is not paid by the respective consumer within a period of ninety (90) days, such amounts will automatically be written-off subject to the provisions of paragraph 6.4 below.

5.3 Insolvent, and financially distressed debtors and insolvent deceased estates

- 5.3.1 Where a debtor becomes insolvent the municipality must ensure that a creditor's claim is timeously registered. Any amount not being recovered due to insufficient funds must be written-off subject to the provisions of paragraph 5.5, 6.4 and 6.5 below.

- 5.3.2 In case of the death of a debtor a creditor's claim must be timeously registered against the deceased's estate. Any amount not being recovered due to insufficient funds must be written-off subject to the provisions of paragraph 5.5, 6.4 and 6.5 below.

- 5.3.3 Where a company has initiated a compromise or a renegotiation process in terms of section 155 of the Companies Act, No. 71 of 2008, any shortfall resulting from this process may be written- off in terms of paragraph 6.4 of the Policy.

5.4 Untraceable debtors

- 5.4.1 Where for any reason the forward address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such an account must be handed over to a collection agent for recovery of the debt (paragraph 5.2 cases excluded). The collection agent will be paid an all- inclusive fee of not more than 10% of the amount that was collected. The terms of reference for such a collection agent must include the appointment of a tracing agent to locate the debtor. Should a debtor be untraceable, the collection agent must report to the municipality on the actions that were taken to attempt to trace the debtor.

- 5.4.2 Any amount owed by a debtor that has become untraceable may be sold to a debt collection agent at a discount, before it is written-off.

- 5.4.3 Debt written-off in terms of paragraph 5.4.2 above will automatically result in the debtor being reported to a credit bureau by the municipality.

5.5 Clearance certificates

- 5.5.1 In terms of section 118 of the Local Government: Municipal Systems Act, Drakenstein Municipality may not issue a clearance certificate on any property unless all outstanding amounts that became due during the two years preceding the date of application are paid to date. Outstanding debt accumulated prior to the section 118 period will be treated in terms of the Customer care, Credit Control and Debt Collection Policy where after all avenues in terms of the policy have been exhausted, this debt may be written-off in terms of paragraph 6.4.

5.6 Special incentives for household consumers

- 5.6.1 Notwithstanding the municipality's Customer care, credit control and debt collection policy, a debtor may enter into a written agreement with the municipality to repay any outstanding and due amount to the municipality under the following conditions:

- (a) The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments as determined per arrangement;
- (b) The current monthly amount must be paid in full; and
- (c) The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.

- 5.6.2 In order to determine monthly instalments; a declaration of the households monthly / or yearly income must be provided by the debtor and reviewed by a finance official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer (amount to be capped not to exceed 20% of gross income), taking into account that the payment of the monthly current account is a prerequisite for concluding a suitable arrangement.

- 5.6.3 Due the current economic circumstances; the majority of household consumers have accumulated significant arrear amounts and these consumers are not in a position to pay off these arrear amounts in full together with their current monthly accounts. In order to improve the current payment levels from consumers the municipality has resolved to implement special incentives to address the arrear debt as from the effective date of the implementation of this policy.

- 5.6.4 To encourage household consumers to pay off arrear debt, Council will enter into a once-off arrangement with a household consumer to pay off his/her arrear

debt over a period of time in terms of specific incentives. The main aim of an agreement will be to promote full payment of the current account and to address affordable arrear payments on a consistent basis.

- 5.6.5 Writing-off any irrecoverable debt in terms of such an agreement will be strictly in accordance with a maximum repayment period of 36 months and the capped limitation of 20% of gross income referred to in paragraph 5.6.2 above.
- 5.6.6 Two suspended accounts may be created; one for the arrear debt to be paid of through arrangements and another one for the irrecoverable debt portion to be written-off. Levying of interest on suspended accounts will immediately be suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the suspended account balances.
- 5.6.7 As long as the agreement is honoured no further interest will be added to the suspended account/s. However, in the case of continuous default for a period of six months or more the suspended amount/s will be reversed to the monthly current account and interest will again be levied on the full outstanding debt from the date of reversal.
- 5.6.8 Should a household consumer have more than one account (suspended and handed over debt) and wants to make an arrangement in terms of this policy; the household consumer's debt will be consolidated and a single arrangement be made with the municipality. Handed over accounts will be withdrawn from collection agents (attorneys) and arrangements made with the municipality on the household's consumer debt will be managed by the municipality itself.
- 5.6.9 Where arrangements are made to pay off the arrear amount in instalments, such instalments should be determined on the outstanding amount/s, taking the limitations of paragraph 5.6.2 into consideration. Such arrangements (over a three year period), must be honoured for at least a year where after one third of the irrecoverable debt will be written-off. If the arrangements are honoured for year two as well, another one third of the irrecoverable debt will be written-off. The same will apply for year three where after the household consumer should be out of his spiral of municipal debt.
- 5.6.10 When a debtor who does not want to make arrangements for the repayment of his/her arrear debt as set out in paragraph 5.6.2 above wants to pay 50% on their arrear debt through a once-off payment, the remaining 50% on their arrear debt will be written-off immediately. The arrear debt amount to be considered to be

written-off on the 50% incentive basis will be the arrear debt amount on the day before the January 2018 billing run took place.

- 5.6.11 Irrecoverable amounts to be written-off in terms of paragraph 5.6 above shall be subject to the provisions of paragraph 6.1, 6.2 and 6.3 below.

5.7 Special incentives for churches, welfare organisations, sporting bodies, emerging farmers, etcetera

- 5.7.1 Notwithstanding the municipality's Customer care, Credit control and Debt collection Policy, a debtor may enter into a written agreement with the municipality to repay any outstanding and due amount to the municipality under the following conditions:

- (a) The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
- (b) The current monthly amount must be paid in full; and
- (c) The written agreement has to be signed on behalf of the municipality by a duly authorised officer.

- 5.7.2 In order to improve the current payment levels from this category of consumers the municipality has resolved to implement special incentives to address the arrear debt.

- 5.7.3 To encourage this category of consumers to pay off arrear debt, Council will enter into a once-off arrangement with this category of consumers to pay off their arrear debt over a period of time in terms of specific incentives. The main aim of an agreement will be to promote full payment of the current account and to address the affordable arrears on a consistent basis.

- 5.7.4 Suitable and acceptable arrangements in terms of such an agreement will be strictly in accordance with a maximum repayment period of 12 months.

- 5.7.5 Levying of interest on arrear accounts (arrear account to be created separately from the current account) should immediately be suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the arrear account balances.

- 5.7.6 As long as the agreement is honoured no further interest will be added. However, in case of default the suspended amount will be reversed and interest will again be levied from the date of reversal.

- 5.7.7 When a debtor in this category of consumers who does not want to make arrangements for the repayment of their arrear debt as set out in paragraph 5.7.4 above pays 50% on their arrear debt through a once-off payment, the remaining 50% on the arrear debt will be written-off immediately. The arrear debt amount to be considered to be written-off on the 50% incentive basis will be the arrear debt amount on the day before the January 2018 billing run took place.
- 5.7.8 Where debtors fail to honour their arrangements without prior consultation, the suspended debt will be reversed to their current account and interest will be reinstated and added to their current account from date of reversal.
- 5.7.9 Any amount to be written-off in terms of paragraph 5.7 above shall be subject to the provisions of paragraph 6.1, 6.2 and 6.3 below.
- 5.8 Special incentives for businesses, industrial and agricultural consumers
- 5.8.1 Notwithstanding the municipality's customer care, credit control, debt collection and indigent support policies, a debtor may enter into a written agreement with the municipality to repay any outstanding and due amount to the municipality under the following conditions:
- (a) The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
 - (b) The current monthly amount must be paid in full; and
 - (c) The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.
- 5.8.2 In order to improve the current payment levels from this category of consumers the Municipality has resolved to implement special incentives to address the arrear debt.
- 5.8.3 To encourage this category of consumers to pay off arrear debt Council will enter into a once-off arrangement with this category of consumers to pay off their arrear debt over a period of time in terms of specific incentives. The main aim of an agreement will be to promote full payment of the current account and to address the affordable arrears on a consistent basis.
- 5.8.4 Suitable and acceptable arrangements in terms of such an agreement will be strictly in accordance with a maximum repayment period of 6 months.

- 5.8.5 Levying of interest on arrear accounts (arrear account to be created separately from the current account) should immediately be suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the arrear account balances.
- 5.8.6 As long as the agreement is honoured no further interest will be added. However, in case of default the suspended amount will be reversed and interest will again be levied from the date of default.
- 5.8.7 When a debtor in this category of consumers who does not want to make arrangements for the repayment of their arrear account as set out in paragraph 5.8.4 above pays 50% on their arrear debt through a once-off payment, the remaining 50% on their arrear debt will be written-off immediately. The arrear debt amount to be considered to be written-off on the 50% incentive basis will be the arrear debt amount on the day before the January 2018 billing run took place.
- 5.8.8 Where debtors fail to honour their arrangements without prior consultation, the suspended debt will be reversed to their current account and interest will be reinstated and added to their current account from date of reversal.
- 5.8.9 Any amount to be written-off in terms of paragraph 5.8 above shall be subject to the provisions of paragraph 6.1, 6.2 and 6.3 below.
- 5.9 Special incentives for government departments and schools
- 5.9.1 Any incentive arrangement and amount to be written-off for this category of consumers will be reviewed by a committee of Council who will make a recommendation to the Mayoral Committee for consideration.
- 5.9.2 The Executive Mayor will have the discretion and the delegated powers to resolve on any amount to be written-off notwithstanding the recommendation of the committee of Council.
- 5.10 Irrecoverable debt not catered for in the policy
- 5.10.1 Should there be any irrecoverable debt cases that the administration and the committee of Council cannot dispose of in terms of this policy, particulars of the irrecoverable debt cases shall be submitted to the committee of Council who will make a recommendation to the Executive Mayor and Mayoral Committee for consideration.

- 5.10.2 The Mayoral Committee will have the discretion and the delegated powers to resolve on any amount to be written-off in these instances notwithstanding the recommendation of the committee of Council.
- 5.10.3 Should there be any irrecoverable debt cases that the Mayoral Committee cannot dispose of in terms of this policy, particulars of the irrecoverable debt cases shall be submitted to the Mayoral Committee who will make a recommendation to Council for consideration.
- 5.10.4 Council will have the discretion and the delegated powers to resolve on any amount to be written-off in these instances notwithstanding the recommendation of the Mayoral Committee.

6. DELEGATIONS

6.1 Chief Financial Officer

- 6.1.1 The Chief Financial Officer will, after thorough review of any applications in terms of this policy, have the delegated powers to write-off any irrecoverable debt to the maximum amount of R 10,000 per consumer (current, suspended and handed over amounts consolidated) per submission or the amount determined by Council from time to time during the budget approval process.

6.2 City Manager

- 6.2.1 Any amount in excess of the delegation provided for in paragraph 6.1.1 above must be submitted together with a recommendation to the Municipal Manager for consideration. The City Manager will, after thorough review of any recommendation by the Chief Financial Officer and in terms of this policy, have the delegated powers to write-off any irrecoverable debt to the maximum amount of R 20,000 per consumer (current, suspended and handed over amounts consolidated) per submission or the amount determined by Council from time to time during the budget approval process.

6.3 Committee of Council

- 6.3.1 Council has established a Finance Portfolio Committee in terms of section 80 of the Local Government: Municipal Structures Act (No 117 of 1998) to assist the Mayoral Committee. It is hereby determined that the Finance Portfolio Committee will be the committee of Council to monitor the implementation of this policy.

6.3.2 Any amount in excess of the delegation provided for in paragraph 6.2.1 above must be submitted together with a recommendation to the Finance Portfolio Committee for consideration. The Finance Portfolio Committee will, after thorough review of any recommendation by the Chief Financial Officer and City Manager in terms of this policy, have the delegated powers to write-off any irrecoverable debt in excess of R 20,000 per consumer (current, suspended and handed over amounts consolidated) per submission or the amount determined by Council from time to time during the budget approval process.

6.4 Mayoral Committee

6.4.1 All amounts to be written-off in terms of paragraph 5.9 and 5.10.1 above must be considered individually and each case on its own merits must be separately reported to the committee of Council who will make a recommendation to the Mayoral Committee.

6.4.2 The Mayoral Committee will have the discretion and the delegated powers to resolve on any amount to be written-off in these instances notwithstanding the recommendation of the committee of Council.

6.5 Council

6.5.1 All amounts to be written-off in terms of paragraph 5.10.3 above must be considered individually and each case on its own merits must be separately reported to the Mayoral Committee who will make a recommendation to Council.

6.5.2 Council will have the discretion and the delegated powers to resolve on any amount to be written-off in these instances notwithstanding the recommendation of the Mayoral Committee.

7. REPORTING AND DISCLOSURE

7.1 The Chief Financial Officer will report on a monthly basis to Council on the irrecoverable debt amounts written-off. The report will include the following information:

- (a) A summary of all debt written-off in terms of paragraph 6 of this policy (included as Annexure A in the report).
- (b) The total amount of irrecoverable debt approved by the Chief Financial Officer to be written-off (a list of names, addresses and amounts per

- consumer written-off included as Annexure B to the report);
- (c) The total amount of irrecoverable debt approved by the City Manager to be written-off (a list of names, addresses and amounts per consumer written-off included as Annexure C to the report)
 - (d) The total amount of irrecoverable debt approved by the Finance Portfolio Committee to be written-off (a list of names, addresses and amounts per consumer written-off included as Annexure D to the report); and
 - (e) The total amount of irrecoverable debt written-off for indigent household consumers by the Mayoral Committee (a list of names, addresses and amounts per consumer written-off included as Annexure E to the report);
 - (f) The total amount of irrecoverable debt approved by the Mayoral Committee to be written-off in terms of paragraph 5.9 of the policy (a list of names, addresses and amounts per consumer written-off included as Annexure F to the report).
 - (g) The total amount of irrecoverable debt approved by the Mayoral Committee to be written-off in terms of paragraph 5.10 of the policy (a list of names, addresses and amounts per consumer written-off included as Annexure G to the report).
 - (h) The total amount of irrecoverable debt approved by Council to be written-off in terms of paragraph 5.11 of the policy (a list of names, addresses and amounts per consumer written-off included as Annexure H to the report).

7.2 The Chief Financial Officer will disclose the total amount of irrecoverable debt written-off as a note in the annual financial statements of the municipality.

8. IMPLEMENTATION AND REVIEW OF THIS POLICY

8.1 This policy shall be implemented once approved by Council. All future submissions for the writing-off of debt must be considered in accordance with this policy.

8.2 The policy will be reviewed each year as part of the budget approval process.

ANNEXURE A: APPLICATION FORM FOR A HOUSEHOLD TO CONSOLIDATE OUTSTANDING DEBT AND TO MAKE ARRANGEMENTS TO PAY OF OUTSTANDING DEBT IN TERMS OF THE WRITING-OFF OF IRRECOVERABLE DEBT POLICY

Particulars of breadwinner			
Name and surname			
ID Number			
Phone/cellular number/s			
Marital status			
Employer / source of income			
Monthly gross income			
Particular of spouse (husband or wife)			
Name and surname			
ID Number			
Phone/cellular number/s			
Marital status			
Employer / source of income			
Monthly gross income			
Particulars of property			
Stand number of property			
Street address			
Declaration under oath			
I/we the undersigned herewith declare under oath that my/our gross monthly income amounts to R _____ (breadwinner R _____ and spouse R _____) as the attached copies of my/our source/s of income (payslip, pension slip, etcetera) confirm.			
Signature: Breadwinner		Signature: Spouse	
The above statement was read by me to the above declarer/s who under oath declared that his/her/their gross income is as confirmed by the attached copies to the application form.			
Place		Date	
Name			
Designation			
Signature and official stamp			

ARRANGEMENTS CALCULATION FORM FOR HOUSEHOLD CONSUMERS			
Calculation of 20% of gross income and affordable instalment on arrears			
Breadwinner gross monthly income (for season workers calculate a monthly average)			R
Spouse gross monthly income (for season workers calculate a monthly average)			R
Household gross monthly income (copies of ID's and income sources must be attached)			R
Affordable payments - capped at 20% of household gross income			R
Less: Average monthly current account (property rates, services charges and prepaid electricity			R
Affordable monthly instalment on arrears – monthly current account excluded			R
Calculation of consolidated outstanding debt			
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Account No:	Current / Suspended / Handed over		R
Grand Total =			R
Calculation of suspended account/s			
Grant total of consolidated outstanding debt			R
Less: Affordable monthly instalment on arrears x 36 months (suspended account 1)			R
Amount to be written-off in terms of Policy (suspended account 2)			R
Calculation of amounts to written-off			
Date:	1/3 rd of suspended account to be written-off after 12 months		R
Date:	1/3 rd of suspended account to be written-off after 24 months		R
Date:	1/3 rd of suspended account to be written-off after 36 months		R
Suspended account 2 total to be written-off (if no default in paying current account and			R
Certification			
Calculations made by:		Signature:	Date:
Calculations verified by:		Signature:	Date:
<i>The above calculations must be recorded in an arrangement agreement and in the financial system for audit</i>			

ANNEXURE B: APPLICATION FORM FOR A CUSTOMER TO PAY 50% OF THE OUTSTANDING DEBT AND THAT COUNCIL WILL WRITE-OFF THE OTHER 50% OF THE OUTSTANDING DEBT IN TERMS OF THE WRITING-OFF OF IRRECOVERABLE DEBT POLICY

Particulars of breadwinner			
Name and surname			
ID Number			
Phone/cellular number/s			
Particular of spouse (husband or wife)			
Name and surname			
ID Number			
Phone/cellular number/s			
Particulars of business / company / organisation			
Name			
Postal address			
Phone/cellular number/s			
Particulars of property			
Stand number of property			
Street address			
Certification			
I/we the undersigned herewith declare that the information on this application form is to the best of my knowledge the truth.			
Signature: Breadwinner		Date:	
Signature: Spouse		Date:	
Signature: Business / Company / Organisation Representative/s		Date:	

CALCULATION FORM TO PAY 50% OF OUTSTANDING DEBT AS ON THE DAY BEFORE THE JANUARY 2018 BILLING RUN SO THAT COUNCIL CAN WRITE-OFF THE OTHER 50% PORTION OF OUTSTANDING DEBT					
Calculation of consolidated outstanding debt					
Account No:	Current / Suspended / Handed over			R	
Account No:	Current / Suspended / Handed over			R	
Account No:	Current / Suspended / Handed over			R	
Account No:	Current / Suspended / Handed over			R	
Grand Total =				R	
50% of Grand Total =				R	
Proof that levies as from the January 2018 billing run is paid up to date					
Outstanding debt as on the day before the January 2018 billing run				R	
Plus: Levies as from the January 2018 billing run				R	
Less: Payments made after the January- 2018 billing run				R	
Plus / Minus: Journals corrections since the January 2018 billing run				R	
Outstanding debt (closing balance) as on the day of this calculations being made				R	
NB: 1. Please note that if the outstanding debt (closing balance) is more than the outstanding debt as on the day before the June 2016 billing run then current debt is not serviced as per this policy. Write-off of the 50% portion may only be made if all levies made as from the June 2016 billing run has been serviced. 2. Please attach to the calculation form a printout/s of the Solar system as proof of the above calculations made. If necessary please attached a spread sheet or your handwritten calculations on how you arrived at the					
Proof that the 50% of the grand total has been paid					
Date:		Receipt Number:		Amount:	R
Date:		Receipt Number:		Amount:	R
Date:		Receipt Number:		Amount:	R
50% of Grand Total =				R	
Calculation of amount to be written-off					
50% of Grand Total =				R	
Certification					
Calculations made by:		Signature:		Date:	
Calculations verified by:		Signature:		Date:	



ANNEXURE J

DRAKENSTEIN

MUNISIPALITEIT • MUNICIPALITY • UMASIPALA

Paarl | Wellington | Gouda | Saron | Simondium

Asset Transfer Policy

Effective from 1 July 2021

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Reviewed by Council		
Reviewed by Council		

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1. DEFINITIONS

For purposes of this policy, unless otherwise stated, the following definitions shall apply:

“capital asset”:

- (a) any immovable asset such as land, property or buildings; or
- (b) any movable asset that can be used continuously or repeatedly for more than one year in the production or supply of goods or services, for rental to others or for administrative purposes, and from which future economic or social benefit can be derived, such as plant, machinery and equipment;

“competitive bid” in respect of a capital asset, the process in terms of which written bids are invited, evaluated and allocated in a prescribed manner for the acquisition of a capital asset of the municipality;

“competitive process” may include competitive bidding, closed bidding, public auction and a proposal call;

“Constitution” the Constitution of the Republic of South Africa, 1996;

“disposal” in relation to a capital asset, includes:

- (a) the demolition, dismantling or destruction of the capital asset; or
- (b) any other process applied to a capital asset which results in loss of ownership of the capital asset otherwise than by way of transfer of ownership;

“exempted capital asset” means a municipal capital asset which is exempted by section 14(6) or 90(6) of the Act from the other provisions of that section;

“fair market value” in relation to a capital asset, means the value at which a knowledgeable willing buyer would buy and a knowledgeable willing seller would sell the capital asset in an arm's length transaction;

“high value” in relation to a capital asset of a municipality or municipal entity, means the fair market value of the capital asset where such value exceeds one per cent of the total value of the capital assets of the municipality or municipal entity, as determined from the latest available audited annual financial statements of the municipality or entity.

“immovable assets” include, but is not limited to:

- (a) immovable property or any share therein registered in the name of a person or entity, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person or entity;
- (b) a right to an exclusive use area held in terms of a notarial deed of cession;
- (c) a real right registered against immovable property in the name of a person or entity, excluding a mortgage bond registered against the property;
- (d) any share in a share block company as defined in section 1 of the Share Blocks Control Act, 59 of 1980;
- (e) a public place or public street;
- (f) immovable property as defined in section 107 of the Deeds Registries Act, 47 of 1937; and
- (g) property consisting of land, buildings, improvements or structures attached to the land;

“MFMA” the Municipal Finance Management Act, 2003 (Act 56 of 2003) and any regulations promulgated in terms thereof;

“municipality” the Drakenstein Municipality and includes any official or committee authorised to make decisions with regard to the disposal or acquisition of immovable capital assets;

“MATR” the Municipal Asset Transfer Regulations promulgated in terms of the MFMA (GG 31346 of 22 August 2008);

“non-exempted capital asset” means a municipal capital asset which is not exempted by section 14(6) or 90(6) of the Act from the other provisions of that section;

“non-viable assets” Immovable property that owing to urban planning or physical constraints or extent, cannot be developed on its own or function as a separate entity and only becomes functional if alienated or leased to an adjoining owner for usage in conjunction with the said owner’s property;

“restitution” means the restitution of rights as regulated in terms of the Restitution of Land Rights Act 1994 (Act 22 of 1994);

“SCM Policy” the supply chain management policy of the municipality as adopted in terms of section 111 of the MFMA;

“**viable assets**” means property that shall be deemed to be property that can be developed and function as a separate entity and can be registered as a separate entity in a Deeds Registry.

CHAPTER 1: GENERAL PROVISIONS

2. APPLICATION

This policy is applicable to the disposal and management of all capital assets of the municipality as well as the granting of rights to use, control or manage municipal capital assets.

3. LEGISLATIVE FRAMEWORK

3.1 This policy is subject to the provisions of the following legislation:

3.1.1 The MFMA and in particular section 14¹ thereof which governs the disposal of capital assets of the municipality;

3.1.2 The MATR which regulates:

- (a) The disposal and transfer of municipal capital assets; and
- (b) The powers of the municipality to grant rights to lease, use, control or manage capital assets;

3.1.3 The municipality’s SCM policy as adopted in terms of the MFMA; and

3.1.4 Any other legislation pertaining to immovable property.

4. OBJECTIVES AND PRINCIPLES

4.1 To provide a practical framework for the management and administration of the municipality’s assets; to determine the various categories of assets in order to regulate its use, disposal and acquisition and to establish criteria for evaluation of transactions and lay down procedures in respect of the various categories of transactions.

¹ (1) A municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.

(2) A municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in subsection (1), but only after the municipal council, in a meeting open to the public-

- (a) has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
- (b) has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

- 4.2 The municipality realises that assets held by it which is not envisaged for or already used for public purposes or in the public's interest, should be dealt with in a manner which will ensure the greatest benefit to the municipality and the community.
- 4.3 Assets will be sold or let at a reasonable market value except when the public interest or the plight of the poor demands otherwise.
- 4.4 The market value of property for the purposes of disposal or letting shall be determined in terms of regulation 5(4) and (5)² of the MATR and shall be determined by an independent valuer.
- 4.5 Where the municipality intends to dispose of or let assets for less than its fair market value, the considerations in regulations 7³ and 13(2)⁴ of the MATR must be taken into

² (4) The value of a capital asset must for purposes of subregulation (3)(b)(i) be determined in accordance with the accounting standards that the municipality is required by legislation to apply in preparing its annual financial statements. (5) In the absence of sufficient guidance in those accounting standards regarding the valuation of capital assets, any of the following valuation methods must be applied-

- (a) historical cost of the asset, adjusted for accumulated depreciation and any impairment losses as at the proposed date of transfer or disposal;
- (b) fair market value of the asset;
- (c) depreciated replacement cost of the asset; or
- (d) realisable value of the asset.

³ The municipal council must, when considering any proposed transfer or disposal of a non-exempted capital asset in terms of regulation 5(1)(b)(i) and (ii), take into account-

- (a) whether the capital asset may be required for the municipality's own use at a later date;
- (b) the expected loss or gain that is expected to result from the proposed transfer or disposal;
- (c) the extent to which any compensation to be received in respect of the proposed transfer or disposal will result in a significant economic or financial cost or benefit to the municipality;
- (d) the risks and rewards associated with the operation or control of the capital asset that is to be transferred or disposed of in relation to the municipality's interests;
- (e) the effect that the proposed transfer or disposal will have on the credit rating of the municipality, its ability to raise long- term or short-term borrowings in the future and its financial position and cash flow;
- (f) any limitations or conditions attached to the capital asset or the transfer or disposal of the asset, and the consequences of any potential non-compliance with those conditions;
- (g) the estimated cost of the proposed transfer or disposal;
- (h) the transfer of any liabilities and reserve funds associated with the capital asset;
- (i) any comments or representations on the proposed transfer or disposal received from the local community and other interested persons;
- (j) any written views and recommendations on the proposed transfer or disposal by the National Treasury and the relevant provincial treasury;
- (k) the interests of any affected organ of state, the municipality's own strategic, legal and economic interests and the interests of the local community; and
- (l) compliance with the legislative regime applicable to the proposed transfer or disposal.

⁴ (2) If a municipality or municipal entity on account of the public interest, in particular in relation to the plight of the poor, intends to transfer a non-exempted capital asset for less than its fair market value, the municipality or entity must, when considering the proposed transfer, take into account-

- (a) the interests of-
 - (i) the State; and
 - (ii) the local community;
- (b) the strategic and economic interests of the municipality or municipal entity, including the long-term effect of the decision on the municipality or entity;
- (c) the constitutional rights and legal interests of all affected parties;
- (d) whether the interests of the parties to the transfer should carry more weight than the interest of the local community, and how the individual interest is weighed against the collective interest; and
- (e) whether the local community would be better served if the capital asset is transferred at less than its fair market value, as opposed to a transfer of the asset at fair market value.

account.

- 4.6 In terms of section 14(5) of the MFMA any transfer of ownership of a capital asset must be fair, equitable, transparent and competitive.
- 4.7 Notwithstanding the provisions of paragraph 4.6 the municipality may authorise the direct disposal of immovable assets in the circumstances listed in paragraph 13 provided that before such direct disposal is finally approved, the general public be afforded an opportunity to submit counter offers to acquire the asset, where after the application and the counter offers must be considered by Council.
- 4.8 To give effect to section 40(1) of the municipality's SCM policy.

5. POWERS OF THE MUNICIPALITY

- 5.1 The municipality may, in achieving its operational and strategic objectives:
 - 5.1.1 use, improve, benefit there from, dispose, let or allow its immovable assets to be developed or occupied or to permit it to be enclosed and cultivated;
 - 5.1.2 acquire assets and rights in assets by way of private treaty, cession, donation and expropriation;
 - 5.1.3 dispose of assets and rights in assets by way of direct sale, competitive bidding, auction and direct negotiation;
 - 5.1.4 let assets on a long term or short-term basis by way of direct negotiation or competitive bidding;
 - 5.1.5 subject to paragraph 4.5 determine subsidised selling prices, lease or rights to use tariffs in respect of assets;
 - 5.1.6 acquire and dispose of assets by means of exchange;
 - 5.1.7 lease assets for own purposes where necessary; and
 - 5.1.8 exercise such other competencies as may be reasonably necessary, or incidental to the effective performance of its functions.

CHAPTER 2: DISPOSAL MANAGEMENT

6. DISPOSAL MANAGEMENT SYSTEM

The disposal management system in this policy comprises of competitive as well as non-competitive processes.

6.1 Competitive processes

- 6.1.1 In terms of section 14(5) of the MFMA, disposal of assets by the municipality must be fair, equitable, transparent, competitive and consistent with paragraph 40 of the municipality's SCM Policy.
- 6.1.2 Provision is made for various disposal options as required by the different categories of assets of the municipality and may include one or more of the following:
- (a) public auction;
 - (b) competitive bidding;
 - (c) closed bidding;
 - (d) call for applications;
 - (e) call for proposals; and
 - (f) release for restitution purposes.

7. PUBLIC AUCTION

- 7.1 Viable assets may be alienated by public auction in cases where the municipality is of the opinion that it is in the interest of the community and the municipality.
- 7.2 The terms and conditions of each auction shall be determined on a project-by-project basis, appropriate to the specific characteristics and attributes of the assets, and to the municipality's strategic objectives.
- 7.3 Where the services of an auctioneer are utilised, the auctioneer's commission shall be payable by the successful bidder and shall not form part of the financial offer to the municipality.
- 7.4 A reserve price, in other words the lowest price at which the municipality will sell the asset, must be determined by Council for the disposal of an immovable asset by public auction.
- 7.5 The sale of an immovable asset to the highest bidder at a public auction is subject to approval by Council.
- 7.6 Where viable assets are offered for sale by public auction and no offer is received, or where assets remain unsold after any other competitive process, the unsold assets

may be sold out-of-hand at the reserve price or higher as long as the reserve price corresponds with fair market value.

8. COMPETITIVE BIDDING

- 8.1 The competitive bidding process may involve the call for purely financial offers for the asset offered for alienation.
- 8.2 Depending on the nature of the transaction, competitive bidding may include a two-stage bidding process in terms of which only those bidders that meet the pre-qualification criteria specified in the first stage are entitled to participate in the second stage.
- 8.3 Bids for the purchase and development of land other than residential land must be evaluated based on a functionality assessment of the development proposals and only bidders that pass a pre-determined functionality score may proceed to the second stage which will include the monetary bid.
- 8.4 The City Manager may assign the committees established for the consideration of competitive bids in terms of the SCM policy for the preparation of bid documents, and the evaluation and adjudication of competitive bids in terms of this policy.
- 8.5 After adjudication of a competitive bid, the matter must be referred to Council for a final decision to transfer the asset, but only after Council, in a meeting open to the public:
 - (a) has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
 - (b) has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

9. CLOSED BIDDING

- 9.1 The closed bidding process may be applied in respect of the disposal of non-viable assets.
- 9.2 If a non-viable asset has more than one adjacent owner and if such an asset is capable of being consolidated with more than one of such adjacent properties, then a closed bid may be called for from all the registered owners of all the adjacent properties with which the asset can be consolidated.

10. CALL FOR APPLICATIONS

- 10.1 The municipality may follow a less formal process in respect of the disposal, granting of rights to use or letting of assets for social care, community, sport purposes or any other purposes that justify the process.
- 10.2 In terms of this disposal option, applications may be invited in the press from organisations or individuals interested in the acquiring of land. Such applications must be supported by relevant information as requested by the municipality in order to assess the applications.
- 10.3 A fixed selling price/rental must be determined, where applicable, in accordance with par 16.2 and 23 hereof before applications are invited.
- 10.4 Proposals received in terms of this disposal option must be submitted to the relevant political structures for consideration.
- 10.5 A public participation process must be followed.

11. CALL FOR PROPOSALS

- 11.1 The Municipality may call for development proposals in respect of the property identified for alienation and development.
- 11.2 In terms of this disposal option Council must determine a market related selling price in respect of the asset prior to calling for development proposals.
- 11.3 Proposals received in terms of this disposal option must be submitted to the relevant political structures for consideration and recommendation to Council for approval.
- 11.4 Where the type of development required for a capital asset is uncertain, Council may call for development proposals, which do not include a monetary bid, to determine the preferred type of development and development specifications. Such proposals must be submitted to the relevant political structures for consideration and a recommendation to Council on the preferred type of development, the development specifications as well as the disposal option to be followed.

12. RELEASE OF IMMOVABLE ASSETS FOR RESTITUTION PURPOSES

- 12.1 The Municipality may release immovable capital assets to the Department of Rural Development and Land Reform upon formal request from the Regional Land Claims Commission, for the purposes of restitution of rights as envisaged in terms of the Restitution of Land Rights Act 1994 (Act 22 of 1994).
- 12.2 Capital assets released for this purpose shall be disposed of at subsidized prices as applicable to social care, community and sports assets.
- 12.3 Where capital assets released for restitution purposes form part of government programs, such programs will guide the selling prices applicable and may also be “gratis”.

13. DISPOSAL BY DIRECT NEGOTIATION

13.1 Non-viable assets

- 13.1.1 In respect of assets which can only be utilized by one or more adjacent land owners, a transaction(s) may be approved by Council without the competitive process as envisaged in paragraph 8 above having been followed, including in response to an unsolicited application, on the basis that no purpose would be served by such competitive process.
- 13.1.2 Direct disposal of non-viable assets must incorporate the principle of competitiveness by, inviting in the press, other interested parties to submit counter applications or offers. The proposed disposal must also be advertised for objections or comments where after all applications must be considered.
- 13.1.3 Upon approval of a transaction contemplated in paragraph 13.1.1, the City Manager must minute the reasons for the decision.

13.2 Viable assets

- 13.2.1 The Council may dispense with the competitive processes as envisaged in paragraph 8 above and may enter into a transaction through any convenient process, which may include direct negotiation or consideration of an unsolicited application, but only in the following circumstances:
 - (a) where specific circumstances peculiar to the asset has the result that it can only be utilized by the one person/organization wishing to enter into the transaction;

- (b) where the applicant wishing to enter into the transaction is the sole provider of the service or product in respect of which the property will be used and the use of the property is inextricably linked to the provision of that service or product;
- (c) where the Council is satisfied that the transaction will be exceptionally beneficial to the municipality or the community, or has exceptional cost advantages for the municipality which would not be realised if a competitive process were to be followed;
- (d) where the applicant applies for an asset abutting the applicant's current property which is required for extending its existing establishment/business and such extension will be in the public interest; or
- (e) any other circumstances where Council is of the view that it will not be in the interest of the municipality or of the community in general to follow a competitive process.

13.2 Direct disposal of viable assets must incorporate the principle of competitiveness by inviting in the press, other interested parties to submit counter applications or offers. The proposed disposal must also be advertised for objections or comments where after all applications must be considered.

13.3 Upon approval of a transaction contemplated in paragraph 13.2.1, the City Manager must minute the reasons for the decision.

14. SOCIAL CARE, COMMUNITY, AND SPORT ASSETS

14.1 Where the municipality receives an application or proposal to acquire assets for social care, community or sport purposes or where an asset is disposed of in the interest of the public or as result of the plight of the poor, the following factors must be taken into account in justifying not following a competitive bidding process:

- 14.1.1 whether the applicant has historically enjoyed a property right granted by the municipality and has fulfilled and complied with all responsibilities and obligations in terms of the agreement with the municipality;
- 14.1.2 the exact nature of the social care, community or sport purpose;
- 14.1.3 whether the social care, community or sport purpose will satisfy a priority need in the community;
- 14.1.4 whether the municipality is satisfied with the manner in which the applicant gives effect to the social care, community or sport purpose; or
- 14.1.5 whether the transaction will be exceptionally beneficial to the municipality or the community, or have exceptional cost advantages for the municipality.

14.2 For the purposes of this policy “**social care, community or sport assets**” includes, but is not limited to:

- 14.2.1 places of worship being used for spiritual gathering and social, pastoral or welfare caring and support to worshippers and the broader community;
- 14.2.2 childcare facilities insofar as it contributes to the functioning of a multi-use childcare facility and is operated on a non-profit basis;
- 14.2.3 retirement villages for that portion of the building or facility available to general public use at subsidized or nominal prices;
- 14.2.4 schools and other government services;
- 14.2.5 centres utilised as homes for the handicapped and disabled persons;
- 14.2.6 non-profit rehabilitation centres;
- 14.2.7 homes/centres for indigent, homeless or destitute persons;
- 14.2.8 organizations for the homeless and elderly;
- 14.2.9 youth activity centres;
- 14.2.10 skills development centres;
- 14.2.11 non-commercial sport facilities;
- 14.2.12 churches which also render social development services in addition to existing religious activities; or
- 14.2.13 housing units funded or partly funded by government housing subsidies aiming to promote first time home ownership.

15. PLACES OF WORSHIP

15.1 The following factors shall be considered relevant in the selection and allocation of immovable assets to places of worship:

- 15.1.1 the size of the congregation in relation to the size of the available site;
- 15.1.2 the availability of finance to acquire the site and commence with development within the agreed development period;
- 15.1.3 whether or not welfare type facilities/activities will be provided in addition to religious facilities;
- 15.1.4 whether or not the congregation members are drawn from the area in which the asset is situated; or
- 15.1.5 whether or not the development makes provision for multi-purpose social use which could address the need for other social activities.

16. SELLING PRICES

16.1 Market related prices

16.1.1 Immovable assets may be disposed of only at market-related prices, except when the plight of the poor or public interest demand otherwise.

16.1.2 Market related selling prices may be discounted in lieu of an immovable capital asset to be developed by the purchaser provided that appropriate guarantees are provided by the purchaser, and/or any other form of community value to be gained by the municipality.

16.2 Subsidized prices/rates

16.2.1 If the municipality, on account of the public interest, particularly in relation to the plight of the poor, intends to dispose of a non-exempted asset for less than market value it must take into account the factors specified in Regulation 13(2) of the MATR.⁵

16.2.2 Subject to the factors specified in Regulation 13(2) of the MATR, the municipality may dispose of social care, community or sport assets as well as assets identified for restitution purposes at between 5% and 20% of fair market value subject to a suitable reversionary clause being registered against the title deed of the property.

16.2.3 In the event of property mentioned in 16.2.2 ceasing to be used for the purpose originally intended, reversionary rights as contemplated in par 18.10 are triggered and the municipality reserves the right to demand compensation equal to the difference between the purchase price and the current fair market value of the property, or that the property be transferred into the ownership of the municipality at no cost for the municipality.

17. PLIGHT OF THE POOR

Whenever the plight of the poor is a consideration in any decision to be taken in respect of the acquisition, disposal or letting of immovable assets, regard shall be given to the conditions mentioned in regulation 13(2) of the MATR. (See footnote 5)

⁵ (2) If a municipality or municipal entity on account of the public interest, in particular in relation to the plight of the poor, intends to transfer a non-exempted capital asset for less than its fair market value, the municipality or entity must, when considering the proposed transfer, take into account-

- (a) the interests of-
 - (i) the State; and
 - (ii) the local community;
- (b) the strategic and economic interests of the municipality or municipal entity, including the long-term effect of the decision on the municipality or entity;
- (c) the constitutional rights and legal interests of all affected parties;
- (d) whether the interests of the parties to the transfer should carry more weight than the interest of the local community, and how the individual interest is weighed against the collective interest; and
- (e) whether the local community would be better served if the capital asset is transferred at less than its fair market value, as opposed to a transfer of the asset at fair market value.

18. STANDARD CONDITIONS OF SALE

- 18.1 Purchasers shall be responsible for all costs, and where applicable, all action pertaining to a transaction e.g. survey, rezoning, subdivision, consolidation, advertisement, relocation or provision of services, provided that the municipality may decide to waive its right to recover such costs if the reason for the sale is to rid the municipality of the burden to maintain or exercise control there over or where the capital asset will be.
- 18.2 All statutory requirements must be met by the purchaser at his or her own costs. The municipality may on account of the public interest or the plight of the poor, decide to undertake one or more of the statutory requirements at the municipality's cost.
- 18.3 Where applicable, existing services may be secured by means of the registration of a servitude in favour of the municipality or be suitably protected, and costs shall be for the account of the purchaser.
- 18.4 Immovable property which is sold to an adjacent owner, shall be rezoned, closed and consolidated with the purchaser's property at his or her cost.
- 18.5 Development of vacant land sold must commence within such time frames as agreed upon, or in accordance with the conditions of sale, or in accordance with the development program provided by the purchaser and must be completed within a period stipulated in the deed of sale or the approved development program of the applicant.
- 18.6 The municipality shall have a reversionary right against re-payment of the original purchase price to transfer the property into its name where the purchaser fails to complete the intended development within the agreed time frame. Reversionary rights are applicable to successors in title.
- 18.7 In addition to re-transfer of the property as envisaged in paragraph 18.6, the municipality may require payment for damages in accordance with the provisions of the deed of sale.
- 18.8 The municipality reserves the right to impose such additional conditions as deemed necessary, without limiting its rights to liquidated damage.

- 18.9 The deed of sale may provide for the payment of occupational interest from date of occupation, as agreed upon, until transfer of the property in the name of the purchaser.
- 18.10 A reversionary clause, in terms of which assets will revert to the municipality without cost and free of any claims, shall be applicable to immovable assets sold below market value.
- 18.11 A pre-emptive clause shall be applicable to an undeveloped asset should the purchaser intend to sell such asset or a portion thereof or intend to use it for purposes other than the purposes specified in the transaction conditions.
- 18.12 Immovable property may only be used for the purpose as approved by Council and in accordance with the approved town planning scheme.
- 18.13 A deed of sale must be signed within 60 days from the date of official request by the municipality, or within such extended period as may be agreed upon failing which the transaction shall lapse.
- 18.14 A suspensive condition shall be applicable to all transactions that are subject to the approval of land use rights or approvals in terms of other legislation and the municipality may add additional suspensive conditions in respect of any other matter it deems appropriate.
- 18.15 Interest on the purchase price may be charged by the municipality after expiry of a stipulated period from the date of sale, or should payment or transfer be delayed due to action or failure on the part of the purchaser or during the validity period of suspensive conditions.

19. PROPERTY NOT FOR DISPOSAL

The municipality may not dispose of a property needed to provide the minimum level of basic municipal services,⁶ save where the disposal is to another organ of State, as provided for in section 14(6) of the MFMA read with Chapter 3 of the MATR.

⁶ Defined in the Systems Act as, “a municipal service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety or the environment”.

20. EXEMPTED DISPOSALS TO ORGANS OF STATE

20.1 The disposal of property to other organs of state are exempted from the requirements of sections 14(1) to (5) of the MFMA⁷. Such exemption shall however only apply if the circumstances listed in regulation 20⁸ of Chapter 3 of the MATR are applicable.

20.2 Where none of the circumstances listed in regulation 20 of the MATR are applicable, and where the transfer to another organ of state is done as part of a normal commercial transaction, it shall be subject to the provisions of sections 14 and 90 of the MFMA.

21. NON-EXEMPTED DISPOSALS (SECTION 14)

21.1 In respect of non-exempted disposals, sections 14(1) to (5) of the MFMA, as well as Chapter 2 of the MATR, which provides the framework for the implementation of these aspects of section 14 of the MFMA, must be complied with. In terms of section 14(1) to (5) of the MFMA, the municipality may transfer or permanently dispose of such property only after the following requirements are met:

21.1.1 a public consultation process as set out in regulations 5(1)(a) and (2) of the MATR must be undertaken in case of a high-value capital asset;

⁷ See footnote 1

⁸ ⁸ (1) Section 14(1) to (5) and section 90(1) to (5) of the Act does not apply if a municipality or municipal entity transfers a capital asset to an organ of state in any of the following circumstances:

- (a) When transfer of a capital asset emanates from a review by a municipality of its service delivery mechanisms for the performance of a municipal service in terms of Chapter 8 of the Municipal Systems Act and the municipality appoints another organ of state as the preferred option for the performance of the service;
- (b) when transfer of a capital asset emanates from a reorganisation of powers and functions between a parent municipality and its municipal entity, including asset transfers contemplated in section 84 of the Act;
- (c) when transfer of a capital asset emanates from an assignment of any of the powers or functions of a municipality to another organ of state by national legislation or in terms of a power contained in national legislation, including an assignment of powers or functions following-
 - (i) an adjustment of the division of powers and functions between a district municipality and local municipalities within the district in terms of section 85 of the Municipal Structures Act;
 - (ii) an authorisation in terms of section 84(3) the Municipal Structures Act; or
 - (iii) a re-demarcation of municipal boundaries in terms of the Municipal Structures Act; 18
- (d) when municipal housing or land is transferred to a national or provincial organ of state for housing for the poor or in terms of a national or provincial housing policy;
- (e) when transfer of a capital asset to an organ of state is required or permitted in terms of national legislation and that legislation determines the conditions of the transfer; or
- (f) any other circumstance not provided in paragraph (a) to (e), provided that-
 - (i) the capital asset to be transferred is determined by resolution of the council to be not needed for the provision of the minimum level of basic municipal services and to be surplus to the requirements of the municipality; and
 - (ii) if the capital asset is to be transferred for less than fair market value, the municipality takes into account-
 - (aa) whether the capital asset may be required for the municipality or a municipal entity under the municipality's sole or shared control at a later date;

- 21.1.2 the municipality, in a meeting open to the public, must have decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
- 21.1.3 the municipality must have considered the fair market value of the asset and the economic and community value to be received in exchange for the asset⁹.
- 21.2 Because of the determinations in 21.1.2 and 21.1.3 the municipality must decide on “approval in principle” for the transfer or disposal of the capital asset as required in terms of regulation 5(1)(b)(ii) of the MATR.
- 21.3 The additional factors to be taken into consideration by the municipality for an “approval in principle”, to the extent that they are applicable to each particular case, are set out in regulations 7¹⁰, 11¹¹ and 13(2) of the MATR.
- 21.4 The decision making process in respect of high value capital assets is prescribed by Part 1 of Chapter 2 of the MATR and includes:
- 21.4.1 a request to Council, accompanied by an Information Statement,¹² to authorize the City Manager to conduct a public participation process; and
- 21.4.2 the undertaking of a public participation process by the City Manager as prescribed in regulation 6 of the MATR.¹³

⁹ See footnote 1.

¹⁰ See footnote 3

¹¹ An approval in principle in terms of regulation 5(1)(b)(ii) or 8(1)(b)(ii) that a non-exempted capital asset may be transferred or disposed of, may be given subject to any conditions, including conditions specifying 12 -

- (a) the way in which the capital asset is to be sold or disposed of;
- (b) a floor price or minimum compensation for the capital asset;
- (c) whether the capital asset may be transferred or disposed of for less than its fair market value, in which case the municipal council must first consider the criteria set out in regulation 13(2); and
- (d) a framework within which direct negotiations for the transfer or disposal of the capital asset must be conducted with another person, if transfer or disposal is subject to direct negotiations.

¹² (b) A request to the municipal council for authorisation of a public participation process must be accompanied by an information statement approved by the board of directors of the municipal entity stating-

- (i) the valuation of the capital asset to be transferred or disposed of and the method of valuation used to determine that valuation;
- (ii) the reasons for the proposal to transfer or dispose of the capital asset;
- (iii) any expected benefits to the municipal entity that may result from the transfer or disposal;
- (iv) any expected proceeds to be received by the municipal entity from the transfer or disposal; and
- (v) any expected gain or loss that will be realised or incurred by the municipal entity arising from the transfer or disposal.

¹³ “The accounting officer must, at least 60 days before the Council meeting at which the Council will make the Section 14 Determinations and will decide whether to grant In Principle Approval for the Disposal, in accordance with section 21A of the Systems Act, to make public the proposal to dispose, together with the Information Statement to invite the local community and other interested persons to submit to the Council comments or representations in respect of the proposed Disposal; and to solicit the views and recommendations of National Treasury and Provincial Treasury.”

- 21.5 The municipality must undertake a public participation process which entails a 30 days' notice in the local press in respect of the intended disposal of immovable capital assets, other than subsidized housing and exempted property.

CHAPTER 3: GRANTING OF RIGHTS TO USE, CONTROL OR MANAGE MUNICIPAL CAPITAL ASSETS

22. PROPERTY RIGHTS

- 22.1 Chapter 4 of the MATR governs the granting of a property right in circumstances where section 14 of the MFMA does not apply, in other words, where the granting of such rights do not amount to the transfer or permanent disposal of the asset, for example when a right is acquired through a leasing, letting or hiring out arrangement.
- 22.2 Regulation 33(3) in Chapter 4 of the MATR specifies the circumstances in which a property right must be dealt with as if such granting of a property right is subject to section 14 of the MFMA.¹⁴

23. SUBSIDIZED RATES

- 23.1 Market related rates will apply to the granting of rights to use immovable property except where the plight of the poor, the public interest as well as the operational needs and strategic objectives of the municipality demand otherwise.
- 23.2 Taking into account the public interest and the municipality's strategic objectives with regard to the promotion of local economic development, the municipality may allocate business space in municipal buildings to micro and very small enterprises at subsidized rental on the following basis:
- 23.2.1 (a) rental for the first year: 20% of market related rental;
(b) rental for the second year: 50% of market related rental;
(c) rental for the third year: 75% of market related rental;
(d) rental for the fourth year: 100% of market related rental; and

¹⁴ (3) The granting by a municipality or municipal entity of a right to use, control or manage a capital asset must for the purposes of these Regulations be dealt with in terms of Chapter 2 or 3 as if such granting of a right is a transfer within the meaning of that Chapter, if the right-

- (a) is granted for an indefinite or undetermined period;
- (b) is granted for a period which exceeds-
- (i) the useful life of the capital asset; or
- (ii) the economic usefulness of the capital asset and which would require the asset, in order to remain economically useful, to be substantially upgraded, altered or replaced during the period for which the right is granted; or
- (c) confers on the person to whom the right is granted -
- (i) option to buy or acquire ownership in the capital asset; or
- (ii) the power to use, control or manage the capital asset as if that person is the beneficial (but not legal) owner of the asset.

- 23.2.2 that the phasing in of the rental only be granted once to the same owner;
- 23.3 In addition to the foregoing the Municipality may in terms of its annual budget, approve fixed rates in respect of the use of assets or classes of assets.
- 23.4 For the purposes of paragraph 23.2 “micro enterprise” and “very small enterprise” means enterprises as defined in the National Small Enterprises Act, 1996 (Act 102 of 1996), attached as Annexure A.
- 23.5 The provisions of paragraph 25, with the necessary changes, are applicable to rentals in terms of paragraph 23.
- 23.6 The municipality may grant rights to use in respect of social care, community or sport assets or in circumstances where the plight of the poor or community interests so demands, at between 5% and 20% of fair market value.
- 23.7 The granting of rights to use to may be “gratis” in the following circumstances:
- 23.7.1 Where an authority or service provider renders local government functions as per Schedule 4B and 5B of the Constitution of the Republic of South Africa, 1996; and
- 23.7.2 The use of assets for security purposes in residential areas.

24. DECISION MAKING PROCESS FOR GRANTING OF RIGHTS TO USE, CONTROL OR MANAGE MUNICIPAL CAPITAL ASSETS

- 24.1 Part 1 of Chapter 4 of the MATR specifies a process for decision-making by a municipality in respect of the granting of a right to use, control or manage municipal capital assets.
- 24.2 The consideration of any proposal for the granting of a right to use, control or manage municipal capital assets is subject to the provisions of regulation 36¹⁵ of the MATR.

¹⁵ The municipal council must, when considering in terms of regulation 34(1)(b) approval for any proposed granting of a right to use, control or manage a capital asset, take into account-

- (a) whether the capital asset may be required for the municipality's own use during the period for which the right is to be granted;
- (b) the extent to which any compensation to be received for the right together with the estimated value of any improvements or enhancements to the capital asset that the private sector party or organ of state to whom the right is granted will be required to make, will result in a significant economic or financial benefit to the municipality;
- (c) the risks and rewards associated with the use, control or management of the capital asset in relation to the municipality's interests;
- (d) any comments or representations on the proposed granting of the right received from the local community and other interested persons;

- 24.3 Where an asset is classified as long-term-high-value, the first phase in the process of decision-making is public participation. In terms of the MATR, this phase applies only to a long-term high-value right and includes:
- 24.3.1 a request to Council, accompanied by an Information Statement,¹⁶ to authorize the City Manager to conduct a public participation process; and
 - 24.3.2 the City Manager conducting a public participation process as prescribed in the MATR¹⁷.
- 24.4 The City Manager may determine the form that the public participation -process should take.
- 24.5 Once the public-participation phase of the decision-making process has been completed, a decision must be taken by Council as to whether to grant an in principle approval in respect of the granting of the property right.
- 24.6 The municipality may delegate its power to authorise a public participation process to the City Manager in respect of a property right with a value of less than R10 million and where a long term right is not granted.
- 24.7 **“Long-term high-value right”** means a property right with a value in excess of R10 million which is granted for a period exceeding three years.

25. STANDARD CONDITIONS OF LEASE

- 25.1 A lessee shall be responsible for all costs, and where applicable, all action pertaining to a transaction e.g. survey, rezoning, subdivision, consolidation, advertisement, relocation or provision of services, provided that the municipality may decide to waive its right to recover such costs if the transaction is deemed to be in the general interest of the broader community.
- 25.2 No transaction shall be processed unless the applicant has confirmed in writing that he or she will bear all applicable costs as set out in paragraph 25.1 and all other conditions imposed by the municipality will be complied with.

(e) any written views and recommendations on the proposed granting of the right by the National Treasury and the relevant provincial treasury;

(f) the interests of any affected organ of state, the municipality's own strategic, legal and economic interests and the interests of the local community; and

(g) compliance with the legislative regime applicable to the proposed granting of the right.

¹⁶ See footnote 11

¹⁷ See footnote 12

- 25.3 Deposits or equivalent security/guarantees may be applicable to the lease of assets.
- 25.4 No immovable property shall be sub-let, ceded or assigned by the lessee, without the prior written approval of the municipality given by the City Manager or his or her assignee.
- 25.5 An owner of immovable property who leases an adjoining municipal property may be substituted by his successor in title for the duration of the remainder of the lease term on the same terms and conditions or additional terms and conditions.
- 25.6 Rental escalation over the term of the lease shall be calculated at the time of approval to provide for a fixed rental over the lease period.
- 25.7 The lessee shall be liable for payment of service charges unless exempted by Council.
- 25.8 The rental of lanes, public open spaces and road reserves shall be subject to:
- 25.8.1 temporary or permanent closure where necessary;
 - 25.8.2 payment of costs for the re-location or installation of services where necessary;
and
 - 25.8.3 protection of services at the cost of the applicant, if required.
- 25.9 The lessee shall indemnify the municipality against claims arising from the lease or use of the property.
- 25.10 The property may only be used for the purposes it is let and purposes allowed by the town planning scheme.
- 25.11 A lease agreement shall be concluded and signed within reasonable time from the date of official request by the municipality failing which the transaction shall lapse and the applicant shall forfeit his or her deposit and be held liable for costs exceeding the deposit amount.
- 25.12 Officials of the municipality shall be entitled to enter and inspect the leased premises at reasonable times.
- 25.13 The lessee must maintain the leased property, to the extent required in terms of the lease agreement.
- 25.14 Improvements made by the lessee shall revert back to the municipality upon expiry of the lease agreement or in case of cancellation of the agreement as result of non-

compliance with conditions. Should the agreement be terminated early at the initiative of the municipality for municipal purposes, the municipality may by mutual agreement compensate the lessee for part of the actual cost of the improvements.

26. SHORT TERM USE

26.1 The City Manager may approve the lease of property for periods not exceeding 90 days in circumstances where it is in the interest of the community that the asset be occupied without delay, subject to the following:

26.1.1 the applicant must at his or her cost connect to municipal services if required;

26.1.2 the leased property must be returned to the municipality in its original state and the lessee shall be held liable for any damages caused by him or her to the leased property;

26.1.3 the applicant must indemnify the municipality against claims arising from the lease or use of the property; and

26.1.4 the municipality promptly implements the necessary procedures for the formal approval of the proposed use right.

27. PROJECTIONS, PROJECTING STRUCTURES, ENCROACHMENTS AND OTHER MINOR RIGHTS TO USE

27.1 The municipality may, subject to conditions it may deem necessary, including the payment of rental, permit the erection or retention of a veranda, balcony, or similar structure which projects or encroaches into or over any public place, public street or road reserve.

27.2 The following rights to use may also be permitted as depicted in the table below and the necessary authority is hereby granted to the relevant senior managers as stated therein:

APPLICATIONS FOR RIGHTS TO USE, CONTROL OR MANAGE IMMOVABLE PROPERTY				
No	Type of application	Public consultation	Compensation	Approval by
1.	Projections over street sidewalks and road reserves	None	Once off payment as per budget tariffs ¹⁸	Executive Director: Planning and Development as part of building plan process
2.	Minor building works over road reserves (as defined in the National Building Regulations)	2.1 Depending on nature of application place notice in local press 2.2 Applicant to obtain written consent of neighbours where necessary	Once off payment as per budget tariffs	Executive Director: Planning and Development as part of building plan process
3.	Gardening purposes over road reserves/sidewalks	3.1 Depending on nature of application place notice in local press 3.2 Applicant to obtain written consent of neighbours where necessary	Fenced encroachments Once off payment as per budget tariffs Unfenced encroachments No fee	Executive Director: Engineering Services (subject to entering into a temporary encroachment agreement)
4.	Gardening purposes over public places	Notices to surrounding owners as well as notice in the press	Fenced encroachments – Once off payment as per budget tariffs Unfenced encroachments No fee	Executive Director: Planning and Development (subject to entering into a temporary encroachment agreement)

¹⁸ Rentals in this table can also be at less than market value if public interest or the plight of the poor demands otherwise.

5.	Temporary closure of pedestrian lanes and granting of a Use Right for purposes other than for security reasons.	Notice to surrounding owners as well as notice in the press	Market related rental	Executive Mayor
6.	Temporary closure and granting of Use right to adjacent owner to close pedestrian lane for security purposes	Notice to adjacent owners as well as notice in the press	No fee	Executive Mayor
7.	Vehicle access encroachments and paving encroachments	7.1 Depending on nature of application place notice in local press 7.2 Applicant to obtain written consent of neighbours where necessary	Fenced encroachments – Once off payment as per budget tariffs Unfenced encroachments No fee	Relevant Executive Director Executive Director: Engineering Services (subject to entering into a temporary encroachment agreement)
8.	Temporary use of vacant municipal land (maximum 6 months)	Notice in local press depending on nature of use	Non-commercial and municipal related use - No fee.	City Manager
9.	Outside seating for restaurants, taverns, etc.	Notices to surrounding owners as well as notice in the press. Subject to in principle approval by City Manager	Market related rental	Executive Mayor
10.	Way leaves (cables, pipes, electronic communication network etc. under streets, road reserves and public open spaces)	Notice to affected adjacent owners.	Once off tariff as per budget	Executive Director: Engineering Services (subject to entering into an agreement)

11.	Letting of kiosks at municipal swimming pools and municipal resorts (maximum period of 24 months)	Invitation of applications (subject to prior in-principle approval by City Manager – sub-delegated to ED Community Services.)	Tariffs as per budget	Executive Director: Community Services
12.	Letting of municipal dwellings identified for lease to municipal staff (rental stock excluded)	In principle approval by Manager: Housing Rentals	Tariffs as per budget.	Executive Director: Community Services.
13.	Letting of informal trading spaces/stands/units in streets and at business hives (maximum period of 36 months)	Initial lease: Invitation of applications and public participation process. (subject to prior in-principle approval by ED Planning and Development) Renewal of lease: Counter/alternative offers invited and public participation process (subject to prior in-principle approval by ED: Planning and Development)	Tariffs as per budget	Executive Director: Planning and Development
14.	Letting of rooms/space in Thusong Centres and other public facilities under the control of the Executive Director: Community Services (maximum period of 36 months)	Initial lease: Invitation of applications and public participation process. (subject to prior in-principle approval by ED Planning and Development) Renewal of lease: Counter/alternative offers invited and public	Tariffs as per budget	Executive Mayor

		participation process (subject to prior in-principle approval by ED: Community Services.		
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CHAPTER 4: MANAGEMENT AND DISPOSAL OF MOVABLE ASSETS

28. GENERAL PRINCIPLES

- 28.1 The accounting officer must implement an effective system for the management and disposal of movable assets, including but not limited to unserviceable, redundant or obsolete assets, subject to sections 14 and 90 of the MFMA.
- 28.2 Any disposal of a movable asset must be fair, equitable, transparent, competitive and consistent with the SCM policy of Council.

29. DISPOSAL

- 29.1 When Council considers the disposal of movable assets, the following must be complied with:
- 29.1.1 consider the determinations as envisaged in terms of Section 14(2) of the MFMA;
 - 29.1.2 take into account the issues as contained in Regulations 36 of the MATR¹⁹ ; and
 - 29.1.3 the general procedures as laid down in Chapters 2 and 4 of the MATR.
- 29.2 A request for assets below the value of R200, 000 to be sold must be submitted to the City Manager by the supply chain management section which must be accompanied by a list of assets to be sold and the reasons for sale.
- 29.3 The City Manager is authorised to dispose of movable assets below a value of R2 million, and to make the determinations in terms of section 14(2) (a) and (b) of the MFMA, provided that, in respect of assets above a value of R200, 000 not being auctioned, the City Manager shall first consider a recommendation from the Bid Adjudication Committee.
- 29.4 Movable assets must be sold at market value unless the public interest or the plight of the poor demands otherwise, in which case the considerations listed under regulation 13(2) of the MATR²⁰, must be taken into account.

¹⁹ See footnote 15

²⁰ See footnote 4

30. METHODS OF DISPOSAL

30.1 Movable assets may be sold by:

30.1.1 public auction;

30.1.2 public tender;

30.1.3 written price quotations;

30.1.4 donation; or

30.1.5 any other method which is the most beneficial to Council, except when the public interest or the plight of the poor demands otherwise.

31. ADMINISTRATION

31.1 Assets disposed of must be written off and accounted for in the asset register.

31.2 Assets earmarked for sale by the asset section must be reclassified as “assets held-for-sale” and must be transferred to the auction store.

31.3 The Bid Adjudication Committee, as established by the City Manager in terms of the SCM Policy, is authorised to consider tender evaluation reports and to submit recommendations to the City Manager.

32. CONDITIONS FOR DISPOSAL

32.1 Before deciding on a particular disposal method, the following should be considered:

32.1.1 the nature of the asset as determined by the municipal asset section;

32.1.2 the potential market value;

32.1.3 other intrinsic value of the asset as determined by the municipal asset section;

32.1.4 its location;

32.1.5 its volume;

32.1.6 its trade-in price;

32.1.7 its ability to support wider Government programmes;

32.1.8 environmental considerations;

32.1.9 market conditions; and

32.1.10 the asset’s life as determined by the municipal asset section.

33. GENERAL CONDITIONS FOR DISPOSAL VIA TENDER OR AUCTION

- 33.1 A notice of the intention of the municipality to sell the asset must be published in a local newspaper.
- 33.2 When the public auction or tender route is followed:
 - 33.2.1 the municipality may appoint an independent appraiser to determine the fair market value of the asset; and
 - 33.2.2 the municipality may appoint an independent auctioneer on either a quotation basis or by tender depending on the value of the goods to be disposed of.

34. GENERAL CONDITIONS FOR DISPOSAL VIA WRITTEN PRICE QUOTATION

- 34.1 Bidders are afforded the opportunity to make a sealed enveloped offer on identifiable items.
- 34.2 Bids will be opened in public and evaluated in terms of the SCM Policy.

35. GENERAL PRECONDITION FOR DISPOSAL VIA DONATION

- 35.1 Requests for donations must be motivated to the City Manager in writing for approval.
- 35.2 Public request for donations received must be submitted to the SCM Section, and will be submitted to the City Manager by way of written report.
- 35.3 The donation process should be in accordance with the Municipal Grant Policy, as approved.

ANNEXURE A
(Paragraph 23.2)

Column 1	Column 2	Column 3	Column 4	Column 5
Sector or subsector in accordance with the Standard Industrial Classification	Size of class	The total full-time equivalent of paid employees	Total turnover	Total gross asset value (fixed property excluded)
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very Small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very Small	20	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m

	Small	50	R32m	R5m
	Very Small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation and other Trade	Medium	200	R13m	R3m
	Small	50	R6m	R1m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Transport, Storage and Communications	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community, Social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very Small	20	R1m	R0.60m
	Micro	5	R0.20m	R0.10m



Performance Management Policy

Effective from 1 July 2021

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer		
Council		

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B	Performance Plan
C	Competency Framework
D	Personal Development Plan
E	Job Description Efficiency Monitoring Template
F	The Performance Agreement (Managers and Senior Managers)

**This Performance Management Policy is based on the
Performance Management Framework*

ACRONYMS

CCR	Core Competency Requirement
CFO	Chief Financial Officer
ED	Executive Director
IA	Internal Audit
IDP	Integrated Development Plan
KPA	Key Performance Area
KPI	Key Performance Indicator
LED	Local Economic Development
MMC	Member of the Mayoral Council
MFMA	Municipal Financial Management Act
MPAC	Municipal Public Accounts Committee
MSA	Municipal Systems Act
PDO	Pre-determined Objective
PMS	Performance Management System
SALGA	South African Local Government Association
SALGBC	South African Local Government Bargaining Council
SDBIP	Service Delivery and Budget Implementation Plan
SMT	Strategic Management Team
NTFMPPI	National Treasury Framework for Managing Programme Performance Information

DEFINITIONS

Activity	It is an action or task that is performed with the intension of achieving the Pre-determined Objectives (PDOs)
Baseline	It is the actual results of a project, programme or activity achieved during the previous financial year(s)
Employee	A person employed by the Drakenstein Municipality as a City Manager or as a Manager directly accountable to the City Manager, and all other personnel employed permanently by the municipality
Employer	Drakenstein Municipality as represented by the Executive Mayor or the City Manager, as the case may be
Employment Contract	A contract as contemplated in Section 56 of the Municipal Systems Act, as amended
Key Initiative	It is an activity or task that is performed with the intension of achieving a key performance indicator and target. Examples could include setting up a committee, reviewing or developing a policy or bill, etc. It will also include any activity that cannot be classified as a project or a programme
Key Performance Area (KPA)	It is the performance area in which the municipality must perform to achieve its Vision
Key Performance Indicator (KPI)	It defines how performance will be measured along a scale or dimension (e.g. number of houses, km of road, percentage increase, etc.) to achieve the strategic objectives and KPAs
Moderation	Refers to the process of ensuring that evaluation methodology including tools and instruments has been applied uniformly
National Key Performance Area (NKPA)	This is a key area of focus determined at national level and is mandatory to all municipalities in South Africa
National Key Performance Indicator (NKPI)	This is a key indicator determined at national level and is mandatory for all municipalities in South Africa to regularly report on
National Outcomes	This refers to the 12 outcomes determined by National Government of which Outcome 9 is focussing specifically on local government
Other Municipal Staff	All employees excluding senior management and Section 56/57 employees.
Outcomes	Results that are expected to be achieved at the intermediate level which are realized as a consequence of specific outputs. Where it is not possible to measure outcomes because of non-attribution or time frame involved, public institutions should use proxy indicators
Output	Comprise specific products or services (immediate results of an activity) in a given period

Performance Agreement	An agreement as contemplated in Section 56 of the Municipal Systems Act, as amended
Policy	Basic performance management principles by which the municipality is guided
Portfolio of Evidence (PoE)	It is a file with a clear “paper trail” that serves as proof of the execution of a specific project, programme or activity. (It can include documents, pictures or any other form of evidence)
Pre-determined Objective (PDO)	Pre-determined Objectives are the areas identified as important or crucial where a result will assist in the execution of the IDP
Pro Rata	For purposes of this Agreement, “ Pro Rata Bonus ” shall mean an amount equal to the Bonus Amount multiplied by a fraction the numerator of which is the number of months worked in the fiscal year through the Termination Date and the denominator of which is 12. Any partial months shall be rounded to the nearest whole number using normal mathematical convention
Programme	A sequence of scheduled activities executed with the intension of achieving the key performance indicator and target. Examples could include maintenance, training, sensitisation, awareness programmes, etc.
Project	It is a capital or development project that is executed over a specific period of time with a defined beginning and end. It is normally funded by the capital or development budget with the intension of achieving a key performance indicator and target. Examples could include the construction of roads, buildings, infrastructure, etc.
Strategic Management Team	The Strategic management team should also ensure that quality performance reports are submitted to the Mayoral Committee and that adequate response strategies are proposed in cases of poor performance.
Strategic Objective	It translates the Key Performance Area (KPA) into an outcome
Strategy	A plan of action designed to achieve the Drakenstein Municipality Vision
System	Detailed method and procedures formulated to carryout performance management
Section 56 Employee	Appointed as Manager directly reporting to the Municipal/City Manager (Executive Directors and the CFO)
Section 57 Employee	A person appointed as the Municipal/City Manager of a municipality
Senior Management	Senior Managers and Managers responsible for a Division/Section (Manager)
Performance Target	It completes the performance indicator with actual numbers, percentages, rand values, etc. To be achieved over a specific period of time
Quarter	A quarter is a three-month period of the municipality's financial calendar that acts as a basis for periodic financial and performance reports. Typically divided into Q1, Q2, Q3 and Q4 respectively

Weights

Every KPI must have an allocated weight. The weight correlates with the importance of the KPI

1. INTRODUCTION

1.1 Background

Performance Management is a process which measures the implementation of the organisation's strategy. It is also a management tool to plan, monitor, measure and assess performance indicators to ensure efficiency, effectiveness and the impact of service delivery by the Municipality.

Performance Management is the practice of linking the long-term strategic objectives of an organisation to its day-to-day performance by setting measurable key performance indicators (KPIs) and monitoring performance against those indicators. When implemented correctly, it is an essential tool to monitor whether or not a municipality is on track to meet targets or serves as an early warning system to identify areas where improvement is required to enhance service delivery and recognise excellent performance.

The municipality delivers services essential to the well-being and development of the communities they serve. To ensure that service delivery is as efficient and economical as possible, municipalities are required to formulate strategic plans, allocate resources to the implementation of those plans and monitor and report the results. Performance information is essential to focus the attention of the public and oversight bodies on whether municipalities are delivering value for money, by comparing their performance against their budgets and service delivery plans, and to alert managers to areas where corrective action is required.

The Constitution of South Africa (1996), Section 152, dealing with the objectives of Local Governmentpaves the way for performance management with the requirements for an "accountable government". The democratic values and principles in terms of Section 195 (1) are also linked with the concept of performance management, with reference to the principles of *inter alia*:

- The promotion of efficient, economic and effective use of resources;
- Accountable public administration;
- To be transparent by providing information;
- To be responsive to the needs of the community; and
- To facilitate a culture of public service and accountability amongst staff.

The Municipal Systems Act (MSA), Act No. 32 of 2000, requires municipalities to establish a Performance Management System (PMS). Further, the MSA and the Municipal Finance Management Act (MFMA), Act No. 56 of 2003, requires the Integrated Development Plan (IDP) to be aligned to the municipal budget and to be monitored for the performance of the budget against the IDP by way of the Service Delivery and Budget Implementation Plan (SDBIP).

In addition, Regulation 7(1) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 states that “A municipality’s PMS entails a framework that describes and represents how the municipality’s cycle and processes of performance planning, monitoring, measurement, assessment, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players.”

This policy therefore describes how the municipality’s performance process, for the organisation as a whole, will be conducted, organised and managed. It also has the following objectives:

- Clarify processes of implementation;
- Ensure compliance with legislation;
- Demonstrate how the system will be managed;
- Define roles and responsibilities;
- Promote accountability and transparency; and
- Reflect the linkage between the IDP, Budget, SDBIP and individual and service provider performance.

Effective performance management is fundamental to the delivery of excellent local services. Local Government has achieved improvements in recent years, however, councils are recognising that they need to continue to develop and embed their approaches if they are to achieve further improvements.

Integrated Development Planning and Performance Management were introduced to realise the developmental role of local government. Whilst the IDP provides a framework for strategic decision-making, performance management must ensure that the desired results are achieved during implementation to ensure the correctness of the strategic direction of the objectives, strategies and projects put forward by the IDP.

Performance management is a strategic approach to management, which equips leaders, managers, workers and stakeholders at different levels with a set of tools and techniques to:

- Regularly plan;
- Continuously monitor;
- Periodically measure; and
- Review performance

of the organisation in terms of indicators and targets for:

- Efficiency;
- Effectiveness; and

- impact.

A PMS entails a framework that describes and represents how the municipality's process of performance planning, monitoring, measurement review, reporting and improvement will be conducted, organised and managed, including determining the different role players. This policy document guides the development of a PMS for the Drakenstein Municipality. It also forms the basis of alignment between the IDP, the operational SDBIPs, performance areas and performance indicators of the various departments of the municipality.

1.2 Objectives of Performance Management

A municipality's PMS is the primary mechanism to monitor, review and improve the implementation of its IDP and to measure the progress made in achieving the objectives as set out in the IDP. The PMS process plan includes the following objectives that the system should in addition fulfil:

- The PMS should provide a mechanism for ensuring increased accountability between the local community, politicians, the Municipal Council and the municipal management team;
- The PMS should facilitate learning in order to enable the Municipality to improve delivery;
- It is important that the system ensure decision-makers are timeously informed of performance related risks, so that they can facilitate intervention, if necessary; and
- The PMS should provide appropriate management information that will allow efficient, effective and informed decision-making, particularly on the allocation of resources.

The objectives are also for the PMS to serve as a primary mechanism to monitor, review and improve the implementation of Drakenstein Municipality's IDP. Performance management is viewed as a tool that improves the overall performance of the municipality.

2. LEGISLATIVE AND POLICY FRAMEWORK

Legislative enactments which govern performance management in municipalities are found in various documents. As outlined in Section 40 of the Municipal Systems Act of 2000, Drakenstein Municipality must establish mechanisms to monitor and review its PMS so as to measure, monitor, review, evaluate and improve performance at organisational, departmental and lower levels.

Section 34 of the MSA furthermore point out that the Integrated Development Plan (IDP) has to be reviewed on an annual basis, and that during the IDP Review Process the Key Performance Areas, Key Performance Indicators and Performance Targets are reviewed and that this review will form the basis for the review of the Municipal PMS and Performance Agreements of Senior Managers.

The PMS is informed by the following legislation and policies:

- The Constitution of the Republic of South Africa, Act No. 108 of 1996 as amended;
- Local Government: Municipal Systems Act, Act No. 32 of 2000 as amended;
- Local Government: Municipal Structures Act, Act No. 117 of 1998;
- Local Government: Municipal Finance Management Act (MFMA), Act No. 56 of 2003;
- Local Government: Municipal Planning and Performance Management Regulations, 2001 (R796 of August 2001);
- Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers, (R 805 of August 2006);
- Local Government: Regulations on appointment and conditions of employment of senior managers (R21, January 2014)
- National Treasury: Framework for Managing Programme Performance Information, 2007;
- National Treasury: MFMA Circular 13 (Services Delivery and Budget Implementation Plan);
- National Treasury: MFMA Circular 63 (Annual Report: Guidelines - update);
- National Treasury: MFMA Circular 65 (Internal Audit and Audit Committee);
- National Treasury: MFMA Circular 32 (The Oversight Report); and
- The White Paper on Transforming Public Service Delivery (Batho-Pele) (1997).

Other legislation that impacts on and relates to performance management includes:

- Labour Relations Act, Act No. 66 of 1995: Code of Good Practice;
- Basic Conditions of Employment Act, Act No. 75 of 1997;
- Employment Equity Act, Act No. 55 of 1998;
- The Skills Development Amendment Act, Act No. 31 of 2003; and
- Promotion of Access to Information Act, Act No. 2 of 2000; etc.

Although it is not considered necessary to go into detail in respect of all the legislation it is important to give a brief overview of the most important legislative provisions set out in:

- The Local Government: Municipal Systems Act, Act No. 32 of 2000 as amended;
- The Municipal Planning and Performance Management Regulations of 2001;
- The Local Government: Municipal Finance Management Act, Act No. 56 of 2003; and
- The Municipal Performance Regulations of 2006 for Municipal Managers and Managers directly Accountable to Municipal Managers (R805).

Summaries of the provisions relating to organisational performance management are therefore set out hereunder.

2.1 The Local Government: Municipal Systems Act, Act No 32 of 2000

Chapter 6 of the Municipal Systems Act, Act No. 32 of 2000 as amended, provides briefly that a municipality must:

- Develop a PMS;
- Promote a performance culture;
- Administer its affairs in an economical, effective, efficient and accountable manner;
- Set Key Performance Indicators (KPI's) as a yardstick for measuring performance;
- Set targets to monitor and review the performance of the municipality based on indicators linked to their IDP;
- Monitor and review performance at least once per year;
- Take steps to improve performance;
- Report on performance to relevant stakeholders;
- Publish an annual performance report on performance of the municipality forming part of its annual report as per the provisions of the Municipal Finance Management Act of 2003;
- Incorporate and report on a set of general (sometimes also referred to as national) indicators prescribed by the National Minister of Provincial and Local Government;
- Conduct an Internal Audit of all performance measures/indicators on a continuous basis;
- Have their annual performance report audited by the Auditor-General; and
- Involve the community in setting indicators and targets and in reviewing municipal performance.

Sections 55 to 58 of the MSA further outline the provisions on the employment and functions of the Municipal Manager and Managers Directly Accountable to the Municipal Manager.

2.2 The Municipal Planning and Performance Management Regulations of 2001

In summary the Regulations provide that a municipality's PMS must:

- Entail a framework that describes and represents how the municipality's cycle and process of performance management, including measurement, review, reporting and improvement, will be conducted;
- Comply with the requirements of the MSA; and
- Relate to the municipality's employee performance management processes and be linked to the municipality's IDP.

A municipality must:

- Set key performance indicators (KPIs) including input, output and outcome indicators in consultation with communities;
- Annually review its KPIs;
- Set performance targets for each financial year;
- Measure and report on the relevant nationally prescribed key performance outcome;
- Measure and report on the six national Local Government KPAs;
- Report on performance to Council at least twice a year;
- As part of its Internal Audit process audit the results of performance measurement;
- Appoint a performance audit committee; and
- Provide secretarial support to the audit committee.

2.3 The Local Government: Municipal Finance Management Act, Act No. 56 of 2003 (MFMA)

The MFMA also contains various important provisions relating to performance management. In terms of the Act all municipalities must:

- Annually adopt a SDBIP with service delivery targets and performance indicators;
- When considering and approving the annual budget, set measurable performance targets for revenue from each source and for each vote in the budget;
- Empower the Executive Mayor or Executive Committee to approve the Service Delivery and Budget Implementation Plan and the Performance Agreements of the Municipal Managers and the Managers Directly Accountable to the Municipal Manager; and
- Compile an Annual Report, which must, amongst other things, include the municipality's Performance Report compiled in terms of the MSA and regulations.

The MSA and the MFMA require that the PMS be reviewed annually in order to align itself with the reviewed IDP. In consequence of the reviewed organisational PMS it then becomes necessary to also amend the scorecards of the Municipal Manager and Section 56 Managers in line with the cascading effect of performance management from the organisational to the departmental and eventually to employee levels.

2.4 The Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers of 2006

These legislative prescripts regulate the management of the Section 56 employees of a municipality by providing an outline of employment contracts, performance agreements, performance plans, employee development, empowerment, measures/indicators and performance evaluation processes. These Regulations further provide criteria for performance assessment and the 5-point rating upon which performance of an individual need to be scored during the assessment and evaluation.

3. PERFORMANCE MANAGEMENT FRAMEWORK

The Municipality must develop, as part of the PMS, a framework which will deal with the “how” to work with performance information. A performance management framework is the way the Municipality collects, presents and uses its performance information. It is a practical plan, made up of mechanisms and processes, for the Municipality to collect, process, arrange and classify, examine and evaluate, audit, reflect on and report performance information. These mechanisms and processes work in a cycle which must be linked to the Municipality’s normal planning (IDP and otherwise) and the annual budgeting cycle.

3.1 Components of Performance Management Framework

The annual process of managing performance at organisational level in Drakenstein Municipality involves the steps as set out in the diagram below:



3.2 Clarifying Roles and Responsibilities of Stakeholders and Role-players

It is important to understand the duties, roles and responsibilities of the different stakeholders and role players in the various processes that together constitute the framework of the PMS. It is important that the accountabilities and relationships and priorities of the various stakeholders are set to ensure that there is a complete understanding of the participation,

consultation and involvement of all stakeholders for maximum inputs into, and success of the PMS.

The PMS is a component of municipal governance and management systems that is aimed at ensuring that the performance of the Municipality is developmental, while complementing the planning and budgeting processes as an integral part of organisational and individual management. It involves a wide variety of stakeholders, all of whom play a vital and integral part in the overall success of the PMS. The schedule hereunder sets out the tasks, which should not be seen as a chronological sequence of occurrences and events. The tasks, together with the appropriate stakeholders/role-players (with their roles and responsibilities), are the following:

Task	Stakeholders/ Role-players	Roles and Responsibilities
Developing and sanctioning the PM process	Council	Approve and adopt the PMS Policy.
Developing measures/indicators	Section 56/57 employees (EDs and CFO)	Provide the IDP and PMS documentation and (when appropriate) of the previous reporting period.
		Provide inputs into the process with reference to the available resources within their respective departments.
		Document the measures/indicators.
		Provide the schedule of measures/indicators to relevant stakeholders.
	Councillors	Provide inputs into the process with reference to the needs and requirements of their constituents and the communities.
		Engage with the officials to ensure maximum utilisation of the resources taking into account the budgetary guidelines and possible limitations.
	Local Community and Stakeholders	Provide inputs into the process with reference to their specific needs and requirements.

Task	Stakeholders/ Role-players	Roles and Responsibilities
Setting Targets	Section 56/57 employees (EDs and CFO)	Provide inputs into the process with reference to the available resources within their respective departments.
		Document the targets.
		Provide and publicise the schedule of targets to the relevant stakeholders.
	Councillors	Provide inputs into the process with reference to the needs and requirements of their constituents and the communities.
		Engage with the officials to ensure maximum utilisation of the resources taking into account the budgetary guidelines and possible limitations.
	Local Community and Stakeholders	Provide inputs into the process with reference to their specific needs and requirements.
Linking measures/indicators and targets to performance commitments of staff	City Manager	Ensure that the measures/indicators and targets in the performance agreements of senior managers are linked with his/her agreement.
		Provide inputs into senior managers' performance agreements.
		Ensure that the measures/indicators and targets of the departments and sub-ordinates are linked with the senior managers agreements.
	Council	Ratify and adopt the performance agreements.
Monitoring and Evaluation	Executive Mayor	Monitor and evaluate (according to agreed schedule) the measures/indicators and targets of the City Manager.
	City Manager	Monitor and evaluate (according to the agreed schedule) the measures/indicators and targets of senior managers.
		Ensure that the results are documented and publicised to the relevant stakeholders.

Task	Stakeholders/ Role-players	Roles and Responsibilities
Information collection, processing and analysis	Councillors	Provide inputs into the process with reference to the needs and requirements of their constituents and the communities.
		Ensure with the council officials that all information is made available.
		Examination, scrutiny and critical analysis of measures/indicators, targets, outputs and outcomes.
	Section 56/57 employees (EDs and CFO)	Collect and process relevant and appropriate information from departments.
	Local community and Stakeholders	Provide inputs into the process with reference to their specific needs and requirements.
Auditing of information	Manager: IDP and Performance Management	Prepare performance agreements with agreed and approved measures/indicators and targets.
		Ensure that all senior managers' performance agreements are published.
		Collect and process relevant and appropriate information from departments.
		Examination, scrutiny and critical analysis of information from departments.
	Performance Audit Committee	Examination, scrutiny and critical analysis of information from departments.
	Auditor-General	Collect and process the relevant and appropriate information from the Municipality.
		Examination, scrutiny and critical analysis of information from the Municipality.
Audit Reporting	Internal Auditor	Provide an independent audit report to the Audit Committee.
	Performance Audit Committee	Provide an independent audit report to the City Manager, Mayoral Committee and Council.
Reporting	City Manager	Provide approved, relevant and appropriate information and reports to National- and Provincial Government; and the Auditor-General.

Task	Stakeholders/ Role-players	Roles and Responsibilities
Report to Community	City Manager	Ensure that the results are documented and publicised to the relevant stakeholders.
Review of performance management and setting of new measures/indicators and target	Section 56/57 employees (EDs and CFO)	Provide inputs into the process with reference to the available resources within their respective departments.
		Document the measures/indicators and targets.
		Provide and publicise the schedule of revised measures/indicators and targets to relevant stakeholders.
	Councillors	Provide inputs into the process with reference to the needs and requirements of their constituents and the communities.
		Engage with the officials to ensure maximum utilisation of the resources taking into account the budgetary guidelines and possible limitations in the light of the revised measures/indicators and targets.
	Local community and Stakeholders	Provide inputs into the process with reference to their specific needs and requirements in the light of the revised measures/indicators and targets.

Table 1: Roles and responsibilities

3.3 Setting Measures/Indicators and Targets

The setting of measures/indicators and targets happens during the IDP process and is linked to the strategic objectives and pre-determined objectives (PDOs) of the Municipality. Performance measures/indicators and targets are used to show how the Municipality is performing on these objectives. This stage entails setting measures/indicators and targets and gathering data and information on these measures/indicators to assess the progress of the Municipality. Performance measurement allows for comparison of actual performance to intended performance, and against nationally defined minimum standards. It will also, in time, allow for the comparison of their performance against that of other Municipalities.

Performance targets are the planned level of performance or the milestones the Municipality sets for itself for each indicator identified. Baseline measurements and service standards must be identified, which will serve as the measurement of the chosen indicator(s) at the start of the period. In setting targets, it is important to know how the Municipality is performing at the current moment. The targets need to be realistic, measurable and be commensurate with available resources and capacity. The public must/should be consulted on their needs and expectations in setting a target. Politicians need to give clear direction as to the importance of the target and how it will address the public need.

Targets should be informed by the development needs of communities and the development priorities of the municipality. The municipality must for each financial year set performance targets for each of their key performance. It must measure the efficiency, effectiveness, quality and impact of the performance of the Municipality. It must also identify administrative components, structures, bodies or persons for whom a target has been set. Finally targets need to be consistent with the development priorities and PDOs set out in the IDP.

In order to measure progress in terms of a target during monitoring and evaluation (as discussed below), intermediate milestones, if applicable, should be specified with the same criteria as for performance targets.

The following general KPIs are prescribed in Section 10 of the Municipal Planning and Performance Management Regulations, 2001 and must be reported on annually:

- The percentage of households with access to basic level of water, sanitation, electricity and solid waste removal;
- The percentage of indigent households with access to free basic services;
- The percentage of a municipality's capital budget actually spent on capital projects identified for a particular financial year in terms of the municipality's integrated development plan;

- The number of jobs created through municipality's local economic development initiatives including capital projects;
- The number of people from employment equity target groups employed in the three highest levels of management in compliance with a municipality's approved employment equity plan;
- The percentage of a municipality's budget actually spent on implementing its work-place skills plan; and
- Financial viability as expressed by ratios that measure debt coverage, outstanding service debtors to revenue, and cost coverage.

National Government further has agreed on 12 outcomes as a key focus of work between now and 2014. These outcomes have been expanded into high-level outputs and activities, which in turn formed the basis of a series of performance agreements between the President and relevant Ministers. Whilst all of the outcomes can to some extent be supported through the work of local government, Outcome 9 (A responsive, accountable, effective and efficient Local Government system) and its 7 outputs are specifically directed at local government:

- **Output 1:** Implement a differentiated approach to municipal financing, planning and support;
- **Output 2:** Improving access to basic services;
- **Output 3:** Implementation of the Community Work Programme;
- **Output 4:** Actions supportive of the human settlement outcome;
- **Output 5:** Deepen democracy through a refined Ward Committee model;
- **Output 6:** Administrative and financial capability; and
- **Output 7:** Single window of coordination.

A KPI qualifies the main aspect that needs to be achieved and thus measure the progress being made in achieving the objectives. It should therefore specify the object or deliverables to be achieved and the means by which it will be measured. Depending on the nature of such KPI, it may also include specifications regarding the quantity and standards of the object, and usually includes the timing or projected phasing of delivery. KPIs may be both strategic and operational in nature. The KPIs must be relevant to the competencies of Local Government.

The number of indicators should serve the purpose of providing an adequate view of performance. A balanced set of indicators covering all KPAs should be used. Drakenstein Municipality has seven (7) Key Performance Areas linked to 54 PDOs, developed into Key Performance Indicators and the performance thereof are measured through the Top (Organisational)-, Second (Departmental)-, and Third (Divisional) Layer of the SDBIP.

The Municipality will use indicators as a communication tool between all levels of staff, and between the administration and council. It will also serve to identify the gaps between IDP strategies and the operational plans of the various departments.

Circular 88 Performance indicators will only be an annexure to the Top Layer (TL) Service Delivery Budget Implementation Plan (SDBIP) and will not form part of the Top Layer (TL) Service Delivery Budget Implementation Plan (SDBIP) nor will it form part of the Departmental SDBIP. It will also not be reported in the Annual Performance Report.

3.3.1 Types of Indicators

The following types of indicators will be used:

- **Input Indicators**

These are indicators that measure what it costs the Municipality to purchase the essentials for producing desired outputs (economy), and whether the Municipality achieves more with less, in resources terms (efficiency) without compromising quality. The economy indicators may be the amount of time, money or number of people it took the Municipality to deliver a service.

- **Output Indicators (measures/indicators of success)**

These are the indicators that measure whether a set of activities or processes yields the desired products or deliverables. They thus measure effectiveness – i.e., doing things correctly, and are typically associated with operational KPIs. They are usually expressed in quantitative terms.

- **Outcome Indicators**

These are the indicators that measure the impact or net effect/ quality of the products or services of the products/programmes in terms of the achievement of the overall objectives. These indicators are strategically the most important to determine. It is thus about the relationship between outputs and outcomes and measures/indicators if the outputs succeed in achieving the desired outcomes or improvements, i.e. doing the right things. The Municipality does not always have full and complete control over those aspects that are measured by outcome indicators. It thus measures/indicators the influence it has on conditions or developments in the area. As it is the strategic objectives of the IDP that should determine the desired outcomes of activities, it is important to determine if the outputs over which we have control, are the correct ways with which to address such issues.

3.3.2 Identification of Indicators

The following aspects will be considered when identifying indicators:

- Key Performance Areas (KPAs) and strategic objectives set in the IDP;
- The activities, projects, programmes and processes identified in the IDP for achieving the PDOs as well as the earmarked resources; and
- Whether data and baseline information are available for its measurement in the Drakenstein Municipal area.

KPIs must be set in respect of each of the development priorities and objectives referred to in Section 26(c) of the MSA. It must also be ensured that KPIs inform the indicators set for all its administrative units and employees as well as every municipal entity and service provider with whom the Municipality has entered into a service delivery agreement.

The following **SMART** criteria will apply for the determination of KPIs and targets:

S – Specific;

M – Measurable;

A– Achievable;

R – Realistic; and

T – Time bound.

3.3.3 National Key Performance Indicators (KPIs)

General KPIs are prescribed in terms of Section 43 of the MSA and Outcome 9. Drakenstein Municipality takes cognisance of these indicators and will report on them as is required by the Act.

3.3.4 Review of KPIs and Targets

The Municipality will review its KPIs and targets annually as part of the performance review in accordance with section 54(1) of the MFMA following approval of an adjustments budget or whenever it amends its IDP in terms of Section 34 of the MSA.

3.4 Performance Planning

The performance of the Drakenstein Municipality is to be managed in terms of its IDP and the process of compiling an IDP and the SDBIP, and the annual review of the IDP thereof constitutes the process of planning for performance.

It should be noted that the last component of the process is that of performance review and the outcome of such a review process must inform the next cycle of IDP compilation/review by focusing the planning processes on those areas in which the Municipality has underperformed.

3.5 Performance Measurement

Performance measurement refers to the formal process of collecting and capturing performance data to enable reporting to take place for each key performance indicator and against the target set for such indicator. The setting of measures/indicators and targets happens during the IDP process and is linked to the strategic objectives of the Municipality. To ensure the integrity of the indicators and targets set, baseline information based on historic and current performance should be used as the basis for setting sound measures/indicators and targets. Performance measurement allows the Municipality to compare their actual performance in relation to historic and current (baseline) performance.

3.6 Performance Monitoring

Performance monitoring is an ongoing process by which a manager accountable for a specific indicator and target as set out in the SDBIP continuously monitors current performance against pre-determined objectives (PDOs). The aim of the monitoring process is to take appropriate and immediate interim (or preliminary) action where the indication is that a target is not going to be met by the time that the formal process of performance measurement, analysis, reporting and review is due.

3.7 Performance Analysis

Performance analysis involves the process of making sense of measurements/indicators. It requires interpretation of the measurements as conducted in terms of the previous step to determine whether targets have been met and exceeded and to project whether future targets will be met or not. Where targets have not been met performance, analysis requires that the reasons therefore should be examined and corrective action recommended. Where targets have been met or exceeded, the key factors that resulted in such success should be documented and shared so as to ensure organisational learning.

The Strategic Management Team (SMT) should also ensure that quality performance reports are submitted to the Mayoral Committee and that adequate response strategies are proposed in cases of poor performance.

3.8 Schedule for Performance Reviews

The performance of the employee in relation to his/her performance agreement is reviewed in accordance with the following schedule. Quarterly performance evaluations are conducted for all contracted employees no later than one month following the quarter for which the evaluation is being done.

No.	Quarters	Time Frames	Departmental Quarterly Evaluation
1.	First Quarter	July to September	Before or on 10 - 21 October
2.	Second Quarter	October to December	Before or on 10 - 25 January
3.	Third Quarter	January to March	Before or on 10 - 21 April
4.	Fourth Quarter	April to June	Before or on 10 - 21 July

Table 2: Schedule for Performance Reviews

Prior to the s57/56 quarterly departmental evaluations chaired by the City Manager, the departmental quarterly evaluations are performed between the Executive Directors and the senior manager and managers reporting directly to them. The evaluation shall be based on actual achievement of the indicators agreed to for each deliverable or target.

The Executive Director along with the senior manager and managers must keep a record of the mid-year and annual evaluation assessment sessions performed. Performance feedback must be based on the Executive Director's assessment of the senior manager and managers performance and supporting Portfolio of Evidence (PoE). Evidence of aforementioned evaluation sessions should be recorded and filed by the relevant departments to be submitted to both PM section and IA after the conclusion hereof.

The Executive Director and senior managers will be entitled to review and make reasonable changes to the provisions of the performance plan from time to time for operational reasons on agreement between both parties.

3.9 Updating Actual Performance and Assurance provision:

The TL SDBIP actuals are automatically updated by the actuals results that are reported with the associated KPI on the departmental SDBIP. KPI owners should thus accurately report on their actual performance and should substantiate the reported actual with a PoE. The KPI Owners should report on the results of the KPI by properly documenting the information in the performance response fields (performance comment and corrective measures) and refer to where the PoE can be found. In the instance of poor performance, corrective measures should be identified and documented. The PoE should further proof that the KPI was delivered and that the expected outcome/impact has been achieved. The reported results should be assured by the responsible Executive Director by the date of system closure.

The KPI owners should report on the results of the KPI by documenting the following information on the performance system:

- The actual result in terms of the target set;
- The output/outcome of achieving the KPI;
- The calculation of the actual performance reported (if % required);
- The reasons if the target was not achieved; and
- Actions to improve the performance against the target set, if the target was not achieved

The PMS Officer perform further reviews updated TL KPIs and will send out notifications where no updates were performed or if there is a lack of PoE on the electronic performance management system. If the reviewed results require further updates after the date of system closure resulting that require a manual update permission should be requested from the City Manager by the responsible Executive Director.

The City Manager and his/her Senior Management Team needs to implement the necessary systems and processes to provide the PoEs for reporting and auditing.

3.10 Adjustments to KPI's

Changes in indicators and targets may be proposed at meeting, but can only be approved by the Executive Mayor, in consultation with the Municipal Manager. The Top Layer SDBIP KPIs can only be adjusted after the Mid-year assessment and/or after the adjustments budget has been approved. KPIs should be adjusted to be aligned with the adjustment estimate if influenced by the budget and the reason for the change in KPIs should be documented in a report to the Executive Mayor for approval.

Additional Departmental KPIs can be added during the year to the senior manager and manager reporting directly to an Executive Directors. The approved documents should be safeguarded for audit purposes.

4. PERFORMANCE MANAGEMENT PROCESS

4.1 Municipal Level

The Drakenstein Municipality's organisational PMS can be defined as the planning process whereby the Municipality sets the strategic agenda, vision, as well as strategic and development objectives for the upcoming financial year/s, and the desired performance results. Performance management at municipal level involves the following phases:

4.1.1 Phase 1: Planning

The Integrated Development Planning process and the Performance Management Process should be seamlessly integrated. The IDP fulfils the planning stage of performance management. Performance management fulfils the implementation management, monitoring and evaluation of the IDP process.

4.1.2 Phase 2: Priority Setting

In setting priorities, the Municipality should, *inter alia*, consider the following:

- An assessment of development in the municipal area, identifying development challenges and the status quo of the underdeveloped areas;
- A long-term development vision for the municipality to address its development challenges;
- A set of KPAs, Strategic Objectives and PDOs, based on identified needs, achievable in the current term of office, that would contribute significantly to the achievement of the development vision for the area;
- Projects, programmes and initiatives identified in contributing to the achievement of the above objectives;
- A financial plan and medium-term income and expenditure framework that is aligned to the priorities of the Municipality; and
- The Municipal Spatial Development Framework (SDF).

To be useful in the management of performance, the IDP must provide very clear indicators by which to measure the achievement of the objectives and unambiguous targets for those indicators.

4.1.3 Phase 3: Setting Objectives

All components of the IDP must be developed into a set of clear strategic objectives and PDOs. This is a crucial to ensure that all service delivery aspects are covered in the IDP measured by suitable indicators. A clear and concise construction of a statement of the objectives is needed. The statement requires a tangible, measurable, time bound and unambiguous commitment.

4.1.4 Phase 4: Setting Key Performance Indicators (KPIs)

KPIs are measurements that tell us whether progress is being made in achieving our objectives. Indicators should describe performance dimension considered key in measuring performance. The ethos of performance management as implemented in local governments and captured in the MSA and Municipal Planning and Performance Management Regulations rely centrally on the use of Key Performance Indicators.

4.1.5 Phase 5: Setting Targets

The Municipality should have clear objectives for its IDP and identified appropriate indicators. Targets are purely objectives or milestones for what we intend an indicator to measure at various timeframes. Performance targets are planned levels of performance or milestones the Municipality sets for itself for each indicator identified. Targets are usually expressed in quantity or time terms.

4.1.6 Phase 6: Monitoring

Monitoring is a continuous process of measuring, assessing, analysing and evaluating the performance of the organisation and departments with regard to KPIs and targets. Mechanisms, systems and processes for monitoring should provide for reporting at least twice per annum (at mid-year and at year end) to the Drakenstein Municipal Council and the community. It should enable detection of early indication of underperformance and provide for corrective measures/indicators.

4.1.7 Phase 7: Review

Review includes assessment of the system itself, the framework, targets, and performance targets of departments and performance measurement of employees. It identifies the strengths, weaknesses, opportunities and threats of the Municipality in meeting key performance indicators, performance targets and general key performance indicators. It also measures indicators the economy, efficiency, effectiveness in the utilisation of resources and impact in so far as performance indicators and targets set by the Municipality.

Performance improvement and adjustment is based on review. The Drakenstein Municipality should ensure that the community participates in the review.

4.1.8 Phase 8: Performance Auditing

Performance review/auditing is a key element of the monitoring and evaluation process. This involves verifying that the measurement mechanisms are accurate and that proper procedures are followed to evaluate and improve performance. According to section 45, of the MSA, results of the performance measurement must be audited as part of the municipality's Internal Auditing process (quarterly) and annually by the Auditor-General. The Municipality have therefore established frameworks and structures to evaluate the effectiveness of the municipality's internal performance measurement control systems. Areas of weak performance identified quarterly must be addressed during the following year's planning phase.

4.2 Individual Level

The employee PMS can be defined as the process through which the planned performance objectives as defined in the IDP are cascaded into the employee's Annual Performance Plans, thus allowing for the planning, coaching and monitoring, reviewing and rewarding of performance, and the enhancement of development, at the level of the individual employee. The PMS is also rolled out to all other municipal staff through JDEM (refer to paragraph 4.9).

4.2.1 The Performance Agreement (Section 56/57 and Senior Management)

- **The Purpose of the Performance Agreement**

- Specify indicators and targets defined and agreed with the employee and to communicate to the employee the employer's expectations of the employee's performance and accountabilities in alignment with the SDBIP of Drakenstein;
- Monitor and measure performance against set targeted outputs and outcomes;
- Use the performance agreement as basis for assessing whether the employee has met the performance expectations applicable for his or her job function;
- In the event of outstanding performance, to appropriately reward the employee; and
- Give effect to the employer's commitment to a performance-orientated relationship with its employee in attaining equitable and improved service delivery.

- **The Format of Performance Agreements for Section 56/57 and Senior Management**

- The Section 56/57 Performance Agreement (Annexure A);
- A Performance Plan (Annexure B);
- Competency Framework (Annexure C);
- Personal Development Plan (Annexure D); and
- The Performance Agreement of Senior Management (Annexure F).

- **Commencement and duration of the Performance Agreement**

- The performance agreement must be entered into for each financial year (1st July to June 30th) or part thereof;
- The performance agreement will commence annually on the 1st of July; and
- The performance agreement of the City Manager and Senior Managers directly accountable to the City Manager must be concluded by no later than 30 June for the following year.

4.3 Assessment of Performance

The performance of individual employees will be evaluated based on two components, being the IDP KPIs/ targets and the individual core competencies. The IDP KPIs/targets will account for 80% and the individual core competencies will account for 20% of the final score. The IDP KPIs will be evaluated on a quarterly basis and the core competencies on a six-monthly basis (January and July).

Personal growth and development could be identified during any performance evaluation discussion will be documented in a personal development plan (PDP), if required, as well as the action agreed to and implementation must take place with set time frames.

The assessment of performance will be based on the following rating scale:

Rating Scale	Terminology	Description
5	Outstanding performance	Performance far exceeds the standard expected of an employee at this level. The appraisal indicates that the Employee has achieved above fully effective results against all performance criteria and indicators as specified in the PA and Performance plan and maintained this in all areas of responsibility throughout the year.
4	Performance significantly above expectations	Performance is significantly higher than the standard expected in the job. The appraisal indicates that the Employee has achieved above fully effective results against more than half of the performance criteria and indicators and fully achieved all others throughout the year.
3	Fully effective	Performance fully meets the standards expected in all areas of the job. The appraisal indicates that the Employee has fully achieved effective results against all significant performance criteria and indicators as specified in the PA and Performance Plan.
2	Not fully effective	Performance is below the standard required for the job in key areas. Performance meets some of the standards expected for the job. The review/assessment indicates that the employee has achieved below fully effective results against more than half the key performance criteria and indicators as specified in the PA and Performance Plan.
1	Unacceptable performance	Performance does not meet the standard expected for the job. The review/assessment indicates that they employee has achieved below fully effective results against almost all the performance criteria and indicators as specified in the PA and Performance Plan. The employee has failed to demonstrate the commitment or ability to bring performance up to the level expected in the job despite management efforts to encourage improvement.

Table 3: Performance Rating Scale

4.3.1 The process for assessing quarterly performance

The process for assessing performance for **Section 56/57 and Senior Management** is as follows:

- The evaluated employee to submit all required PoE to the manager physically or should be uploaded on the electronic performance management system (Electronic Performance Evaluation module);

- The evaluated employee must prepare for the formal review by scoring him/herself against the agreed objectives and KPIs and targets;
- The assessor/panel and evaluated employee will meet to finalise the formal performance review and agree on the final scores; and
- The assessor/panel to prepare final scores of the evaluated employee's performances.

Should the evaluated employee not agree with the outcome of his/her performance results, they may follow the dispute procedure as outlined in the Local Government: Disciplinary Regulations for Senior Managers, 2010.

The assessor/panel and evaluated employee must prepare and agree to a PDP if required. This only needs to be done at the annual review in July.

The process for assessing performance for **managers not appointed in terms of S56/57** is as follows:

- The introduction of individual performance is applicable to all staff including those appointed on a temporary basis or in an acting capacity; and
- The data obtained from departmental scorecards (detailed SDBIP), will provide the user with the respective Individual performance contracts for managers reporting to the s57 managers.

Performance Plans are agreed to with each employee in managerial positions as part of his/her career development plan and should include the following:

- Qualifications: A record of formal and informal training and experience;
- Job functions: Key focus areas for the year;
- Career goals: Long term and intermediate career goals;
- Key performance indicators linked to the SDBIP: KPIs in the SDBIP that are the responsibility of the respective manager and KPIs aligned to the job description of the manager;
- Managerial KPIs: The core competencies that the manager will be evaluated on;
- A list of the core competencies is provided on the performance of the performance system and the manager should select between 3 and 5 core competencies. The core competencies and the measurement criteria should be agreed with the respective senior manager;
- Weightings show the relative importance of input or output against another input or output. Every input or output in the performance agreement must be assigned a weight. The weightings/ratings and the distribution of the ratings per level need to be determined by the management team in the beginning of each financial year and agreed with the employer or group of employers. (employee or group of employees); and
- Development needs and learning plan (Personal Development Plan).

The agreements must be finalised by August every year and be agreed upon and approved by the respective senior manager. Performance bonuses are not applicable to the rest of management as they receive an annual 13th cheque.

For the purposes of the evaluation conducted for each department is responsible for conducting their own performance assessment evaluations and should document and keeping record thereof, to be provide to IA upon request. The applicable assessments should be performed by the respective Executive Directors, senior managers and managers themselves bi-annually, the process should be recorded and documented on the electronic performance management system, the electronic performance evaluation module which requires self-assessment and scoring. This process should be documented and a printed and signed copy should be provided to the Performance Management Officer and Internal Audit bi-annually.

4.3.2 Other Job Description Efficiency (JDE)

The purpose of Job Description Efficiency (JDE) is to manage and improve efficiency by enabling a higher level of staff participation and involvement in planning, delivery and evaluation of work efficiency.

The JDE is a component of the PMS in Drakenstein and ensures integrated work planning, target setting, performance reporting and feedback. A JDE Form will be completed by all employees not evaluated on the formal PMS. Sections 1 and 2 of the form must be completed and signed by 30 June. It is expected that both the employee and the supervisor will complete and agree to the KPIs and targets based on the individuals job description. Appraisals of all staff will take place on an annual basis. Inclusive in these employee's salary package is an annual bonus in the form of a 13th cheque.

4.3.3 Skills Development Plan:

The Skills Development Plan should be compiled with the information obtained from the performance agreements and the development plans. The human resources manager together with the respective line manager is responsible to facilitate the implementation of the skills development plan.

4.3.4 The Evaluation Panel for Reviewing Annual Performance

According to the Municipal Performance Management Regulations, 2006, Regulation 27(4)(d), the evaluation panel shall compromise of:

- For purposes of evaluating the City Manager:
 - Executive Mayor;
 - Chairperson or delegated member of the Performance & Audit Committee;
 - One Member of the Mayoral Committee (MMC) as nominated by the Executive Mayor annually;
 - Mayor and/or Municipal Manager from another municipality; and
 - One ward committee member as nominated by the Executive Mayor.
- For purposes of evaluating the annual performance of managers Directly Accountable to the Municipal Managers, the evaluation panel will comprise of:
 - City Manager;
 - Chairperson or delegated member of the Performance and Audit Committee;
 - At least one Member of the Mayoral Committee (MMC); and
 - Municipal Manager from another municipality.
- For purposes of evaluating the bi-annual performance of managers and specialists, an evaluation panel constituted of the following persons must be established:
 - Executive Director, Supervisor/Line Manager; and
 - Employee.

4.4 Managing Poor Performance

Should an employee not achieve the pre-determined objectives (PDOs), indicators and targets in his/her performance agreement, the manager and the employee should agree on corrective measures. (It is inappropriate that an employee is informed of his/her non-performance at the formal performance review) within one month after the conclusion of the evaluation. Employees must be given feedback throughout the year.

4.4.1 Early Warning Mechanisms

The Municipality's 1st quarter performance report should be used as an early warning mechanism to determine whether the annual developed objectives, KPIs and targets will be achieved. The Departments should review mechanisms to improve its performance and indicate to the Internal Audit and Performance and Audit Committee how they intend to improve performance.

4.4.2 Addressing Poor Performance

The management of poor performance should be seen as a corrective process, focusing on addressing issues that lead to performance related problems. Counselling is seen as the first corrective process, which should include the following:

- Identify and agree on the problem;
- Describe the impact of the poor performance;
- Establish reasons for performance;
- Decide and agree on what actions are required, and set the necessary timeframes; and
- Resource the agreed actions.

4.5 Reward and Recognition

4.5.1 Non-Financial Rewards to Employees not Appointed to S56/57

Non-financial reward is based on recognising high performance in ways other than financial reward.

Such recognition could be based on the following three approaches:

- **Informal** - These are spontaneous and can be implemented with minimal planning and effort, e.g. calling an employee into the office and thanking him/her for a job well done and not discussing anything else.
- **Awards for specific achievements and activities** - These are tailored to reward specific achievements and behaviours desired most in the organisation, e.g. long service awards, monthly awards, etc.
- **Formal** – If the Municipality has formal recognition programmes, some may be used to formally acknowledge (in public) significant contributions by individuals and teams, e.g. the Annual Excellence Awards, etc.

4.6 Performance Bonuses for Section 56/57 Employees

The annual performance score of an individual is calculated based on the SDBIP results and core competencies rating added together to give a total score. This total score is converted by the assessment-rating calculator (in terms of the Regulations) for performance management and bonus purposes.

Paragraph 32 of the Local Government: Regulations on Appointment and Conditions of Employment of Senior Managers, No. 21 of 17 January 2014) provides that a performance bonus ranging from **5 % to 14 %** of the all-inclusive remuneration package may be paid to an employee in recognition of outstanding performance. In determining the performance bonus of Section 56/57 employees, the relevant percentage is based on the overall rating, calculated by using the applicable assessment-rating calculator; provided that:

The annual bonus will be based on the results of the formal evaluation after moderation and may be paid in terms of the following bonus structure:

Regulation 805 Bonus Structure		
% Achieved	Bonus	
130% - 149%	5 - 9%	
150% +	10 -14%	
R805 %	Total Average Score	Bonus
130%	3.25	5%
132%	3.30	5%
134%	3.35	6%
136%	3.40	6%
138%	3.45	7%
140%	3.50	7%
142%	3.55	8%
144%	3.60	8%
146%	3.65	9%
148%	3.70	9%
150%	3.75	10%
152%	3.80	10%
154%	3.85	11%
156%	3.90	11%
158%	3.95	12%
160%	4.00	12%
162%	4.05	13%
164%	4.10	13%
166%	4.15	14%

Table 4: Regulation 805 Bonus Structure

In the case of unacceptable performance (score between 0 – 99 %), the employer shall:

- provide systematic remedial or developmental support to assist the employee to improve his or her performance; and
- after appropriate performance counselling and having provided the necessary guidance and/or support and reasonable time for improvement in performance, and performance does not improve, the employer may consider steps to terminate the contract of employment of the employee on grounds of un-fitness or incapacity to carry out his or her duties.
- A pro-rata bonus payment will only be applicable if a full quarter's work (3 months of the financial year amounting to the quarter) has been completed.

4.7 Moderation

Moderation procedures will be implemented after the formal performance assessments have been concluded. The purpose of moderation is to ensure that the assessments were done in a realistic, consistent and fair manner. The role of the Moderation Committee is to maintain a strategic overview of the process, and not get involved in second-guessing or reassessing of individual staff.

4.7.1 Criteria for Moderation

The moderators will evaluate the employee and decide on the relative rating by comparing the performance and contribution of the employee with his peers in the municipality, on the following factors:

- Stretch factor in the objectives;
- Degree of difficulty/complexity in achievement of objectives;
- Relative contribution made towards achieving the Department goals; and
- Any other critical incident impacting the rating / evaluation.

4.7.2 Moderation of the City Manager

At this level, the moderation committee consists of:

- The Executive Mayor;
- The Deputy Executive Mayor; and
- One MMC nominated by the Executive Mayor.

4.7.3 Moderation of Section 56 Managers directly accountable to the City Manager

At this level, the moderation committee consists of:

- The Executive Mayor;
- The Deputy Executive Mayor;
- Nominated MMCs; and
- The City Manager.

This process is concluded annually in accordance with the procedures set out for the Annual Performance Assessments of S57 and S56 Managers. The process should be finalised by 15

December of each year. On completion of the moderation, the final results will be tabled at the Council meeting.

4.8 Dispute Mechanism

The procedure for dealing with poor performance is prescribed in Regulation 16 of the Disciplinary Regulations for Senior Managers.

The Municipal Performance Management Regulations for Section 56/57 managers provide clear guidelines for performance disputes relating to the performance agreements of the Municipal Manager and managers directly accountable to the Municipal Manager. Below is the process of dispute as it relates for Section 56/57 employee performance agreements as stipulated in the said regulations.

Any disputes about the nature of the Employee's performance agreement, whether it relates to key responsibilities, priorities, methods of assessment and/ or any other matter provided for, shall be mediated by:

- In the case of the Municipal Manager, the MEC for Local Government in the province within thirty (30) days of receipt of a formal dispute from the employee, or any other person designated by the MEC; and
- In the case of managers directly accountable to the Municipal Manager, the Executive Mayor within thirty (30) days of receipt of a formal dispute from the employee; such dispute must be lodged within 30 days of outcome of the assessment under dispute.

In the event that the mediation process contemplated above fails, the relevant clause of the Contract of Employment shall apply.

The following process relates to dispute relating to employees below Section 56/57-employees:

- Conducting performance counselling in case of poor performance;
- If counselling does not yield results, employees are put on performance improvement process with action plan and clear timelines; and
- If performance does not improve, disciplinary process will be initiated, as per the mentioned Disciplinary Regulations.

4.9 Performance Reporting

The legislative requirements regarding the reporting processes are summarised in the following table:

4.10 Integrating PMS within Councils Existing Management Cycle

Leading practice indicates that PMS stand the best chance to succeed if it is integrated with the current management cycle of the Municipality. The purpose of such a cycle would be to guide the integration of important processes such as the strategic planning or development process in terms of the IDP methodology, the annual budget process and the formal process of evaluating and assessing Council's performance in terms of the approved PMS and this framework and it is recommended that the Municipality develop and adopt a similar cycle suitable to its own circumstances and requirements.

Reporting Intervals

Report	Applicable legislation	Frequency	To whom	Content
Internal Audit reports on performance results	MSA Regulation 14(1)(c)	Quarterly	Council and Performance Audit Committee	Audit outcomes from auditing actual results captured/ indicated/ reported on
Quarterly Performance Assessment Report	MFMA Sec 52 report	Quarterly (within 30 days after end of quarter)	Management and Council (Copy to PT and NT)	Actual results achieved against Top Layer SDBIP KPIs
Mid-year Report	MFMA Sec 72 report	25 January	Executive Mayor (Submit to next Council meeting after 25 January and copy to PT and NT)	Consists of 2 parts PM: Actual results achieved against Top Layer SDBIP KPI' Finance: As prescribed by NT
Annual Performance Report	MSA Sec 46 report	31 August	AG, Council	Consist of chapters 3 & 4 of the AR
Annual report	MFMA Sections 121, 129 and 132	Draft: 31 October to AG Draft: 31 January to Council Final: 31 March to Council with oversight report	AG, Council, Performance Audit Committee, Oversight Committee (Copy to PT and NT, DLG, Provincial Legislature)	As prescribed

Table 5: Reporting Intervals

5. PERFORMANCE AUDITING

5.1 The Role of Internal Audit in terms of Performance Management

The MFMA requires that the Municipality must establish an Internal Audit section, which service could be outsourced, depending on its resources and specific requirements. Section 45 of the MSA stipulates that the results of the Municipality's performance measures/indicators must be audited by the said Internal Audit section as part of the Internal Auditing process and annually by the Auditor-General.

The Municipal Planning and Performance Management Regulations stipulate that the Internal Audit section must on a continuous basis audit all performance and the auditing must include an assessment of the following:

- The functionality of the municipality's PMS;
- Whether the municipality's PMS complies with the Act; and
- The extent to which the municipality's performance measurements are reliable in measuring the performance of municipalities by making use of indicators.

5.1.1 Functionality

Functionality could be defined as a proper or expected activity or duty or to perform or operate as expected. This could also be applied to the operation of any system such as the PMS. The Internal Audit section must therefore on a regular basis audit whether the PMS of Drakenstein Municipality is functioning as developed and described in this framework.

5.1.2 Compliance

The Drakenstein Municipality PMS must comply strictly with the requirements of the MSA, applicable regulations and the MFMA. The Municipality's Internal Audit Unit, at least on a quarterly basis, verifies that the PMS complies with the said legal requirements.

5.1.3 Reliability

To rely could be defined as to trust or depend (upon) with confidence. Reliability in the context of PMS refers to the extent to which any performance measures/indicators reported upon could be seen as being reliable, e.g. if the performance target was to build 500 houses and it is reported that the target has been met or exceeded, it must be established whether the information is factually correct or only an estimation or even worse, purposeful misrepresentation.

Undertaking a reliability audit will entail the continuous verification of performance measures/indicators and targets reported upon. This will require that the Municipality establish a proper information management system (electronically or otherwise) so that the Internal Audit Section is able to access information regularly to verify its correctness. The Municipality's Chief Audit Executive must submit quarterly reports on the audits undertaken to the City Manager and the Audit Committee.

5.2 Operation of the Performance Audit Committee

The MFMA and the Municipal Planning and Performance Management Regulations require that the Municipal Council establish an Audit/ Performance Audit Committee consisting of a minimum of three members, where the majority of members are not employees of the municipality. No Councillor may be a member of an Audit/Performance Audit Committee. Council must also appoint a chairperson who is not an employee. The Regulations give municipalities the option to establish a separate performance audit committee whereas the MFMA provides only for a single audit committee. The operation of this Audit/ Performance Audit committee when dealing with performance management is governed by Section 14 (2 - 4) of the Regulations which require that the audit committee must:

- Review the quarterly reports submitted to it by the Internal Audit unit;
- Review the municipality's PMS and make recommendations in this regard to the Council of the Municipality; and
- At least twice during a financial year submit an audit report to the Municipal Council;

In order to fulfil their function a performance audit committee may, according to the MFMA and the Regulations:

- Communicate directly with the Council, Municipal Manager or the internal and external auditors of the municipality concerned;
- Access any municipal records containing information that is needed to perform its duties or exercise its powers;
- Request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
- Investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.



Cash & Investment Management Policy

Effective from 1 July 2020

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer	26 March 2020	
Council	29 May 2020	

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1. DEFINITIONS

For the purpose of this policy, unless the context indicates otherwise, any word or expression to which a meaning has been attached in the Act shall bear the same meaning and means: -

- 1.1 **“Accounting Officer”** is a person appointed by the Municipality in terms of Section 82 of the Local Government: Municipal Structure Act, 1998 (Act No. 117 of 1998) and who is the head of administration and also the City Manager for the Municipality;
- 1.2 **“Cashiers”** are any municipal official appointed to receive cash or any other form of payment(s) on behalf of Drakenstein Municipality at any of the receipting points within Drakenstein Municipality area.
- 1.3 **“Chief Financial Officer”** is an officer of the municipality appointed as the Head of the Finance Department and includes any person –
 - (a) Acting in such position; and
 - (b) To whom the Chief Financial Officer has delegated a power, function or duty in respect of such a delegated power, function or duty;
- 1.4 **“Council”** or **“Municipal Council”** is a Municipal Council referred to in section 18 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) and for purposes of this policy, the Municipal Council of the Drakenstein Municipality;
- 1.5 **“Councillor”** is a member of the Municipal Council;
- 1.6 **“Investments”** is funds not immediately required for the defraying of expenses and invested at approved financial institutions;
- 1.7 **“City Manager”** is the Accounting Officer appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) and being the head of administration and Accounting Officer in terms of section 55 of the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) and includes any person –
 - (a) Acting in such position; and
 - (b) To whom the City Manager has delegated a power, function or duty in respect of such a delegated power, function or duty;
- 1.8 **“Municipality”** is the institution that is responsible for the collection of funds and the provision of services to the customers of Drakenstein; and

- 1.9** “**Municipal Official or Official**” any employee of the Drakenstein Municipality;
- 1.10** “**Public funds**” are all monies received by the municipality to perform the functions allocated to them.

2. LEGAL FRAMEWORK

- 2.1** The Cash & Investment Management Policy is in accordance with the requirements of section 13 of the Municipal Finance Management Act and any further prescriptions made by the Minister of Finance.
- 2.2** The municipality shall at all times conduct its Cash and Investment Management Policy in compliance with the provisions and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003.
- 2.3** The Local Government: Municipal Finance Management Act Municipal Investment Regulations have been promulgated and have effect as from 1 April 2005.

3. INVESTMENT POLICY OBJECTIVES

- 3.1** Drakenstein Municipality’s main objectives of this Policy are –
- (a) To ensure compliance with the relevant legal and statutory requirements relating to cash management;
 - (b) To ensure the preservation and safety of the municipality’s investments;
 - (c) To ensure diversification of the municipality’s investment portfolio across acceptable investees, permitted types of investments and investment maturities;
 - (d) To ensure timeous reporting of the investment portfolio as required by the Act in accordance with Generally Recognised Accounting Practice (GRAP); and
 - (e) To ensure that the liquidity needs of the municipality are properly addressed.

- 3.2 This Policy is aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenue is not needed for capital or operational purposes. The effectiveness of the Policy is dependent on the accuracy of the municipality's cash management programme, which has to identify the time when and period, for which such revenues are surplus.
- 3.3 It is Council's responsibility as a trustee of the community's revenue, to ensure that the money that is not immediately required should be invested in order to optimise the funds available to the municipality and cash resources are effectively and efficiently managed.

4. CASH MANAGEMENT

4.1 Bank Account Administration: (MFMA – Section 7, 8, 9 and 10)

4.1.1 Cash Management:

All cash that has been receipted at all receipting points within the Drakenstein Municipality area are deposited into the current primary bank account the following working day.

(a) Cash Surpluses and Shortages

- (i) Surpluses: Cash Surpluses on hand after daily balancing of cashiers is to be paid in the next working day into a surplus vote number.
- (ii) Shortages: Shortages with a value of R100 or less must be paid in by the cashier at end of their daily shifts. Amounts greater than R100 gets deducted once off from their next salary payment.

4.1.2 Delegations / Rights:

The incumbents of the following post are authorised to approve Electronic Fund Transfers (EFT's) payments on behalf of Council.

(a) Electronic Fund Transfers:

A-Signatories: City Manager;
Chief Financial Officer;
Senior Manager: Budget, Assets and Financial Reporting;
Senior Manager: Revenue and Expenditure;
Manager: Revenue;

Manager: Expenditure;
Manager: Financial Statements, Reporting and Cash Management;
Manager: Budget and Cost Accounting; and
Manager: Assets and Insurance Management.

B-Signatories: Chief Accountant: Financial Statements & Reporting;
Chief Accountant: Budgets;
Chief Accountant: Creditors Administration;
Chief Accountant: Cash Management;
Chief Accountant: Immovable Assets;
Senior Accountant: Water & Electricity Billing;
Senior Accountant: Property Rates, Sundries, Housing & Pre-Paid Billing; and
Senior Accountant: Credit Control, Customer Care, Indigent Support & Revenue Protection.

(b) Petty Cash:

Petty cashiers receive an amount (float) to reimburse employees for expenditure to a maximum amount as set out in the Petty Cash Policy.

(c) Control over bank accounts:

The City Manager will in writing authorise the Chief Financial Officer or any other senior financial official of the Municipality to exercise control over the investment or withdrawal of funds in any bank account of the Municipality.

(d) Receipting of money:

The following persons or institutions have delegated power to receive money on Council's behalf –

- (i) Officials acting as municipal cashiers through the receiving of cash and other payment instruments at all receipting points within the Drakenstein Municipality area; and
- (ii) 3rd Party Vendors as contracted as listed in Annexure A: Contracted 3rd Party Vendors.

Management will have the delegated right to review and amend Annexure A on an annual basis provided that all amendments must be reported to Council.

4.1.3 Private money:

No municipal employee is allowed to –

- (a) Use Council's cash funds at any stage to be replaced at a later stage; and
- (b) Safeguard private money amongst Council's cash (e.g. Cashier drawers, petty cash boxes, and safes, etcetera).

4.1.4 Management of cash flow:

The Chief Financial Officer shall maintain a cash flow system, and ensure that funds not immediately required are invested as required. All Departments or Directorates shall in this regard furnish the Chief Financial Officer with their respective cash flow needs on a monthly basis, clearly indicating possible future dates of payments, as well as any possible inflow of cash from other sources of finance arranged by Departments themselves.

4.1.5 Working Capital:

The provision for doubtful debts is calculated on a probability basis, which takes the following factors into account: Debtor type, age of debt, number of cut-off, whether the debtors has been handed over as well as the ownership status.

4.1.6 Cashier Floats

Cashiers receive an amount (float) which needs to be returned to the municipality at the end of each their individual shifts. These floats are used to give change to consumer after paying their municipal accounts, motor registrations, fines, etc.

Floats currently allocated:

- Supervisor (Chief Clerk): Float of R1,500 each;
- Cash Management Cashiers: Float of R500 each;
- Traffic Department Supervisor (Senior Clerk): Float of R2 000 each;
- Traffic Department Cashiers: Float of R1,500 each;
- Library Cashiers: Float of R500 each (except Simondium, Gouda, Saron and Hermon Library which has a R100 float);
- Swimming Pool Cashiers (in Season only): Float of R200 each; and
- Resorts Cashiers: Float of R500 each.

5. STANDARDS OF ETHICS, JUDGEMENT AND DUE CARE

5.1 In dealing with financial institutions, the following ethical principles must be observed –

- (a) The Chief Financial Officer shall not accede to any influence by or interference from councillors, investment agents, institutions or any other outsiders and will take reasonable steps to ensure the diversity of its investment portfolio across investees, type of investments and investment maturity;
- (b) All investments made must be genuine investments and not investments made for speculation purposes;
- (c) All investments made on behalf of Drakenstein Municipality must be made in the name of the Municipality;
- (d) Under no circumstances may inducements to invest be accepted;
- (e) The CFO or any delegated official shall not as a general rule discuss nor disclose interest rates quoted by one institution to another institution while the investment transaction is in progress or any information regarding the current cash position or its projected future cash flows of the municipality to investees. After the transaction has been finalised, limited information such as interest rates quoted by one institution may be disclosed to another institution; and
- (f) The business ethics of any controlling body of which the relevant financial institution is a member must be observed by such institution or body at all times.

6. INVESTMENT PRINCIPLES AND PRACTICES

6.1 According to Government Gazette No. 27431 of 1 April 2005, the following are permitted investments which a municipality may invest in –

- (a) Securities issued by the national government;
- (b) Listed corporate bonds with an investment grade rating from a national or internationally recognised credit rating agency;
- (c) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- (d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);

- (e) Deposits with the corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
- (f) Banker's acceptance certificates or negotiable certificates of deposits of bank registered in terms of the Banks Act, 1990;
- (g) Guaranteed endowment policies with the intention of establishing a sinking fund;
- (h) Repurchase agreement with banks registered in terms of the Banks Act, 1990;
- (i) Municipal bonds issued by a municipality; and
- (j) Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consulting with the Financial Services Board.

6.2 Taking the above-mentioned guidelines into account, the following guiding principles are to be adhered to in order to facilitate the administration of Council's investment portfolio.

6.2.1 Limit exposure to single institution

- (a) Investment of funds, where this involves large amounts, should be distributed over more than one institution in order to limit Council's risk exposure.
- (b) It is considered prudent that not more than 50% (thus implying 50.01% and more) of Council's investment portfolio should be held with any specific Institution, as identified in Annexure B: Preferred List of Investment Institutions, at time of investment.
- (c) Management will have the delegated right to review Annexure B on an annual basis and change (if necessary), provided that all changes should be reported to Council.

6.2.2 Risks and Return

- (a) Although the objective of the Chief Financial Officer in making investments on behalf of the municipality shall always be to obtain the best interest rate (long term being more than 12 months and/or short term being 12 months and less) on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned.

- (b) No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions.

6.2.3 Borrowing for Re-Investment

- (a) Council should refrain from borrowing monies for the purpose of re-investment, as this is tantamount to speculation with public funds.

6.2.4 Nominee Accounts

- (a) All monies shall be invested directly with the relevant institutions. On no account may monies be placed in a nominee account.

6.2.5 Prohibited Investments

- (a) Drakenstein Municipality shall not be permitted to make investments in –
 - (i) Listed or unlisted shares, or unit trusts;
 - (ii) Stand-alone derivative instruments;
 - (iii) Investments denominated in, or linked to, foreign currencies;
 - (iv) Market linked endowment policies; or
 - (v) Credit linked notes.
- (b) The municipality shall not borrow for the purpose of investing.
- (c) The municipality shall not buy and sell money market instruments, to speculate with the view to making capital profits.

7. CASH MANAGEMENT PRINCIPLES AND PRACTICES

7.1 General

- 1.1 Should it be ascertained that surplus funds are available for investment; then written quotations should be obtained from financial institutions for various forms of investment, investment terms and rates of interest.

- 1.2 The investment shall be placed with an institution offering the most favourable rate provided such investment is in accordance with the terms and conditions of this policy.
- 1.3 Institutions should be advised that, in submitting quotations, they must offer their best rates of interest and that no further negotiation or discussion will be entered into with them after they have submitted their quotation.
- 7.2 Payment of Commission
 - 7.2.1 A certificate shall be issued in respect of each and every investment made by the financial institution receiving the investment and no payment of any commission or payment in kind will be made to any party in respect of the investment so made.
- 7.3 Internal Investments
 - 7.3.1 Before planning to invest funds externally, consideration must be given to whether the funds may be utilised at an equivalent rate to substitute external borrowing as there is normally a margin between the rate at which Council may borrow funds and the rate at which investments may be made over similar periods.
- 7.4 Cash at Bank
 - 7.4.1 When funds are held in a current account, it is a good business practice to operate a call account. The overriding principle is that funds in the current account are to be kept at an absolute minimum, except if interest rate on current account is more or less the same than a call deposit account.
- 7.5 Credit Worthiness
 - 7.5.1 Prior to investing in smaller registered financial institutions, the Financial Officer must ensure that the Council is not over-exposed and should satisfy itself as to the credit-worthiness and previous track record of the institution before placing funds.
- 7.6 Receipting Management (Section 64 of MFMA)
 - 7.6.1 All moneys received and receipted must be deposited the next working day in Council's primary bank account.

- 7.6.2 All revenue received by the Municipality, including revenue received by any collecting agent on its behalf, is recorded at least on a weekly basis.
- 7.6.3 All monies collected by the Municipality on behalf of another organ of state must be transferred to that organ of state at least on a monthly basis.
- 7.7 Expenditure Management (Section 65(2)(d) of MFMA)
- 7.7.1 All payments by the Municipality are made –
- (a) Directly to the person to whom it is due unless otherwise for reasons as may be prescribed;
 - (b) Either electronically or cash payments for exceptional reasons and only to an approved / prescribed limit; and
 - (c) Creditor's payments must be paid within 30 days of the creditor's statement, with the exception of BBEEE's, where a seven-day payment cycle may apply.
- 7.7.2 Electronic payments must be approved by two authorised signatures, two A-signatories or one A-signatory and one B-signatory. Two B-signatories may not authorise electronic payments.
- 7.8 Withdrawals (Section 11 of MFMA)
- 7.8.1 Only a senior official(s) acting on the written authority of the Accounting Officer may withdraw money or authorise the withdrawal of money from any of the Municipality's bank accounts and may do so only –
- (a) To defray expenditure appropriated in terms of an approved budget;
 - (b) To defray expenditure authorised in terms of section 26(4);
 - (c) To defray unforeseeable and unavoidable expenditure authorised in terms of section 29 (1);
 - (d) In the case of a bank account opened in terms of section 12, to make payments from the account in accordance with subsection (4) of that section;

- (e) To pay over to a person or organ of state money received by the municipality on behalf of that person or organ of state, including –
 - (i) Money collected by the municipality on behalf of that person or organ of state by agreement; or
 - (ii) Any insurance or other payments received by the municipality for that person or organ of state;
- (f) To refund money incorrectly paid into a bank account;
- (g) To refund guarantees, sureties and security deposits;
- (h) For cash management and investment purposes in accordance with section 13;
- (i) To defray increased expenditure in terms of section 31; or
- (j) For such other purposes as may be prescribed.

7.8.2 Money may be withdrawn from a bank account in terms of subsection 7.8.1(b) to (j) without appropriation in terms of an approved budget.

7.8.3 The Accounting Officer must within 30 days after the end of each quarter –

- (a) Table in the municipal council a consolidated report of all withdrawals made in terms of subsection 7.8.1(b) to (j) during that quarter; and
- (b) Submit a copy of the report to the relevant provincial treasury and the Auditor-General.

7.9 Short Term Debt (Section 45 of MFMA)

7.9.1 A municipality may incur short-term debt only in accordance with and subject to the provisions of this Act 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 allocation or long-term debt commitments.

7.9.2 A municipality may incur short-term debt only if –

- (a) A resolution of the municipal council, signed by the mayor, has approved the debt agreement; and
- (b) The Accounting Officer has signed the agreement or other document, which creates or acknowledges the debt.

7.9.3 For the purpose of subsection (2)(a), a municipal 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.

7.9.4 A municipality –

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

7.9.5 A lender –

- (a) No lender may wilfully extend credit to a municipality for the purpose of renewing or refinancing short-term debt that must be paid off in terms of subsection (4)(a).
- (b) If a lender wilfully extends credit to a municipality in contravention of paragraph (a), the municipality is not bound to repay the loan or interest on the loan.

7.9.6 Subsection (5)(b) does not apply if the lender –

- (a) Relied in good faith on written representations of the municipality as to the purpose of the borrowing; and
- (b) Did not know and has no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt.

7.10 Cash Procedures

7.10.1 Internal Controls

The supervisor checks floats of all the cashiers on daily basis.

7.10.2 Issuing of Receipts

Potential clients come to the cash office, provide cashier with a municipal account to make a payment, the cashier will then issue a receipt.

7.10.3 Cancellation of Receipts

If and when the cashier makes an error in respect of payment receipted, the cashier will call the supervisor, to cancel the receipt. This is done while the client is still at the cash office, and re-issues the correct receipt to the client. The cashier and the supervisor then sign the cancelled receipt.

7.10.4 Cash Balancing

After the end of each shift, the cashier will count the monies received, and do a daily cashier balancing. If the amounts entered by the cashier are correct the system automatically prints a balancing report, but if the

amounts entered by the cashier are not correct, the supervisor is called. The supervisor will then re-count the money, as well as the cash float, enter the supervisor password to establish what the cash collected for the day should be. If short the cashier will then pay the monies in immediately (refer to section 4.1.1(a)(ii)), if there is a surplus the cashier will receipt the surplus on the next working day. If the cashier balance's with the first attempt the procedure is that the supervisors will re-count the cash collected for the day, do a supervisor balancing and a report is generated automatically. This then balances off the cashier for that day and the day is then closed off and no transactions can be done for that day.

7.10.5 Official Payment Receipting Methods

(a) Direct Deposits, EFT payments and ACB (debit orders)

- (i) Client will do a direct deposit into municipal bank account via the Internet or by deposit slip via their bank, using municipal account number, traffic fine reference number or any other reference provided by the municipal officials as reference. This information is extracted daily and when doing uploads from the bank is then credited against the clients' accounts or the correct vote number.
- (i) Accounts are also paid by means of a ACB (debit orders) payment by consumer's banker.

(b) 3rd Parties

Clients do a payment at Pick & Pay, Shoprite, SPAR, etcetera – refer to Annexure A. Up load's is done daily from external service provider extracting the information and then crediting the various clients' accounts.

(c) Cheque Deposit (including cheques received via mail previously)

The municipality will no longer accept any cheque payments as an official form of payment. This is due to various fraudulent activities associated with cheques and financial institutions moving towards a system whereby they will also no longer be accepting and/or issuing cheques.

8. CONTROLS OVER MANAGEMENT OF CASH & INVESTMENT

- 8.1** A proper record must be maintained of all investments made indicating at least the Institution, fund, interest rate, and maturing date.
- 8.2** The Financial Officer must retain all quotations received for record and audit purposes.
- 8.3** Interest must be correctly calculated, received and recorded timeously.
- 8.4** All investment certificates to be received via email in order to be backed-up on the server and any hard copies received to be kept in a securities file which shall be safeguarded in a fire proof safe.
- 8.5** In respect of grant funds, a separate file must be kept of the letter of grant and other pertinent information. Regular reports must be submitted to all grant agencies.
- 8.6** The Chief Financial Officer must compile and will be responsible for the maintenance of an Investment Register complying with audit requirements.
- 8.7** The Chief Financial Officer shall every month submit a report to the Council on the Council's Investment portfolio, including the type of investment, interest rates, period of investment and summary of the exposures to particular financial institutions.

9. DELEGATION OF AUTHORITY

- 9.1** The Council may, in terms of Section 59 of the Municipal Systems Act 2000, delegate any of its functions and responsibilities in respect of this policy to a Committee of the Council, the Municipal Manager, the Chief Financial Officer or any political functionary of the Council provided that such delegation will not absolve the person to whom such a function or responsibility has been delegated from complying with any statutory reporting requirement or such reporting requirement as may be contained in this policy.

10. SHORT TITLE

- 10.1** This policy is called the Drakenstein Municipality Cash and Investment Policy.

ANNEXURE A: CONTRACTED 3RD PARTY VENDORS

List of approved and contracted 3rd Party Vendors

1. Municipal Accounts –

Easy Pay receipting points at the following retail outlets:

- (i) Ackermans;
- (ii) Easypay Mobile;
- (iii) Easypay Website;
- (iv) Investec;
- (v) Massbuild;
- (vi) Masscash Retail;
- (vii) Massdiscounters Dion;
- (viii) Pick n Pay;
- (ix) Shoprite / Checkers / Usave;
- (x) SPAR;
- (xi) Woolworths;
- (xii) Boxers;
- (xiii) PEP Stores;
- (xiv) Massdiscounters Game;
- (xv) Lewis;
- (xvi) Saverite;
- (xvii) Cash & Carry; and
- (xviii) Wallet doc.

2. Traffic Fines –

- (a) Easy Pay receipting points; and
- (b) Traffic Management Technologies (“TMT”)

3. Pre-paid Electricity –

- (a) Pre-paid Electricity Vendors; and
- (b) Prepaid 24 website.

ANNEXURE B: PREFERRED LIST OF BANKING INSTITUTIONS

List of currently approved Investees

1. Deposit taking institutions –
 - (a) ABSA Bank;
 - (b) FirstRand Bank;
 - (c) Investec Bank;
 - (d) Nedbank;
 - (e) Standard Bank;
 - (f) Grindrod Bank;
 - (g) Public Investment Commissioners; and
 - (h) Corporation for Public Deposits.
2. Corporate bond issuers –
 - (a) None currently approved.
3. Municipal bond issuers –
 - (a) None currently approved.
4. Endowment policy issuers –
 - (a) None currently approved.
5. National Government / Parastatals –
 - (a) RSA fixed income stock; and
 - (b) Eskom fixed income stock.



Cost Containment Policy

Effective from 1 July 2021

Reviewed / Approved By	Date	Signature of Executive Director/ City Manager
Chief Financial Officer		
Council		

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1. DEFINITIONS

- 1.1 In this Cost Containment Policy (Policy), a word or expression to which a meaning has been assigned in the Act has the same meaning as in the Act, unless the context indicates otherwise, and:
- 1.1.1 ***“Act”*** means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
- 1.1.2 ***“catering”*** means the provisioning of a meal at sit-down and dine ***“proceedings of Council”*** (see definitions), but, excludes ***“refreshments”*** (see definitions) at ***“other gatherings of Council”*** (see definitions);
- 1.1.3 ***“consultant”*** means a professional person, individual, partnership, corporation, or a company appointed to provide technical and specialist advice or to assist with a design and implementation of projects or to assist Drakenstein Municipality to perform its functions to achieve the objects of local government in terms of Section 152 of the Constitution;
- 1.1.4 ***“cost containment”*** means measures implemented to curtail spending in terms of the Cost Containment Regulations and this Policy;
- 1.1.5 ***“credit card”*** means a card issued by a financial services provider, which creates a revolving account and grants a line of credit to the cardholder;
- 1.1.6 ***“delegated official”*** means an official with delegated powers to perform duties assigned to the official by the City Manager;
- 1.1.7 ***“other gatherings of Council”*** means an assembly or meeting held for a specific purpose;
- 1.1.8 ***“personal use”*** means items or goods that an official or political office bearer does not use for business purposes;
- 1.1.9 ***“proceedings of Council”*** means an event with a series of activities involving a ***“set procedure of Council”*** (see definitions);
- 1.1.10 ***“professional purposes”*** means, in the case of communication, the execution of required duties through informed decision making and/or recordkeeping;
- 1.1.11 ***“refreshments”*** means a light snack and/or drink at ***“other gatherings of Council”*** (see definitions);

- 1.1.12 ***“Regulations”*** means the Municipal Cost Containment Regulations, 2019;
- 1.1.13 ***“set procedure of Council”*** means a predetermined approved agenda of an event with a series of activities;
- 1.1.14 ***“social event”*** means an event with no series of activities involving a ***“set procedure of Council”*** (see definitions); and
- 1.1.15 ***“uniforms”*** means the required protective and/or branded clothing.

2. OBJECT OF POLICY

- 2.1 The object of this Policy, in line with sections 62(1)(a), 78(1)(b), 95(a) and 105(1)(b) of the Act and the Cost Containment Regulations, is to ensure that resources of Drakenstein Municipality are used effectively, efficiently and economically by implementing cost containment measures.

3. APPLICATION OF POLICY

- 3.1 This Policy applies to all officials and political office bearers in Drakenstein Municipality.

4. USE OF CONSULTANTS

- 4.1 The City Manager or delegated official may only appoint a consultant if an assessment of the needs and requirements confirms that the Municipality does not have the requisite skills or resources in its full-time employ to perform the function.
- 4.2 The City Manager must adopt a fair and reasonable remuneration framework for consultants taking into account the rates:
- 4.2.1 Determined in the "Guideline on fees for audits undertaken on behalf of the Auditor-General of South Africa", issued by the South African Institute of Chartered Accountants;
- 4.2.2 Set out in the "Guide on Hourly Fee Rates for Consultants", issued by the Department of Public Service and Administration; or
- 4.2.3 As prescribed by the body regulating the profession of the consultant.
- 4.3 The rates tender documentation for the appointment of consultants must include a

clause that the remuneration rates will be subject to negotiation, not exceeding the applicable rates mentioned in paragraph 4.2 above.

- 4.4 When negotiating cost-effective consultancy rates for international consultants, the accounting officer may take into account the relevant international and market-determined rates.
- 4.5 When consultants are appointed, an accounting officer must:
 - 4.5.1 Appoint consultants on a time and cost basis with specific start and end dates;
 - 4.5.2 Where practical, appoint consultants on an output-specified basis, subject to specific measurable objectives and associated remuneration;
 - 4.5.3 Ensure that contracts with consultants include overall cost ceilings by specifying whether the contract price is inclusive or exclusive of travel and subsistence disbursements;
 - 4.5.4 Ensure the transfer of skills by consultants to the relevant officials of the Municipality;
 - 4.5.5 Undertake all engagements of consultants in accordance with the Municipal Supply Chain Management Regulations, 2005 and the Municipality's Supply Chain Management Policy; and
 - 4.5.6 Develop consultancy reduction plans to reduce the reliance on consultants.
- 4.6 All contracts with consultants must include a fee retention or penalty clause for poor performance.
- 4.7 The City Manager or delegated official must ensure that the specifications and performance are used as a monitoring tool for the work to be undertaken and are appropriately recorded and monitored.
- 4.8 The travel and subsistence costs of consultants must be in accordance with the national travel policy issued by the National Department of Transport, as updated from time to time.
- 4.9 The contract price must specify all travel and subsistence costs and if the travel and subsistence costs for appointed consultants are excluded from the contract price, such costs must be reimbursed in accordance with the national travel policy of the National Department of Transport.

5. VEHICLES USED FOR POLITICAL OFFICE BEARERS

- 5.1 The threshold limit for the purchase of a vehicle for official use by the Executive Mayor, will not exceed R700,000 or 70% (VAT inclusive) of the total annual remuneration package of the Executive Mayor of Drakenstein Municipality, as defined in the Public Office Bearers Act and the notices issued in terms thereof by the Minister of Cooperative Governance and Traditional Affairs, whichever is lower.
- 5.2 The procurement of a vehicle for the Executive Mayor must be undertaken using the national government transversal contract mechanism, unless it may be procured at a lower cost through other procurement mechanisms.
- 5.3 Before deciding to procure a vehicle for the Executive Mayor, the City Manager or delegated official must provide Council with information relating to the following criteria which must be considered:
- 5.3.1 Status of the current vehicle of the Executive Mayor;
 - 5.3.2 Affordability of options including whether to procure a vehicle as compared to rental or hire thereof, provided that the most cost effective option is followed and the cost is equivalent to or lower than that contemplated in paragraph 5.1 above;
 - 5.3.3 Extent of service delivery backlogs;
 - 5.3.4 Terrain for effective usage of the vehicle; and
 - 5.3.5 Any other policy of council.
- 5.4 If the rental referred to in paragraph 5.3.2 is preferred, the City Manager must review the costs incurred regularly to ensure that value for money is obtained.
- 5.5 Regardless of the usage, a vehicle for official use by the Executive Mayor may only be replaced after completion of 120,000 kilometres.
- 5.6 Notwithstanding paragraph 5.5 above, the Municipality may replace the vehicle for official use by the Executive Mayor before the completion of 120,000 kilometres only in an instances where the vehicle has a serious mechanical problem and is in a poor condition and subject to obtaining a detailed mechanical report by the vehicle manufacturer or approved dealer.

- 5.7 The City Manager must ensure that there is a policy (currently the Fleet Management and User Guide Policy) that addresses the use of municipal vehicles for official purposes.

6. TRAVEL AND SUBSISTENCE

- 6.1 The City Manager in respect of all officials or political office bearers and the Executive Mayor in respect of the City Manager may only approve the purchase of economy class tickets for air travel.

- 6.2 This Policy limits international travel to meetings or events that are considered critical. The number of officials or political office bearers attending such meetings or events will be limited to those officials or political office bearers directly involved in the subject matter related to such meetings or events.

- 6.3 The City Manager in the case of officials, the Executive Mayor in the case of the City Manager and councillors, and the Council in the case of the Executive Mayor, will approve the officials or councillors who may attend the meetings or events referred to in paragraph 6.2 above.

- 6.4 The City Manager, or the Executive Mayor in the case of the City Manager, may approve accommodation costs that exceed an amount as determined from time to time by the National Treasury through a notice only:

6.4.1 During peak holiday periods; or

6.4.2 When major local or international events are hosted in a particular geographical area that results in an abnormal increase in the number of local and/or international guests in that particular geographical area.

- 6.5 An official or a political office bearer of Drakenstein Municipality must:

6.5.1 Utilise the municipal fleet, where viable, before incurring costs to hire vehicles;

6.5.2 Make use of available public transport or a shuttle service if the cost of such a service is lower than:

- (a) The cost of hiring a vehicle;
- (b) The cost of kilometres claimable by the official or political office bearer; and
- (c) The cost of parking.

6.5.3 Not hire vehicles from a category higher than Group B or an equivalent class; and

6.5.4 Where a different class of vehicle is required for a particular terrain or to cater for the special needs of an official, seek the written approval of the City Manager before hiring the vehicle.

6.6 Drakenstein Municipality must utilise the negotiated rates for flights and accommodation as communicated from time to time by the National Treasury through a notice or any other available cheaper flights and accommodation.

7. DOMESTIC ACCOMMODATION

7.1 The City Manager must ensure that costs incurred for domestic accommodation and meals are in accordance with the maximum allowable rates for domestic accommodation and meals as communicated from time to time by the National Treasury through a notice.

7.2 Overnight accommodation may only be booked where the return trip exceeds 500 kilometres.

7.3 The City Manager, or the Executive Mayor in the case of the City Manager, may approve overnight accommodation, where the return trip is less than 500 kilometres, if road or any other conditions could jeopardise the safety of officials and councillors, or if overnight accommodation is cheaper than the traveling expenses payable under the Travelling & Subsistence Policy of Council.

8. CREDIT CARDS

8.1 The City Manager must ensure that no credit card or debit card linked to a bank account of Drakenstein Municipality is issued to any official or political office bearer.

8.2 Where officials or political office bearers incur expenditure in relation to official municipal activities, such officials or political officer bearers must use their personal credit cards or cash or arrangements made by the Municipality, and request reimbursement approved by the City Manager or delegated official.

9. SPONSORSHIPS, EVENTS AND CATERING/REFRESHMENTS

9.1 Drakenstein Municipality may not incur catering/refreshments expenses for meetings which are only attended by persons in the employ of the Municipality,

unless the prior written approval of the City Manager is obtained.

- 9.2 The City Manager may incur catering/refreshments expenses for the hosting of meetings, conferences, workshops, courses, forums, recruitment interviews, and proceedings of Council that exceed five hours.
- 9.3 The City Manager in consultation with the Executive Mayor will compile and maintain a schedule of proceedings of Council (Annexure A attached to the Policy) to be approved by the Municipal Council.
- 9.4 The City Manager in consultation with the Executive Mayor will compile and maintain a schedule of other gatherings of Council (Annexure B attached to the Policy) to be approved by the Municipal Council.
- 9.5 Entertainment allowances of qualifying officials may not exceed two thousand rand per person per financial year, unless approved otherwise by the City Manager.
- 9.6 Drakenstein Municipality may not incur expenses on alcoholic beverages unless the Municipality recovers the cost from the sale of such beverages.
- 9.7 The City Manager must ensure that social events, team building exercises, year-end functions, sporting events and budget vote dinners are not financed from the Municipality's budget or by any suppliers or sponsors.
- 9.8 The City Manager may not incur expenditure on corporate branded items like clothing or goods for personal use of officials, other than uniforms, office supplies and tools of trade, unless costs related thereto are recovered from affected officials or is an integral part of the business model.
- 9.9 The City Manager or delegated official may incur expenditure for refreshments to host farewell functions in recognition of officials who served the Municipality for more than 4 years or retire on grounds of ill health.
- 9.10 The City Manager or delegated official may incur expenditure for refreshments when meeting with other spheres of government or stakeholders when the meeting is in excess of 2 hours.

10. COMMUNICATION

- 10.1 Drakenstein Municipality may, as far as possible, advertise municipal related events on its website instead of advertising in magazines or newspapers.

- 10.2 The City Manager must ensure that allowances to officials for private calls and data costs are limited to the amounts as determined in Council's Cellular Telephone Policy.
- 10.3 Newspapers and other related publications for the use of officials and full-time political office bearers must be discontinued on expiry of existing contracts or supply orders; unless, authorised by the City Manager for officials and by the Executive Mayor for full-time political office bearers that it is required for professional purposes, or where unavailable in electronic format.
- 10.4 Drakenstein Municipality may participate in the transversal term contract arranged by the National Treasury for the acquisition of mobile communication services.

11. CONFERENCES, MEETINGS AND STUDY TOURS

- 11.1 The City Manager must establish policies and procedures to manage applications to attend conferences or events hosted by professional bodies or non-governmental institutions held within and outside the borders of South Africa taking into account their merits and benefits, costs and available alternatives.
- 11.2 When considering applications from officials or political office bearers to attend conferences or events within and outside the borders of South Africa, the City Manager or Executive Mayor as the case may be, must take the following into account:
- 11.2.1 The official's or political office bearer's role and responsibilities and the anticipated benefits of the conference or event;
 - 11.2.2 Whether the conference or event addresses relevant concerns of Drakenstein Municipality;
 - 11.2.3 The appropriate number of officials or political office bearers, not exceeding three, attending the conference or event; and
 - 11.2.4 The availability of funds to meet expenses related to the conference or event.
- 11.3 The City Manager may consider appropriate benchmark costs with other professional bodies or regulatory bodies prior to granting approval for an official to attend a conference or event within and outside the borders of South Africa.
- 11.4 The benchmark costs referred to in paragraph 11.3 above, may not exceed an amount as determined from time to time by the National Treasury through a notice.

- 11.5 The amount referred to in paragraph 11.4 above excludes costs related to travel, accommodation and related expenses, but includes:
- 11.5.1 Conference or event registration expenses; and
- 11.5.2 Any other expense incurred in relation to the conference or event.
- 11.6 When considering costs for conferences or events these may not include items such as laptops, tablets and other similar tokens that are built into the price of such conferences or events.
- 11.7 The City Manager must ensure that meetings and planning sessions that entail the use of municipal funds are, as far as may be practically possible, held in-house.
- 11.8 Municipal or provincial office facilities must be utilised for conferences, meetings, strategic planning sessions, inter alia, where an appropriate venue exists within the Drakenstein Municipality's jurisdictional area.
- 11.9 The City Manager must grant the approval for officials, and in the case of political office bearers and the City Manager, the Executive Mayor, as contemplated in paragraph 11.2 above.
- 11.10 Drakenstein Municipality must, where applicable, take advantage of early registration discounts by granting the required approvals to attend the conference, event or study tour, in advance.

12. OTHER RELATED EXPENDITURE ITEMS

- 12.1 All commodities, services and products covered by a transversal contract concluded by the National Treasury must be considered before approaching the market, to benefit from savings where lower prices or rates have been negotiated.
- 12.2 Municipal resources may not be used to fund elections, campaign activities, including the provision of food, clothing, printing of agendas and brochures and other inducements as part of, or during election periods or to fund any activities of any political party at any time.
- 12.3 Expenditure on tools of trade for political office bearers must be limited to the upper limits as approved and published by the Cabinet member responsible for local government in terms of the Remuneration of Public Office Bearers Act, 1998.
- 12.4 Drakenstein Municipality must avoid expenditure on elaborate and expensive office

furniture.

- 12.5 Drakenstein Municipality may only use the services of the South African Police Service to conduct periodical or quarterly security threat assessments of political office bearers and key officials and a report must be submitted to the Office of the Speaker.
- 12.6 Drakenstein Municipality may consider providing additional time-off in lieu of payment for overtime worked. Planned overtime must be submitted to the relevant manager reporting directly to the City Manager, for consideration and prior approval on a monthly basis. A motivation for all unplanned overtime (emergency overtime) must be submitted to the relevant manager reporting directly to the City Manager, for approval. The directives of the approved Overtime Policy, must be adhered to except where in conflict of this Policy.
- 12.7 The City Manager or where applicable the Executive Mayor, must ensure that due process is followed when suspending or dismissing officials to avoid unnecessary litigation costs.

13. ENFORCEMENT PROCEDURES

- 13.1 Failure to implement or comply with this Policy and the Regulations may result in any official or political office bearer of the Municipality that authorised or incurred any expenditure contrary to this Policy and the Regulations being held liable for financial misconduct, or a financial offence in the case of political office bearers as defined in Chapter 15 of the Act read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014.

14. DISCLOSURES OF COST CONTAINMENT MEASURES

- 14.1 The disclosure of cost containment measures applied by the Municipality must be included in the municipal in-year budget reports and annual costs savings disclosed in the annual report.
- 14.2 The measures implemented and aggregate amounts saved per quarter, together with the regular reports on reprioritisation of cost savings and on the implementation of the cost containment measures must be submitted to the Municipal Council for review and resolution. The Municipal Council can refer such reports to an appropriate Council Committee for further recommendations and actions.
- 14.3 The reports referred to in paragraph 14.2 above must be copied to the National Treasury and the Western Cape Provincial Treasury within seven calendar days after

the report is submitted to Municipal Council.

15. DELEGATIONS REGISTER

- 15.1 The City Manager or delegated official must compile and maintain a Delegations Register of all officials that powers are assigned to in terms of this Policy.

16. SHORT TITLE AND COMMENCEMENT

- 16.1 This Policy is called the Cost Containment Policy and take effect when approved or reviewed by the Municipal Council.
- 16.2 This Policy must be reviewed once every financial year together with all budget related policies.

17. ANNEXURES

- 17.1 Annexure A: Proceedings of Council qualifying for catering; and
- 17.2 Annexure B: Other gatherings of Council qualifying for refreshments.

Annexure A**Proceedings of Council qualifying for catering**

Row Number	Name of the Proceeding	Stakeholders	Timing
Column Reference	A	B	C
1	Mayoral Education Excellence Awards	Councillors, officials and members of the public	April
2	Women`s Day / Gender Day	Councillors and officials	August
3	Employee Excellence Awards	Councillors and officials	November
4	Mayoral Business Stakeholders Initiative	Councillors, officials and members of the public	Monthly
5	Mayoral Sport Awards	Councillors, officials and members of the public	Annually

Other Gatherings of Council qualifying for refreshments

Row Number	Name of the Gathering	Stakeholders	Timing
Column Reference	A	B	C
1	IDP and Budget Roadshows	Councillors, officials and members of the public	March/April & September/October
2	Annual School's Poster Competition	Councillors, officials, learners and teachers	March
3	Employees Wellness Day	Councillors and officials	March/April
4	Housing Summit	Councillors, officials and members of the public	April / May
5	IDP Rep Forum	Councillors, officials and members of the public	May
6	World Fire Fighters Day	Councillors, officials and Fire Fighters	May
7	Arbor Day	Councillors, officials and members of the public	June
8	Youth Day	Councillors, officials and members of the public	June
9	Madiba Day	Councillor and officials	July
10	Sports Indaba	Councillors, officials and members of the public	July/August
11	Heritage Day	Councillors, officials and members of the public	September
12	Better Together Games	Officials, Councillors	September
13	Youth Indaba	Councillors, officials and members of the public	September
14	World Day: Awareness of Elderly Abuse	Councillors, officials and members of the public	October
15	Breast Cancer Awareness	Councillors, officials and members of the public	October
16	Elderly Tea	Councillors, officials and members of the public	November
17	16 Days of Activism	Councillors, officials and members of the public	November
18	Community Games	Officials, Councillors, members of the public and Learners	November/December
19	Long Service Awards	Strategic Management Team (SMT) and officials	Monthly
20	Sports Council	Councillors, officials and Sport Codes	Quarterly
21	Drakenstein Junior Council	Councillors, officials, learners and teachers	Quarterly
22	Certificate Ceremony – Scholar Patrol	Councillors, officials and members of the public	Quarterly
23	Community Engagement	Councillors, officials and members of the public	As and when needed

Row Number	Name of the Gathering	Stakeholders	Timing
Column Reference	A	B	C
24	Title Deeds Handovers	Councillors (Minister), officials and members of the public	3 per year
25	Vlakkeland Handovers	Councillors (Minister), officials and members of the public	3 per year
26	Launches of Buildings (Capital Projects - DCAS)	Councillors (Minister), officials and members of the public	Annually
27	Regional Housing Meeting	Officials (Province, CWDM, Municipalities)	Annually (meeting rotate between Municipalities)
28	Traffic Chiefs Forum	Officials Municipalities, Province	Annually (meeting rotate between Municipalities)