

Annexure "B"

OVERVIEW OF BUDGET RELATED POLICIES

The following existing policies were reviewed to achieve Council's strategic goals. It will be available for public scrutiny at the Ceres, Paarl, Robertson, Stellenbosch and Worcester offices of Council on 25 March 2021. The above mentioned policies are available on the Municipalities website, use the following route:
<http://www.capewinelands.gov.za/DocumentsDownload/Reports/Forms/AllItems.aspx?RootFolder=%2FDocumentsDownload%2FReports%2FBudget%20Related%20Policies&FolderCTID=0x012000F5646BDFEC9C374FBCA38C60CFAC016B&View={2C1EE29A-5F35-4B58-9AE0-458CB4FFF261}>

Existing Policies

Budget Policy

Cash Management and Investment Policy

Implementation of the Expanded Public Works Program (EPWP) Policy

Funding and Reserves Policy

Appointment of Consultants Policy

Mobile Device Policy

Official Vehicles and Fleet Management Policy

Virement Policy

Branding Policy

Leave and Unpaid Leave Policy

Asset Management Policy

Credit Control and Debt Collection Policy

Private Work: Declaration of Interest; Code of Conduct for Supply Chain Management

Practitioners and Role Players

Petty Cash Policy

Community Support Policy

Corporate Gifts Policy

Expenditure Management Policy

Grant in Aid Policy

Internship Policy

Inventory and Stock Management Policy

Long Term Financial Planning and Implementation Policy

Cost Containment Policy

Maintenance Management Policy

Overtime Policy

Revenue Management Policy

Sponsorships Policy

Supply Chain Management Policy

Unauthorized, Irregular, Fruitless and Wasteful Expenditure Policy

Unforeseen and Unavoidable Expenditure Policy

Adjusted policies are:

Credit Control and Debt Collection Policy;
Revenue Management Policy
Supply Chain Management Policy; and
Virement Policy



CAPE WINELANDS DISTRICT
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CAPE WINELANDS DISTRICT MUNICIPALITY CREDIT CONTROL AND DEBT COLLECTION POLICY

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1 OBJECTIVES OF THE POLICY

The objectives of the policy are to:

- Provide a framework within which the municipal Council can exercise its executive and legislative authority with regard to credit control and debt collection.
- Ensure that all monies due and payable to the municipality are collected and used to deliver municipal services in the best interests of the community, residents and ratepayers in a financially sustainable manner.

Section 96(a) of the Local Government Municipal Systems Act, 2000 (Act 32 of 2000) provides that a municipality must collect all money that is due and payable to it subject to this Act and any other applicable legislation.

- Focus on all outstanding debt as raised on the debtor's account and set realistic targets for collection.
- Outline credit control and debt collection policy procedures.
- Provide a framework to link the municipal budget to;
 - tariff policies
- Promote a culture of good payment habits amongst debtors and instill a sense of responsibility towards the payment of municipal accounts and reducing municipal debt.
- Subject to the principles provided for in this policy, Council must use innovative, cost effective, efficient and appropriate methods to collect as much of the debt in the shortest possible time without any interference in the process.
- Effectively and efficiently deal with defaulters in accordance with the terms and conditions of the policy.

2 DEFINITIONS

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| 2.1 "arrears" | refers to any amount due to the Council not paid by the due date. |
| 2.2 "billing" | refers to the process of charging for services provided by issuing accounts. |
| 2.3 "credit control" | It deals with the conditions and procedures to render accounts and to regulate the payment for services rendered. |
| 2.4 "credit control policy" | refers to the regulation of day-to-day actions leading to the issuing of accounts and the payment thereof. This includes issues like service agreements, payment facilities, pay-points, final dates for payment, interest and assistance to the poor. |
| 2.5 "debt collection" | refers to the debt recovery process and includes sanctions (warning, disconnection, adverse credit rating, legal process, etc.) to be applied in the event of non-payment of accounts. |
| 2.6 "debt recovery policy" | refers to the regulating of actions pertaining to arrear accounts, including extensions granted, written arrangements to pay off arrears, the monitoring thereof and legal actions associated with unpaid accounts. |

- 2.7 “due date”** refers to the final date of payment as shown on the debtor’s municipal account, demand or notices. **2.8 “holistic”** refers to the combining of all debt in order to establish the total obligation of the debtor
- 2.9 “indigent amount”** refers to the applicable value of the indigent subsidy as determined by the Council from time to time
- ~~**2.10 “interest on overdue accounts”** is based on a full month and part of a month shall be deemed to be a full month.~~
- ~~**2.11 “sundry debt”** refers to any debt other than for rates, housing, metered services, sewerage and refuse removal~~
- 2.12 “standard rate”** means a rate of interest which is one percent higher than the rate of interest payable by Council to its bank in respect of an overdraft.

3 PRINCIPLES

- The administrative integrity of the municipality must be maintained at all costs. The democratically elected officials (councillors) are responsible for policy-making, while it is the responsibility of the municipal manager to execute these policies.
- A copy of the application form, conditions of services and extracts of the relevant council’s credit control and debt collection policy and by-laws must be handed to every customer on request.
- Billing is to be accurate, timeous and understandable.
- The customer is entitled to reasonable access to pay points and to a variety of reliable payment methods.
- The customer is entitled to an efficient, effective and reasonable response to appeals and should suffer no disadvantage during the processing of a reasonable appeal.
- Enforcement of payment must be prompt, consistent and effective.
- Fraud/criminality will lead to loss of rights and heavy penalties and/or public prosecution.
- ~~• Incentives and disincentives may be used in collection procedures.~~
- The collection process will be cost-effective.
- Collection “Best Practices” will be pursued.
- Results will be regularly and efficiently reported.
- ~~• Although customer care and debt collection are inter-related issues, they should be performed by two separate divisions.~~
- There must be legal cause between the municipality and its customer and customer debt must arise out of a legal framework and must be legally collectable.
- Targets for performance in both customer service and debt collection will be set and pursued and remedies implemented for non-performance.
- Human dignity must be upheld at all times. The policy must be implemented with equity, fairness and consistency.
- Debts and arrangements to repay debts shall be treated holistically, but different repayment periods or methods may be determined for different types of service, debtors or areas within the general rule that the repayment period should be in sympathy with the installments that the debtor can afford (not applicable on levy income).
- The implementation of the policy shall be based on sound business principles which may include credit worthiness checks.

- New applications for services will be subject to prescribed credit information and outstanding amounts may be transferred to the new account. All information furnished on the application form may be verified by Council with any or all data information institutions, credit information bureaus and, or any financial institutions as may be deemed necessary by Council in determining the applicant's credit worthiness.
- Debtors may be referred to third party debt collection agencies and may be placed on the National Credit Rating list.
- ~~All recoverable costs incurred by Council relating to the collection process shall be recovered from the debtor.~~
- ~~Interest charges on overdue accounts will be levied from the due date if not paid by the following due date and will be calculated for a full month(s) irrespective of when payment is made. The interest charged will appear in the following month's account.~~

4 DUTIES AND FUNCTIONS

4.1 *Duties and functions of Council*

- To approve a budget consistent with the needs of communities.

Preferably, the total equitable share should be set aside for this purpose. If this amount is not enough an additional sustainable provision must be made according to the municipality's financial ability.

- To provide for debt impairment, in line with the payment record of the community, as reflected in the financial statements of the municipality.

The debt impairment provision should at least reflect the increase in debtors during the previous financial year. The amount provided for can only be reduced by the amount provided for working capital.

- To set an improvement target for debt collection, in line with acceptable accounting ratios and the ability of the Municipal Manager.

A realistic target would be to improve on the previous year's result by at least 2,5%. The target should be reviewed every year until the turnover rate of debtors is less than 60 days.

- To approve a reporting framework for credit control and debt collection.
- To consider and approve by-laws to give effect to the Council's policy.
- To monitor the performance of the Executive Mayor/Mayoral Committee and Municipal Manager regarding credit control and debt collection.
- To revise the budget should Council's targets for credit control and debt collection not be met.
- To take disciplinary action against councillors' officials and agents who do not execute council policies and by-laws.

Including credit control and debt collection.

- To approve a list of attorneys that may act for Council should any legal matters relating to debt collection arise. (Refer to Procurement Policy)
- To delegate the required authorities to monitor and execute the credit control and debt collection policy to the Executive Mayor/Mayoral Committee and Municipal Manager respectively.
- To provide sufficient capacity in the Treasury department for credit control and debt collection.
- To appoint debt collection agents to assist the Municipal Manager in the execution of his duties, if required.

4.2 Duties and functions of Executive Mayor/Mayoral Committee

- To ensure that Council's budget cash-flow and targets for the debt collection are met and executed in terms of the policy and relevant by-laws.
- To monitor the performance of the Municipal Manager in implementing the policy and by-laws.
- To review and evaluate the policy and by-laws in order to improve the efficiency of Council's credit control and debt collection procedures, mechanisms and processes.
- To report to Council.

Section 99 of the Local Government: Municipal Systems Act, 2000 provides that the Executive Mayor/Mayoral Committee must –

(a) *Oversee and monitor -*

- 1 *The implementation and enforcement of the municipality's credit control and debt collection policy and any by-laws enacted in terms of section 98; and*
- 2 *The performance of the municipal manager in implementing the policy and any bylaws.*
- 3 *When necessary, evaluate or review the policy and any by-law or the implementation of the policy or such by-laws, in order to improve efficiency of its credit control and debt collection mechanisms, processes and procedures; and*
- 4 *At such intervals as may be determined by the Council report to a meeting of the Council, except when the Council itself performs the duties mentioned in paragraph 1, 2 and 3.*

4.3 Duties and functions of the Municipal Manager

- To implement good customer care management.
- To implement council's credit control and debt collection policy.
- To install and maintain an appropriate accounting system.
- To bill customers.
- To demand payment on due dates.
- To raise penalties for defaults.
- To appropriate payments received.
- To collect outstanding debt.
- To implement "Best Practices".
- To provide different payment methods.
- To determine credit control measures.

- To determine work procedures for public relations, arrangements, summonses, attachments of assets, sales in execution, write-off of debts, sundry debtors and legal processes.
- To appoint firm/s of attorneys to complete the legal process (i.e. attachment and sale in execution of assets, emolument attachment orders etc.).
- To set performance targets for staff.
- To appoint staff to execute council's policy and by-laws in accordance with council's staff policy.
- To delegate certain functions to heads of department.
- To determine control procedures.
- To report to the Executive Mayor/Mayoral Committee.

4.4 *Duties and functions of Communities, ratepayers and residents*

- To fulfill certain responsibilities, as brought about by the privilege and or right to use and enjoy public facilities and municipal services.
- To pay fees imposed by the municipality.
- To observe the mechanisms and processes of the municipality in exercising their rights.
- To allow municipal officials reasonable access to their property to execute municipal functions.
- To comply with the by-laws and other legislation of the municipality.
- To refrain from tampering with municipal services and property.

4.5 *Duties and functions of Political parties*

-
- To hold regular meetings.
- To adhere to and convey council policies to residents.
- To adhere to council's code of conduct for councillors.

5 CUSTOMER CARE AND MANAGEMENT POLICY

Section 95(a) of the Local Government Municipal Systems Act, 2000 provides that a municipality must within its financial and administrative capacity, establish a sound customer management system that aims to create a positive and reciprocal relationship between persons liable for payments and the municipality.

5.1 *Communication and feedback*

5.1.1 The municipality will, within its financial and administrative capacity, conduct an annual process of compiling its budget which will include:

- a) A First Budget Meeting, in January, wherein Executive Mayor / Mayoral Committee will consider budget priorities, principles and a budget framework.
- b) A first round of public meetings will then be called, to invite at least the following: political parties; ratepayers and civic organizations; chambers of business and organized labour; the general public and other interested

parties, at which the budget priorities, principles and framework will be outlined and debated.

- c) Need identification workshops will be conducted throughout the Region (IDP meetings), the objects of which will be:
 - i) To identify all the needs of B Municipalities that are legitimately in the area of responsibility of the council.
 - ii) To involve the community in prioritizing these needs.
 - iii) To involve the community in Council's planning, and to provide the community with much basic information as to what Council does and what other levels of government do.
 - iv) To inform the community of the levels of payment and non-payment in specific areas, and to devise strategies in that regard.
- d) A council workshop, which will marry the results of the first budget meeting, the public meetings, and the need identification workshops with Council's Integrated Development Plan.
- e) Thereafter Council's draft Capital and Operating budgets, informed by the above processes, will go through Council's Executive Mayor/Mayoral Committee for the creation of a draft budget.
- f) This draft budget implications, will then be presented to a second round of public meetings.
- g) Thereafter a final draft of the budget appears before Council for approval.

5.1.2 Council's Credit Control and Debt Collection Policy, will be available in English, Afrikaans and Xhosa, and will be made available by general publication and on specific request, and will also be available at Council's cash collection points.

5.1.3 Council aims to establish:

- a) Decentralised complaints/feedback offices according to the constituencies of direct elected Councillors;
- b) A centralized 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.

6 ACCOUNTS AND BILLING

Section 95(d) of the Local Government Municipal Systems Act, 2000 provides that a municipality must, within its financial and administrative capacity take reasonable steps to ensure that the consumption of services has to be measured through accurate and verifiable metering systems.

- Customers will receive an understandable and accurate bill from the municipality.
- Settlement or due date is 14 days from date of statement.
- Accounts must be consumer friendly and must clearly reflect the following minimum information :
 - (a) the name, address and contact numbers of the Council;
 - (b) the name and postal address of the account holder;
 - (c) details of the service in respect of which the account is issued;

- (d) the contents of the account must be reflected in the language of the account holder
 - at present, a choice between Afrikaans and English is offered;
- (e) the balance brought forward from the previous account as well as a summary of transactions for the present period;
- (f) all services for which the account is rendered as well as amounts billed for such services;
- (g) the final amount payable;
- (h) the final date for payment;
- (i) soft reminders in respect of interest levies;
- (j) the situation of payment facilities and modes of payment accepted and hours for payment; and
- (k) VAT Registration number and account number.

6.1 *Full and final settlement payments*

- Any part payment of an account in full and final settlement can only be tendered to the Executive Director of Finance or his delegated authority.
- Should such a payment not be tendered in accordance with abovementioned, cash or postal orders will be returned to the payer. If such payment is in the form of a cheque, credit card or electronic payment, the amount will be returned to the drawer thereof.
- The account will be adjusted accordingly and debt management actions will commence as if no payment has been tendered.

6.2 *Payment facilities and methods and stop orders and debit orders*

- The municipality will operate and maintain suitable banking and cash facilities which will be accessible to all users.
- The municipality will at its discretion allocate a payment between service debts – a debtor who has overdue debt may not specify that the payment is for a specific portion of the account.
- The municipality may with the consent of a customer approach an employer to secure a debit or stop order arrangement.
- ~~The customer will acknowledge, in the customer agreements, 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.~~

6.3 *Arrangements*

Arrangement Criteria for debtors

A debtor may make a payment arrangement for a period of no longer than 6 months, if the first instalment will be done immediately.

~~If any debtor wishes to make an arrangement for a period of not longer than six months, and will pay the first installment immediately, interest on the arrangement amount may be suspended as long as the terms of the arrangement are maintained.~~

6.4 ***Enquiries, Appeals, Service complaints and Disputes***

- If a customer is convinced that his or her account is inaccurate, he or she can lodge an appeal with the municipality for recalculation of this account.

Section 95(f) of the Local Government: Municipal Systems Act, 2000 provides that a municipality must provide accessible mechanisms for those persons to query or verify accounts and appeal procedures which allow such persons to receive prompt redress for inaccurate accounts.

- Duplicate accounts must be available upon request.
- “Dispute” referred to in Section 102(2) of the Municipal Systems Act, No. 32 of 2000 as the instance when a debtor questions the correctness of any account by Council to him and such debtor lodges an appeal with Council.
- In order for a dispute to be registered with Council the following procedures must be followed :
 - The debtor must render the dispute in writing to Council and this must be actually received by Council.
 - The debtor must furnish his full personal particulars including his account number, telephone number, fax, e-mail addresses and any other relevant particulars.
 - The full nature of the dispute must be described in the correspondence.

On receipt of the dispute the Council will take the following actions:

- A Register must be kept in which all disputes received are to be entered.
- An authorized controlling official will keep custody of the register and conduct a daily or weekly check or follow-up on all disputes as yet unresolved.
- A written acknowledgement of receipt must be provided to the debtor.
- All appeals regarding disputed amounts must be unilaterally concluded by Council’s authorized officials within 14 calendar days from receipt thereof.
- Council’s authorized official’s decision is final and will result in the immediate implementation of any debt collection and credit control measures after the debtor is provided with the outcome of the appeal.
- The same dispute will not be reconsidered and will not again be defined as a dispute.
- If the debtor is not satisfied with the outcome of his appeal he may under protest pay the amount in dispute and redress his action to a court of law.

7 BUSINESS WHO TENDER TO THE MUNICIPALITY

The Procurement Policy and Tender Conditions include the following:

- (i) 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 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.
- (ii) A municipal account to mean any municipal service charge, or other fees, fines and penalties, due in terms of a contract or approved tariff or rate, which is outstanding after the due date normally appearing on the consolidated account or overdue in terms of the contract or any other due date that has passed.
- (iii) Tender conditions contain a condition allowing the municipality to deduct moneys owing to the municipality from contract payments in terms of a reasonable arrangement with the debtor.

8 INCENTIVES FOR PROMPT PAYMENT

- ~~The municipality may, to encourage payment, and to reward good payers consider from time to time incentives for the payment of accounts.~~
- ~~Such incentive schemes, if introduced, will be reflected in annual budgets as additional expenditure.~~

9 CUSTOMER ASSISTANCE PROGRAMMES

Arrangements for settlements

- If a customer cannot pay his/her account with the municipality then the municipality may enter into an extended term of payment with the customer. He/she must:
 - (i) Sign an acknowledgement of debt;
 - (ii) Sign a consent to judgment;
 - (iii) Provide a garnishee order/emolument order/stop order (if he or she is in employment);
 - (iv) ~~Acknowledge that interest will be charged at the prescribed rate;~~
 - (v) Pay the current portion of the account in cash; and
 - (vi) Sign an acknowledgement that, if the arrangements negotiated are later defaulted on, that no further arrangements will be possible and that disconnection of water and electricity will immediately follow, as will legal proceeding.

- Council reserves the right to raise the deposit/security requirement of debtors who seek arrangements.

10 DEBT COLLECTION POLICY

10.1 *Personal contact*

Telephonic contact

10.1.1 *Agents calling on clients*

- Council will endeavour, 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, and their rights (if any) to conclude arrangements or to indigence subsidies, and other related matters, and will provide information on how and where to access such arrangements or subsidies, and other related matters and will provide information on how and where to access such arrangements or subsidies.
- The municipality shall maintain a schedule of debtors with large amounts outstanding (the cut-off amount will be agreed by Council) and will maintain intensive contact with these debtors.
- Council may consider the use of agents 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 will be closely monitored by Council.
- Such contact is not a right that debtors enjoy – other collection proceedings will continue in the absence of such contact for whatever reason.

10.2 *Legal Process/Use of attorneys/Use of credit bureaus*

- Council will, when a debtor is 60 days 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.
- 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.
- Council will establish procedures and codes of conduct with these outside parties by their attorneys, the courts, etc.
- 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.

- All steps in the credit control procedure will be recorded for Council's records and for the information of the debtor.
- ~~All costs of this process are for the account of the debtor.~~
- 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 and included in Council's agreement with its customers.
- Customers will be informed of the powers and duties of such agents and their responsibilities including the observation of agreed codes of conduct.
- Any agreement concluded with an agent or product vendor shall include a clause whereby breaches of the code of conduct by the agent or vendor will see the contract terminated.

~~10.3 Cost of collection~~

- ~~All costs of legal process, including interest, penalties, and legal costs associated with credit control are for the account of the debtor and should reflect at least the cost of the particular action.~~

10.4 Dishonoured payments

- Receipts issued in respect of dishonoured cheques and ACB deductions must be written back upon receipt of such notices. ~~Interest on arrears must be raised where applicable.~~ Debtors must be notified and debt recovery actions be instructed where necessary.
- Should payments be dishonoured regularly, the debtors system must be encoded to not accept cheques or debit order transactions of such a debtor and he/she must be informed in writing.

~~Rates and General Services~~

- ~~If the drawer of the cheque, or the customer who received value from the depositing of the cheque, is an existing debtor of Council, the reversal and penalty fee may be debited to an account of the drawer or beneficiary and a letter of notification must be sent to the debtor. Such fee shall be deemed to be a tariff charge and shall be recovered from the debtor. Council reserves the right to refuse to accept further cheques from the drawer or beneficiary, to place the matter on the National Adverse credit listing and also institute legal action which may include criminal charges against the offender.~~

~~Miscellaneous Services~~

- If the drawer of the cheque is not an existing debtor of Council, then a sundry debtor account is opened and the debit and penalty is raised. Once the account is submitted and the debtor fails to honour the cheque and pay the penalty within 14 days of receipt, a final demand is generated and submitted. If there is still no response, then the matter shall be handed over for placement on the National Adverse Credit listing and/or institute legal action that may include criminal charges against the offender.
- If the drawer of the cheque or the customer who received value from the depositing of the cheque is an existing debtor of Council, the reversal and penalty fee may be debited to an account of the drawer or beneficiary and a letter of notification must be sent to the debtor. Such fee shall be deemed to be a tariff charge and shall be recovered from the debtor. Council reserves the right to refuse to accept further cheques from the drawer or beneficiary and also institute legal action which may include criminal charges against the offender.

10.5 *Irrecoverable Debt*

Debt will be regarded as irrecoverable if:

- All reasonable notifications and cost effective legal avenues to recover a specific outstanding amount have been exhausted; or amount to be revised by the Executive Director: Finance annually.
- If the amount to be recovered is too small to warrant further endeavours to collect it; or
- The cost to recover the debt does not warrant further action; or
- The amount outstanding is the residue after payment of a dividend in the Rand from an insolvent estate; or
- A deceased estate has no liquid assets to cover the outstanding amount; or
- It has been proven that the debt has prescribed; or to be reported to Council.
- The debtor is untraceable or cannot be identified so as to proceed with further action.
- The outstanding amount is due to an administrative error by Council.

11 AUTHORIZATION

- As rates are deemed to be recoverable in all instances, all requests to write-off debt in respect of rates must be presented as individual items to Council.
- In respect of other debt, schedules indicating the debtor account number, the debtor's name, the physical address in respect of which the debt was raised, address erf number, if applicable, amount per account category as well as a reason to write off the amount must be compiled.

- These schedules with an item requesting authorization to write off the indicated debt must be presented to :
 - (i) The Executive Director: Finance for debts of R2 000 and less per debtor;
 - (ii) The Finance Committee for debts R2 000 or more per debtor; and
 - (iii) The Executive Director: Finance must submit a report to council before the end of the financial year to inform them of the amount written off during that financial year.
- Notwithstanding the above Council or its authorized officials will be under no obligation to write off any particular debt and will always have the sole discretion to do so.

12 DISCRETION - NEGOTIABLE AMOUNTS

- Discretion in terms of negotiable amounts as per this policy is delegated to the Executive Director of Finance with the right to sub-delegate.
- Officials with delegated powers may use discretion as a final tool by which decisions can be made in accordance with this policy.
- At all times and at all levels, discretion will only be used so as to apply the principles embodied within the policy and to ensure that some form of payment acceptable to Council is forthcoming from negotiations with the debtor.
- At all times the most financially beneficial arrangement to Council must be entered into whilst still retaining the principles of this policy.

13 ABANDONMENT

- The Municipal Manager, must ensure that all avenues are utilized to collect the debt.
- There are some circumstances that allow for the valid termination of debt collection procedures:
 - (i) The insolvency of the debtor, whose estate has insufficient funds.
 - (ii) A balance being too small to recover, for economic reasons considering the cost of recovery.
- The municipality will maintain audit trials in such an instance, and document the reasons for the abandonment of the debt.

14 PERFORMANCE EVALUATION

14.1 *Income Collection Targets*

Council to create targets that include:

- (i) Reduction in present monthly increase in debtors in line with performance agreements determined by council.

15 CUSTOMER SERVICE TARGETS

Council to create targets that would include:

- (i) Response time to customer queries.

- (ii) Date of first account delivery to new customers.

16 ADMINISTRATIVE PERFORMANCE

Council to create targets that will include:

- (i) Cost efficiency of debt collection.
- (ii) Query rates.
- (iii) Enforcement mechanism ratios.

Council will create a mechanism wherein these targets are assessed; Council's performance is evaluated and remedial steps taken.

17 REPORTING TO COUNCIL

- The Executive Director: Finance shall report monthly to the Municipal Manager in a suitable format to enable the municipal Manager to report to Council. This report shall report on:
 - (i) Cash flow information for the capital and operating accounts, and combined situation, showing Council's actual performance against its cash flow budgets.
 - (ii) Cash collection statistics, showing high-level debt recovery information (numbers of customers; enquires; default arrangements; growth or reduction of arrear debtors; ideally divided into wards, business (commerce and industry) domestic, state, institutional and other such divisions.
 - (iii) Performance of all areas against targets agreed to in item 6 of this policy document.
 - (iv) Council's ongoing income and expenditure statements, comparing both billed income and cash receipt income, against ongoing expenditure in both the capital and operating accounts.
- If in the opinion of the Executive Director: Finance, Council will not achieve cash receipt income equivalent of the income projected in the annual budget as approved by Council, the Executive Director: Finance will report this with motivation to the Municipal Manager who will, if he agrees with the Executive Director: Finance, immediately move for a revision of the budget according to realistically realizable income levels.

18 STRUCTURES OF THE FINANCE DEPARTMENT

Council shall regularly receive a report from the Executive Director: Finance, if necessary after consultation with suitable consultants, on the manpower and systems requirements of treasury which requirements take into account Council's agreed targets of customer care and management, and debt collection, and, after considering this report, Council will within reason vote such resources as are necessary to ensure that treasury has the staffing and structures to meet Council's targets in this regard or to outsource the service.

REFERENCES:

- 1 LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT, 2000 (ACT 32 OF 2000)
- 2 THE CONSTITUTIONAL ACT OF THE REPUBLIC OF SOUTH AFRICA, 1996 (ACT 108 OF 1996)
- 3 DEBT MANAGEMENT POLICY – CITY OF CAPE TOWN
- 4 CREDIT CONTROL – WEST COAST DISTRICT COUNCIL
- 5 CUSTOMER CARE MANAGEMENT AND DEBT COLLECTION POLICY – BREEDE VALLEY MUNICIPALITY



CAPE WINELANDS DISTRICT
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DRAFT BORROWING POLICY

Approved by Council:
Implemented:

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1. DEFINITIONS

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

“**Council**” means the Municipal Council of the Municipality;

“**financing agreement**” means any loan agreement, lease, instalment, purchase arrangement under which the Municipality undertakes to repay a long-term debt over a period of time;

“**lender**” means a juristic person who provides debt finance to the Municipality;

“**long term debt**” means debt repayable by the Municipality over a period exceeding one (1) year;

“**Municipality**” means the Cape Winelands District Municipality;

“**municipal debt**” means:

- a) a monetary liability or obligation on a Municipality by -
 - i. a financing agreement, note, debenture, bond or overdraft; and
 - ii. the issuance of municipal debt instruments; and
- b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

“**security**” means any mechanism intended to secure the interest of a lender or investor and includes any of the mechanisms mentioned;

“**sinking fund**” means a fund established where provision is made to accumulate sufficient funds to repay the capital on a municipal bond issue at the end of the loan period as a lump sum which is termed a ‘bullet’ payment;

“**Short term debt**” means debt that is repayable over a period not exceeding one (1) year; and

Any word or expression used in this policy shall that is not defined above, unless the context clearly requires a different interpretation, bear the same meaning attached to it in the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) or the Disclosure Regulations, as the case may be; provided that if there is any conflict between a definition contained in the MFMA and a definition contained in the Disclosure Regulations, then the definition contained in the MFMA shall prevail.

2. PURPOSE

- 2.1** To establish a borrowing framework policy for the Municipality and set out the objectives, policies, statutory requirements and guidelines for the borrowing of funds.

3. OBJECTIVES OF THE POLICY

- 3.1** The Municipality aimed at gaining the lowest interest rate on any external borrowings, short-term as well as long-term, but still having the credit exposure risk in mind. The effectiveness of this policy is to ensure that the cash management program make provision for the repayment of interest and redemption on the external borrowings. The policy will set out specific limits in which debt needs to be maintained to ensure adequate provision for the repayment of debt to ensure financial sustainability.
- 3.2** Considering the demand for municipal infrastructure, borrowing is an important element to obtain additional funding sources to fund the municipal capital programme over the medium and long term.

4. SCOPE

The primary goal in the borrowing of funds is to ensure that the funds are obtained at the lowest possible interest rates at minimum risk, within the parameters of authorized borrowings.

4.1 Risk Management

The need to manage interest rate risk, credit risk exposure and to maintain debt within specified limits is the foremost objective of the borrowing policy. To attain this objective, diversification is required to ensure that the Chief Financial Officer prudently manages interest rate and credit risk exposure.

4.2 Cost Borrowings

The borrowings should be structured to obtain the lowest possible interest rate, on the most advantageous terms and conditions, taking cognisance of

borrowing risk constraints, infrastructure needs and the borrowing limits determined by Legislation.

4.3 Prudence

Borrowings shall be made with care, skill, prudence and diligence. To this end, officials of the Municipality are required to:

- (a) adhere to this policy, and other procedures and guidelines;
- (b) exercise due diligence;
- (c) prepare all reports in a timely fashion; and
- (d) ensure strict compliance with all Legislation and Council policy.

5. REGULATORY CONTEXT

- 5.1** The relevant Legislation in terms of which borrowing decisions are governed is the Local Government Municipal Finance Management Act, No 56 of 2003.
- 5.2** The Municipal Regulations on Debt Disclosure has been promulgated (Government Gazette no. 29966, 15 June 2007) and has been effective from 01 July 2007 for a municipality or municipal entity.
- 5.3** Council is the only body that can approve external borrowing as a budget item. The Bid Adjudication committee appoints the tender to the successful bidder and thereafter Council will delegate to the Municipal Manager of the Municipality to enter into a contract with the successful bidder and the signing thereof.

6. TYPES OF LOANS AND FINANCING

6.1 Annuity loans

Annuity loans are straight forward and uncomplicated. The loan amount, interest rate and repayment period offered by the Financial Institution are

fixed. The calculation of the instalment payable on an annuity/fixed redemption basis is simple and straight forward. Normally with an annuity loan, the instalment of the loan will be repaid in equal six monthly instalments over the term of the loan. The capital portion of the instalment will increase over the duration of the loan, and conversely, the interest amount charged will decrease over the loan period. Where the interest rate offered by the Financial Institution is on a variable basis, an interest rate swap (IRS) may be taken out. An IRS agreement will need to be signed with the party agreeing to accept the variable rate and in turn, offer the fixed rate to the Municipality. An Interest Rate Swap Agreement must comply with the terms set out by the International Swap Dealers Association (ISDA). The fixing of debt repayments is an important consideration in meeting the financial requirements of the Municipality, that of annually producing a balanced budget. There are from time to time various options offered by Financial Institutions which need to be treated on their merits and which could invariably result in slightly lower interest rates being offered.

6.2 Bullet payment redemption

In this instance, the total capital is usually repaid at the end of the term and interest on the total amount borrowed is paid annually or semi-annually. The interest rate can be fixed and the interest payable is known for the duration of the loan. Cash has to be set aside to repay the capital at the end of the term. The lender could require security in the form of an investment (sinking fund).

6.3 Bonds

A Bond is an instrument used by Government and Parastatals such as Telkom, Eskom, Transnet, Corporates and Municipalities to raise loan capital on the open market. Bond holders have the right to interest, usually paid on a semi-annual basis, and the repayment of the capital amount reflected on the stock certificate held on maturity date. The coupon, maturity, principal value and market value are intrinsic features of a Bond. The most critical variable factor in determining Bond rates is the expected long term trend in inflation, in order to provide a return that equals inflation plus a risk premium. The higher the risk attached to a borrower, the higher will be the risk premium investors will demand. During its tenure the Bond will trade on the Bond market at prevailing interest levels. The price of a Bond trading at any given time on the market is a function of prevailing interest rates. Bond prices move inversely to movements in interest rates.

6.4 Use of Internal Funds

The Municipality from time to time, will use certain of its surplus funds to fund its Capital programme. The utilisation of surplus funds enables the Municipality to reduce its reliance on external debt financing, thereby allowing it to borrow only funds from external sources when favourable market conditions prevail. The use of internal funds impacts negatively on surplus cash for return of interest and should be within the limits.

7. SOURCES OF BORROWINGS

7.1 Subject to any particular determination of the Council of the Municipality, the Municipality may enter into financing agreements with:

- a) registered South African Banks;
- b) the Development Bank of Southern Africa;

7.2 Unless the Council of the Municipality specifically determines otherwise, the Municipality shall not incur any debt by the issuance of any municipal debt instruments.

8. BORROWING FACTORS

8.1 The Municipality shall take into account the following factors when deciding whether to incur debt:

- a) the type and extent of benefits to be obtained from the borrowing;
- b) the length of time the benefits will be received;
- c) the beneficiaries of the acquisition or development financed by the debt;
- d) the impact of interest and redemption payments on both current and forecasted revenue available;
- e) other current and projected sources of funds;
- f) likely movements in interest rates for variable rate borrowings;

- g) competing demands for funds;
- h) timing of money market interest rate movements and the long term rates on the interest rate curve; and
- i) the expected impact that any external debt raised may have on the operational budget.

8.2 The Municipality will, in general, seek to limit its dependence on borrowings in order to minimise future revenue committed to debt servicing and redemption charges. The Municipality may only borrow funds, in terms of the MFMA, for the purpose of acquiring assets, improving facilities or infrastructure to provide service delivery.

8.3 The Municipality may incur long term debt only for the purpose of Capital expenditure on infrastructure, property, plant or equipment to be used for the purpose of achieving the objects of Local Government as set out in section 152 of the Constitution.

8.4 The current gearing for external loans should not exceed the 50% mark total outstanding debt to Revenue. Revenue is limited to the RSC Levy Replacement Grant, Equitable Share, Interest from External Investments and Roads admin fee.

9. PROHIBITED BORROWING PRACTICES

9.1 The Municipality shall not borrow for investment purposes, with the sole purpose of investing to earn a return. The cost of debt is almost always more expensive than the return that the Municipality can derive by investing in permitted investments.

9.2 Foreign Borrowing is permitted in terms of Section 47 of the MFMA, whereby the debt must be denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

10. DEBT REPAYMENT

- 10.1** Whilst the period for which loan debt may be received will vary from time to time according to the needs of the various Lenders.
- 10.2** Cognisance is taken of the useful lives of the underlying assets to be financed by the debt, and, moreover, careful consideration is taken of the interest rates on the interest yield curve. Should it be established that it is cost effective to borrow the funds on a shorter duration (as opposed to the life of the asset) as indicated by the interest yield curve, the loan will be negotiated to optimise the most favourable and cost effective benefit to the Municipality.
- 10.3** No loans will be repaid before due date unless there is a financial benefit to the Municipality.
- 10.4** The Municipality shall therefore assess the nature and extent of any benefits of early repayment before it makes any such early repayment.
- 10.5** Cognisance must be taken of any early repayment penalty clauses in the initial loan agreement, as part of the assessment.
- 10.6** The Municipality may set up sinking funds to facilitate loan repayments, especially when the repayment is to be met by a bullet payment on the maturity date of the loan.
- 10.7** Such sinking funds may be invested directly with the Lender's Bank.
- 10.8** The maturity date and accumulated value of such investment must coincide with the maturity date and amount of the intended loan that is to be repaid.

11. NON-REPAYMENT OR NON-SERVICING OF LOAN

- 11.1** The Municipality must honour all its loan obligations timeously. Failure to effect prompt payment will adversely affect the raising of future loans at favourable costs of borrowing.
- 11.2** Failure to pay any loan instalment, even by one day, and even if only through administrative oversight, will have severe repercussions, and may jeopardise the Municipality's credit rating.

- 11.3** In addition to the timeous payment of the loans, the Municipality must adhere to the covenants stipulated in the loan agreements.

12. CONTROL AND MONITORING OF BORROWINGS

- 12.1** A proper record must be kept and maintained of all the borrowings made, indicating at least the Institution, Borrowing amount, Interest rate, Start date, Closing date, Redemption amount, Interest amount and the purpose of the borrowing.
- 12.2** Repayment schedules received from the borrowing institutions must be checked to verify the correctness of the repayments. Repayment of Interest and redemption must be done in time to avoid penalty interest.

13. APPROVAL OF LOANS BY THE MUNICIPALITY

- 13.1** Section 46 of the MFMA stipulates that the Municipality may incur long-term debt only if a resolution of the Council, signed by the mayor, has approved the debt agreement and the Accounting Officer has signed the agreement or other document which acknowledges the debt. At least 21 days prior to the meeting of the Council at which approval for the debt is to be considered, the Municipality must make public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided. The Public, the National Treasury and Provincial Treasury must be invited to submit written comments or representations to the council in respect of the proposed debt.
- 13.2** A copy of the information statement submitted to Council at least 21 days prior to the meeting to approve the loan agreement must contain particulars of –
- a) the essential repayment terms, including the anticipated debt repayment schedule; and
 - b) the anticipated total cost in connection with such debt over the repayment period.

14. SECURITY

- 14.1** In Section 48 of the MFMA provides that the Municipality may provide security for any of its debt obligations in any of the forms referred to in Section 48(2).
- 14.2** Such security shall be given only pursuant to a resolution of the Council, which resolution must comply with the provisions of Section 48(3), (4) and (5) of the MFMA.

15. SHORT TERM DEBT

- 15.1** The Municipal Finance Management Act provides that the Municipality may incur short term debt only when necessary to bridge 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 capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long term debt commitments.
- 15.2** The municipal council may approve an individual transaction or a credit facility for a line of credit or overdraft facility.
- 15.3** The Municipality must pay off short term debt within the same financial year and may not renew or refinance its short term debt if it will have the effect of extending the short term debt into a new financial year.

16. GUARANTEES

- 16.1** The MFMA Section 50 provides that the Municipality may not guarantee any debt of any entity unless the entity is a Municipal entity under its sole ownership control. The debt must be reflected in the approved business plan of the entity. The guarantee must be authorised by the Municipality. This must be done in the same manner and subject to the same conditions applicable to any other borrowings. Neither the National nor Provincial Government may guarantee the debt of any Municipality.

17. REPORTING

- 17.1** The Financial Officer shall in terms of Section 71 of the MFMA report to National and Provincial Treasury on the state of the borrowings. This reporting must be done on a monthly and quarterly basis.

18. DISCLOSURE

- 18.1** The Municipality must, when interacting with a prospective Lender or when preparing documentation for consideration by a prospective Investor, disclose all relevant information that may be requested or that may be material to the decision of the prospective Lender or Investor. Reasonable care must be taken to ensure the accuracy of any information disclosed to the prospective Lender or Investor. Whilst this is a standard and acceptable business practice, it is also in compliance with Section 49 of the MFMA.
- 18.2** In the case of long-term debt it must be disclosed whether the debt is to finance -
- a) capital expenditure on property, plant or equipment to be used for the purpose of achieving the objectives of local government, subject to section 46(4) of the Act; or
 - b) refinancing of existing long-term debt, subject to section 46(5) of the Act.



CAPE WINELANDS DISTRICT
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REVENUE MANAGEMENT POLICY

FEBRUARY 2015

**APPROVED BY COUNCIL:
DATE OF IMPLEMENTATION :**

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1. Aim and Intent of Revenue Management Policy

It is the intent of this policy to practice revenue management at the Municipality according to the requirements of the Municipal Finance Management Act. For this purpose the existing policies on Cash Management and Credit Control should be consulted, due to its close relationship with revenue management practice.

2. High Level Roles and Responsibilities for Revenue Management

The function of managing the revenue of the Municipality is a threefold one that is according to the Municipal Finance Management Act No. 56 of 2003 a mutual responsibility, created through appropriate delegations to the following role-players.

- The Accounting Officer;
- The Chief Financial Officer;
- The Senior Management; and,
- Any Official or External Consultant duly appointed.

2.1. Roles and Responsibilities of the Accounting Officer

The Municipal Manager of the Municipality is the Accounting Officer of this Municipality for the purposes of the Municipal Finance Management Act, and, as Accounting Officer, must -

- (a) Exercise the functions and powers assigned to an Accounting Officer in terms of the Municipal Finance Management Act; and
- (b) Provide guidance and advice on compliance with the Municipal Finance Management Act to-
 - (i) the political structures, political office-bearers and officials of the Municipality; and
 - (ii) any municipal entity under the sole or shared control of the Municipality.

2.2. Role and Responsibilities of Senior Management

The Senior Management of this municipality's administration who is in terms of the Municipal Finance Management Act assisting the Accounting Officer in managing and coordinating the financial administration of the municipality that includes revenue management and or sections there-of consists of-

- (a) the Accounting Officer;

- (b) the Chief Financial Officer;
- (c) all Senior Managers who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated in terms of section 79 of the Municipal Finance Management Act; and
- (d) any other senior officials designated by the accounting officer.

2.3. Role and Responsibilities of Chief Financial Officer

- (1) The Chief Financial Officer (CFO) of the Municipality -
 - (a) is administratively in charge of the Budget and Treasury Office;
 - (b) must advise the accounting officer on the exercise of powers and duties assigned to the accounting officer in terms of the Municipal Finance Management Act;
 - (c) must assist the Accounting Officer in the administration of the municipality's bank accounts and in the preparation and implementation of the municipality's budget;
 - (d) must advise Senior Managers and other senior officials in the exercise of powers and duties assigned to them; and
 - (e) must perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, supply chain management, financial management, review and other duties as delegated by the Accounting Officer to the Chief Financial Officer.
- (2) The Chief Financial Officer of the Municipality is accountable to the Accounting Officer (Municipal Manager) for the performance of the duties referred to above.

3. Detailed Role of Accounting Officer pertaining to Revenue Management

- (1) The Accounting Officer of a municipality is responsible for the management of the revenue of the Municipality.
- (2) The Accounting Officer must take all reasonable steps to ensure-

- (a) that the Municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's Credit Control and Debt Collection Policy;
 - (b) that revenue due to the Municipality is calculated on a monthly basis;
 - (c) that all money received is promptly deposited in accordance with the Municipal Finance Management Act into the municipality's primary and other bank accounts;
 - (e) that the municipality has and maintains a management, accounting and information system which-
 - (i) recognize revenue when it is earned;
 - (ii) accounts for debtors; and
 - (iii) accounts for receipts of revenue;
 - (f) that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;
 - (g) ~~that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget related policies and within a prescribed framework; and~~
 - (h) that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.
- (3) The Accounting Officer must take all reasonable steps to ensure -
- (a) that any funds collected by the Municipality on behalf of another organ of state is transferred to that organ of state at least on a weekly basis; and
 - (b) that such funds are not used for the purposes of the Municipality

4. Policy Guidelines on Collection and Banking of Revenue

- (1) The Municipal Manager must-
 - (a) implement and enforce the Municipality's Credit Control and Debt Collection Policy and bylaws;
 - (b) establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the Municipality; and

- (c) report thereon to the Council.
- (2) All amounts owing to the municipality must be levied/raised by way of a debit in the applicable debtors system.
- (3) Except when the Chief Financial Officer has authorised a department to receive monies paid to the Municipality, the Chief Financial Officer must receive all payments.
- (4) No money may be accepted unless an official receipt can be issued immediately.
- (5) ~~All monies received must be deposited daily in the municipality's bank account.~~
- (6) Every departmental head must without delay in writing notify the chief financial officer of any monies due to the municipality and the reasons why such monies are owed must be expounded in such notification.

5. Policy Guidelines on Revenue Owed to the Municipality

- (1) No amount owing to the municipality may be written off as irrecoverable without the approval of the Council.
- (2) If a person who is or was in the employ of the municipality causes or caused the municipality loss or damage because he or she-
 - (a) failed to collect money owing to the municipality for the collection of which she/he is or was responsible;
 - (b) is or was responsible for an irregular payment of money of the Municipality;
 - (c) is or was responsible for a payment of money not supported by a proper voucher;
 - (d) due to an omission to carry out her/his duties, is or was responsible for Fruitless Expenditure of money of the Municipality;
 - (e) is or was responsible for a deficiency in, or for the destruction of or damage to money of the Municipality, stamps, face value documents and forms having a potential value, securities, equipment, stores or any other property of the Municipality; or
 - (f) due to an omission to carry out her/his duties, is or was responsible for a claim against the Municipality,

In cases where the Municipal Manager was responsible for such loss or damage, the council, must-

- (a) determine the amount of such loss or damage;
 - (b) take disciplinary action where possible; and
 - (c) in appropriate cases recover the loss or damage.
- (3) Any loss suffered by the Municipality and which the Municipal Manager, or if the Municipal Manager is responsible, the Council, suspects to be due to any fraudulent or corrupt act or an act of bribery committed by any person, must forthwith be reported to the South African Police Service.
- (4) If the Council is of the opinion that the Municipality is unable to determine the amount or circumstances of any loss, it may at its expense appoint a person registered under the Public Accountants' and Auditors' Act, 1991 (Act No. 80 of 1991), to assist the Municipality to determine the amount of the loss or the circumstances in which it occurred.

6. Policy and Guidelines on Receipts

- (1) In accordance with the audit regulations, the receipt of all monies must immediately be recorded by means of a numbered official receipt or ticket or in any other way approved by the Chief Financial Officer. Consult the Municipality's Cash Management Policy for comprehensive guidelines in this regard.
- (2) No alteration must be made to a receipt, ticket or other form of acknowledgement of payment.
- (3) Any error that appears on a receipt, ticket or other form of acknowledgement of payment must be corrected by issuing a new receipt and the cancellation of the erroneous one.
- (4) Every cancelled receipt form must be returned to its proper place in the receipt book or, in the absence of a receipt book, filed according to the instructions of the chief financial officer.
- (5) Any cash surplus found at any time must immediately be declared, a receipt issued in terms of the audit regulations and deposited without delay to the credit of the appropriate account.

- (6) Any cash deficits must immediately be reported to the departmental head concerned and replaced in accordance with the instructions of the chief financial officer.

7. Review of service charges and rent for municipal property

- (1) Revision of tariffs and other levies is done consistent with the municipality's tariff policy and bylaws.
- (2) The Chief Financial Officer must make appropriate recommendations regarding the revision of tariffs and other levies.

8. Income from Investments

Consult the Municipality's Investment Management Policy for detail guidelines pertaining to the handling and administration of investments.

The following functions should be performed on a monthly basis:

- (1) The Accountant responsible for investments should obtain monthly balance certificates from the relevant financial institutions.
- (2) He / she reconciles interest received as per the investment certificates to the investment register and investment general ledger accounts. Interest received is captured to the financial system.
- (3) He / she should recalculate interest received to ensure that it agrees to the rates as per the individual investment certificates.
- (4) ~~The Manager Revenue should review the interest received as per the investment register with the interest received general ledger account. Differences should be resolved and corrected once they are detected. This reconciliation should be done in writing and be verified for correctness by the Chief Financial Officer. This reconciliation should be used for reporting purposes.~~

9. Income Recognition

The income from sundry services such emergency services, rental of property or any other sundry service is recognised when the amounts of such charges are debited against the debtor accounts.

10. Debtor Accounts

Accounts must be prepared and send to the consumers as soon as possible. The date for payment must appear on the account and should be a fixed day every month, for example the 25th.

The account must be printed on a standard form which must contain the following details:

- Debtor name;
- Debtor account No.;
- Debtor postal address;
- Details to where the service(s) have been supplied;
- All details of services that have been supplied;
- Any outstanding balance from the previous month;
- Any interest or fines that may have accrued;

11. Age Analysis and Overdue Accounts

- (1) Within seven days after each monthly due date the Chief Financial Officer must dispatch a notice to all defaulters.
- (2) The defaulter has 14 days in which to make a payment.
- (3) Should a debtor fail to pay their account the Chief Financial Officer hand over the account for collection.

12. Receipts and Clearing of Accounts

The official responsible for receipting of monies received from debtors must not be the official responsible for debtor's administration. The two positions must be kept separate and filled by different people. This is done in order to reduce the risks of fraud within the Municipality.

- (1) All receipts must be correctly allocated to the relevant debtors account and furthermore the amount must be correctly allocated to the correct services paid for.
- (2) Any unknown receipts will be temporarily posted to an unallocated receipts account. These amounts must be traced to deposits or remittances and must be followed up by contacting the payee or bank where applicable, to verify for what or whom the payment was received.

- (3) The unallocated receipts account must be cleared at least on a ~~weekly~~ monthly basis.

13. Bad Debts: Municipal Manager/Council

Bad debts should only be written off on the authority of the Council after all reasonable steps have been taken to recover the debt, in accordance with the Credit Control and Debt Collection Policy, and the Municipal Manager is satisfied that:

- The debtor cannot be traced;
- All legal and other measures have been exhausted, but there is still a balance of the debt remaining;
- Recovery of the debt would be uneconomical;
- Recovery would cause undue hardship to the debtor or his/her dependants;
- It would be an advantage to the Municipality to effect a settlement of its claim or to waive the claim.

All debts written off shall form a charge against the provision for bad debts, and if no or an inadequate provision exists, shall be charged as an operating expense of the vote to which the bad debt relates.

14. Deposits

Any deposits made and which are refundable will be forfeited to the Council if not claimed within 12 months.

REVIEWED SUPPLY CHAIN MANAGEMENT POLICY

DRAFT

CAPE WINELANDS DISTRICT MUNICIPALITY



SUPPLY CHAIN MANAGEMENT POLICY

2021/2022

Adopted: 23 January 2006 (C.14.3)
1st amendment: 22 August 2006 (C.9.4)
2nd amendment: 27 March 2008 (C.14.5)
3rd amendment: 31 July 2014 (C.14.1)
4th amendment: 28 April 2016 (C.14.6)
5th amendment: 25 May 2017 (C.15.1)

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33. Procurement of goods necessitating special safety arrangements
34. Proudly SA Campaign
35. Appointment of consultants
36. Deviation from and ratification of minor breaches of procurement processes
37. Unsolicited bids
38. Combating of abuse of supply chain management system

Part 3: Logistics, Disposal, Risk and Performance Management

39. Logistics management
40. Disposal management
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Part 4: Other matters

43. Prohibition on awards to persons whose tax matters are not in order
44. Prohibition on awards to persons in the service of the state
45. Awards to close family members of persons in the service of the state
46. Ethical standards
47. Inducements, rewards, gifts and favours
48. Sponsorships
49. Objections and complaints
50. Resolution of disputes, objections, complaints and queries
51. Contracts providing for compensation based on turnover
52. Contract management
53. Contract having budgetary implications beyond three years
54. Increase/Extension in approved contract sum/period
55. Right of appeal
56. Notification of bid decisions
57. Unsuccessful bidder debriefing
58. Condonation of Policy contraventions
59. Short title

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. **“The Act”** means the Municipal Finance Management Act, No. 56 of 2003;
- 1.1.2. **“Bid”** 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;
- 1.1.8. **“Contract manager”** means an official of the Municipality who is responsible for the planning for the planning and execution of a transaction involving the procurement of goods, services or works;
- 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 services;
- 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;
- 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
- 1.1.19. **“List of accredited prospective providers”** means the list of accredited prospective providers which the Cape Winelands District Municipality must keep in terms of paragraph 14 of this policy;
- 1.1.20. **“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.
- 1.1.21. **“Policy”** means the Supply Chain Management Policy of the Cape Winelands District Municipality as amended from time to time;
- 1.1.22. **“Parent municipality”** has the meaning assigned to it in section 1 of the Municipal Systems Act;
- 1.1.23. **“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 in relation with the Petty Cash Policy;
- 1.1.24. **“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;

- 1.1.25. **“Treasury guidelines”** means any guidelines on supply chain management issued by the Minister in terms of section 168 of the Act;
- 1.1.26 **“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;
- 1.1.27 **“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;
- 1.1.28 **“The Regulations”** means the Local Government: Municipal Finance Management Act, 2003, Municipal Supply Chain Management Regulations published by Government Notice 868 of 2005;
- 1.1.29 **“The PPPFA Regulations”** means Preferential Procurement Regulations, 2017 Published under Government Notice R32 in Government Gazette 40553 of 20 January 2017; and
- 1.1.30. **“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 Cape Winelands District 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 Cape Winelands District 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 Council of Cape Winelands District Municipality.
- (2) If the Accounting Officer submits proposed amendments to the Council of Cape Winelands District Municipality 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 Council of Cape Winelands District Municipality 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 Cape Winelands District Municipality or to a committee, which is not exclusively composed of officials of the Cape Winelands District 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 200 000.00 (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 senior manager is a member
 - (ii) Accounting Officer of the municipality, after due consideration of all facts was done; and
 - (c) Below R 200,000 (VAT included) to delegated official(s) in accordance with approved delegations issued by the 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 –
 - (c)
 - (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 Cape Winelands District Municipality's Council reserves its right to maintain oversight over the implementation of this Policy.
- (2) For the purposes of such oversight the Accounting Officer must –
 - (a) Within 30 days of the end of each financial year, submit a report on the implementation of this 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
 - (b) 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

An effective system of demand management will be achieved through the successful implementation of the strategic operational commitments of the municipality, as identified in the Integrated Development Plan (IDP). Council's Performance Management System (PMS) must give the necessary support to ensure that the resources required to support the strategic and operational commitments of the municipality are delivered at the correct time, at the right price and at the right location, and that the quantity and quality satisfy the needs of the municipality or municipal entity.

- (1) The Accounting Officer must establish and implement an appropriate demand management system in order to ensure that the resources required by Cape Winelands District 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 Cape Winelands District 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
- (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 Cape Winelands District 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) This Policy, except where provided otherwise in the Policy, 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) When procuring goods or services through another organ of state as contemplated in section 110(2) of the Act, the municipality must make public the fact that such goods or services are procured otherwise than through the Cape Winelands District Municipality supply chain management system, including –
 - (a) the kind of goods or services; and
 - (b) the name of the supplier.
- (4) If the procurement is for a capital project, Section 19 of the MFMA regarding budgeting and costing of capital projects must also be complied with.
- (5) 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 up to a transaction value as defined in Council's Petty Cash Policy
 - (b) Petty cash purchases through one verbal or written quotation for the

procurement of goods and services up to a transaction value of R 2,000 (VAT included), including ad-hoc fuel replenishment by means of bank/fleet card.

- (c) Written or verbal quotations for procurement of goods and/or services of a transaction value between R 2,000 and R 10,000 (VAT included);
 - (d) Formal written quotations for procurement of goods and/or services of a transaction value between R 10,000 and R 200,000;
 - (e) Competitive bidding process for:
 - (i) Procurements above a transaction value of R 200,000 (VAT included); and
 - (ii) 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 R 2,000;
 - (ii) Written price quotations be obtained for any specific procurement of a transaction value lower than R 10,000; or
 - (iii) A competitive bidding process be followed for any specific procurement of a transaction value lower than R 200,000.
- (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.
- (4) Transferring of municipal funds to an organisation or body outside any sphere of government otherwise than in compliance with a commercial or other business transaction must comply with Sec.67 of the MFMA (Act No.56 of 2003). In terms of Sec.67 (4), Council approved a limit during the IDP Budget process.

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 Cape Winelands District 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 sub-paragraph (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.
- (4) Suppliers who intend to do business with this municipality MUST provide its Central Supplier Database (CSD) Registration Number "MAAA....."

15. PETTY CASH PURCHASES

- (1) The Accounting Officer must establish the conditions for the procurement of goods by means of 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 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 up to a transaction value as defined in Council's Petty Cash Policy
- (3) Petty cash purchases with a value up to R 2000.00 including ad-hoc fuel replenishment by means of bank/fleet card will be dealt with in terms of the Supply Chain Management Policy of Council.

16. WRITTEN OR VERBAL 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 Cape Winelands District Municipality, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria set out in paragraph 14(1)(c) and (d) of this Policy;
 - (b) To the extent feasible, providers must be requested to submit such quotations in writing;
 - (c) If it is not possible to obtain at least three quotations, the reasons must be recorded and reported quarterly to the Accounting Officer or another official designated by the Accounting Officer;
 - (d) The Accounting Officer must record the names of the potential providers requested to provide such quotations with their quoted prices; and
 - (e) If a quotation was submitted verbally, the order may be placed only against written confirmation by the selected provider.

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 Cape Winelands District Municipality. Quotations may be obtained from providers who are not listed, provided that such providers meet the listing criteria set out in paragraph 14(1)(c) and (d) of this Policy;
 - (b) 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;
 - (c) The Accounting Officer must record the names of the potential providers and their written quotations; and

- (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) All requirements in excess of R 30,000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of paragraph 17, will be advertised for at least seven days on the website and an official notice board of the Cape Winelands District Municipality;
 - (b) When using the list of accredited prospective providers the Accounting Officer must promote on-going competition amongst providers by inviting providers to submit quotations on a rotation basis;
 - (c) Offers received must be evaluated on a comparative basis taking into account unconditional discounts;
 - (d) 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;
 - (e) Offers below R 30,000 (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;
 - (f) 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
 - (g) Cape Winelands District Municipality will maintain a proper record keeping system.

19. COMPETITIVE BIDS

- (1) Goods or services above a transaction value of R 200,000 (VAT included) and long term contracts may only be procured through a competitive bidding process, in terms of section 11.
- (2) No requirement for goods or services above an estimated transaction value of R 200,000 (VAT included), may be deliberately 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.

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 23;
- (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 R 10 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 (with or without legal representation), or, when unsuccessful, in a South African court of law;
- (f) The period for which bids are to remain valid and binding must be indicated in the bid documents; and

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 a newspaper commonly circulating locally, the website of the Cape Winelands District Municipality or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin); and
 - (b) The information contained in a public advertisement, must at least include
 - (i) The closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to subparagraph (2) of this policy; and
 - (ii) A statement that bids may only be submitted on the bid documentation provided by the Cape Winelands District Municipality
 - (iii) Contact details for further enquiries.
- (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) For a bid to be considered it must comply with all the requirements of the bid documentation and be placed in the official tender box of the Cape Winelands District Municipality.
- (5) The council may charge a non-refundable deposit for provision of bid documents. This is subject to annual review. Values of the deposits will be determined annually and included in the official lists of tariffs.
- (6) The Chief Financial Officer or delegated official will ensure that tender boxes are sealed until the time of their official opening, and ensure that they are properly secured.
- (7) Where bids are requested by the Municipality in electronic format, such bids must be supplemented by sealed hard copies.

23. PROCEDURE FOR HANDLING, OPENING AND RECORDING OF BIDS

(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.

(f) Opening of bid procedures –

- (i) At the specified closing time on the closing date the applicable bid box shall be closed;
- (ii) The bid box shall be opened in public as soon as possible after the closing time by at least one official from the Supply Chain Management Unit and one official from Administrative Support Services;
- (iii) It is the responsibility of the bidder to ensure that their bid is placed in the correct bid box. The municipality will not on its own initiative redirect any bid if it is placed in an incorrect bid box before the closing time of submissions.
- (iv) Immediately after the opening of the bid box all bids shall be opened in public. Unmarked or incorrectly marked tenders will not be opened.
- (v) At the official opening of the bids, the bids shall in all cases be read out in terms of the name of the bidder and, if practical, the amount of the bid;
- (vi) As soon as a bid or technical proposal has been opened the bid / proposal shall be stamped with the official stamps, and endorsed with the opening officials' signatures;
- (viii) The name of the bidder, and where possible, the bid sum shall be recorded in a bid opening record kept for that purpose; and The responsible officials who opened the bidding documentation received shall forthwith place their signatures on the bid opening record (register)
- (ix) The bid opening record, indicating at least the bid price of each bidder and the B-BBEE status level contribution of each bidder must be published on the municipality's website.

(g) Site Inspections / clarification meeting –

- (i) Site inspections / clarifications meeting, where applicable, will be compulsory.
- (ii) If site inspections / clarification meeting are to be held, full details must be included in the bid notice.

(h) Bid validity periods

- (i) The validity period is calculated from the bid closure date and bids shall remain in force and binding for a period of ninety (90) days 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) The period of validity may be extended by the SCM Department, provided that the original bid validity period has not expired and that all bidders are given an opportunity to extend such period.
- (iii) Any such extension shall be agreed to by a bidder in writing. Bidders who fail to respond to such a request before the validity of their bid expires, or who decline such a request shall not be considered further in the bid evaluation process.
- (iv) All bidders who indicated the acceptance of the extension of the bid validity period, bids will be considered for evaluation purposes.
- (v) If the validity of all bids expired without it being awarded within the bid validity period, including any extensions thereof allowable in terms of applicable legislation, the bid must be cancelled and published in the same media in which the original bid invitation appeared.
- (vi) All bidders must be notified in writing of the cancellation of a bid.

(i) Bid Sum

- (i) A bid will not necessarily be invalidated if the amount in words and the amount in figures do not correspond, in which case the amount in words shall be read out at the bid opening.

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 and secundus of each committee, taking into account section 117 of the Act; and
- (3) 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.
- (4) Secundus referred to in sub-paragraph (2) represents a specific standing member of that specific committee in the event that the standing member is not available. Secundus has the same powers and duties of the standing member.

27. BID SPECIFICATIONS COMMITTEES

- (1) A Bid Specifications Committee must compile the specifications for each procurement of goods or services by the Cape Winelands District 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
- (3) A Bid Specifications Committee must be composed of one or more officials of the Cape Winelands District 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 Cape Winelands District Municipality.
- (3) The relevant user department's official shall carry out a preliminary evaluation of all valid bids received and shall submit a technical evaluation report to the Supply Chain Management unit to be included in the draft report for consideration by the Bid Evaluation Committee.

- (4) Any evaluation of a bid shall be in accordance with the evaluation criteria stipulated in the bidding documents 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 specifications;
 - (d) Whose bid is not in compliance with the terms and conditions of the bid documentation;
 - (e) Who is not registered, verified and accredited on the municipality's supplier database within seven days of 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) Whose tax status are non-compliant and cannot be verified with the South African Revenue Services (SARS) certifying that the taxes of the bidder are in order; and
 - (g) 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) Preference points systems; and
 - (vi) 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) Clarification in terms of uncertainties/ambiguities contained in bids submitted may be required from bidders.
- (8) 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.
- (10) If two or more bids score an equal total number of points in terms of the preference points system, regulation 10(1) of the Preferential Procurement Regulations of 2017 will apply.
- (11) If functionality is part of the evaluation process and two or more bids score an equal total number of points in terms of the preference points system, regulation 10(2) of the Preferential Procurement Regulations of 2017 will apply.
- (12) If two or more bids are equal in all respects, regulation 10(3) of the Preferential Procurement Regulations of 2017 will apply.
- (13) All disclosures of conflict of interest shall be considered by the Bid Evaluation Committee

- (14) The relevant Director in conjunction with the SCM Unit 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 Director in conjunction with Supply Chain Management Unit) 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.

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 three senior managers of the Cape Winelands District 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 Cape Winelands District Municipality; and
 - (c) A technical expert in the relevant field who is an official, if such an expert exists.
- (3) The Municipality may utilise senior managers from neighbouring municipalities in accordance with section 88 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998); and
- (4) Senior Managers who are members of the bid adjudication committee will be allowed to sub-delegate, in writing, their responsibilities to competent staff members in cases where they cannot attend specific sittings of the committee
- (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) Members of the Bid Evaluation Committee may present their reports to the Bid

Adjudication Committee and clarify any uncertainties. However, such members will not have any voting power on the Bid Adjudication Committee.

- (8)
 - (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.
- (9) 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.
- (10) 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 Cape Winelands District 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;
 - (b) There is no reason to believe that such contract was not validly procured;
 - (c) There are demonstrable discounts or benefits to do so; and
 - (d) That other organ of state and the provider has consented to such procurement in writing.
- (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.

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) Cape Winelands District 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 R 200,000 (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 Cape Winelands District 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 will be applicable.
- (6) No advisor will take any part in the final decision-making process regarding the award of bids
- (7) No decision-making authority can be delegated to an advisor.

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 Cape Winelands District 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 Cape Winelands District 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 Cape Winelands District 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 Cape Winelands District 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.

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;
- (c) 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.
- (d) 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;
- (e) Immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise;
- (f) All fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed;
- (g) Where assets are traded in for other assets, the highest possible trade-in price is negotiated.

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.

PART 4: OTHER MATTERS

43. PROHIBITION ON AWARDS TO PERSONS WHOSE TAX MATTERS ARE NOT IN ORDER

- (1) No award above R30 000 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. (NT Circular No.29 shall apply)
- (2) Before making an award to a person the accounting officer must first check with SARS whether that person's tax matters are in order. The municipality shall apply the "eFiling-System" of SARS.
- (3) **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 sub-paragraph.**
- (4) 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.
- (5) **The Cape Winelands District Municipality will process transactions per supplier on the proviso that the accumulative amounts per supplier does not exceed R30,000 (including VAT) per financial year, without the required tax clearance compliance certificate as per paragraph 43(1) above.**

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 Cape Winelands District 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 R 2,000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including –
 - (a) The name of that person;
 - (b) The capacity in which that person is in the service of the state; and

- (c) The amount of the award.

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”] is hereby established for municipal officials and other role players in the supply chain management system of the Cape Winelands District 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 Cape Winelands District 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 Cape Winelands District Municipality;
 - (h) Must assist the Accounting Officer in combating fraud, corruption, favouritism and 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 Cape Winelands District 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 Cape Winelands District 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.

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.

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 Cape Winelands District 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 Cape Winelands District 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 Cape Winelands District Municipality must stipulate

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

53. CONTRACTS HAVING BUDGETARY IMPLICATIONS BEYOND THREE FINANCIAL YEARS

- (1) The Cape Winelands District 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 Act have been fully complied with.

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, 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 Municipal 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 Municipal 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 Municipal Manager may however grant approval for the implementation of bid awards prior to the conclusion of the appeal process in respect of bids which in his / her opinion are deemed as urgent.
- (4) The Appeal Authority will provide the service provider with copies of the Bid Committee minutes applicable to the specific tender on request within the 21 days period, of the service provider to enable him/her to motivate his/her appeal. Should the service provider request other documentation a PAIA application should be submitted.
- (5) 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

- (1) The successful and unsuccessful bidders shall be notified in writing by the Supply Chain Management once a 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 be notified that no rights will accrue to him / her until the bid is formally accepted in writing.
- (3) Once the 21 day appeal period has lapsed and a decision has been made by the appeal authority, the appellant and the service provider who the tender was initially awarded will be notified in writing of the outcome thereof by the Supply Chain Management.
- (4) Every notification of decision shall be faxed or sent via electronic mail and ordinary mail to the address chosen by the bidder, with a copy of proof of transmission kept for record purposes, or shall be delivered by hand, in which case acknowledgement of receipt must be signed and dated on a copy of such notification to be kept for record purposes.

57. 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.

58. FRAMEWORK FOR INFRASTRUCTURE DELIVERY AND PROCUREMENT MANAGEMENT

The Framework for Infrastructure Delivery and Procurement Management and relevant Circular is attached as Annexure "A". The Cape Winelands District Municipality will during the course of the 2021/2022 financial year determine its ability to implement those parts of the Framework that are practically implementable.

59. SHORT TITLE

This policy is called the Cape Winelands District Municipality Supply Chain Management Policy.

60. COMMENCEMENT

This Policy takes effect on 1st July 2021.

61. RELEVANT SECTIONS FROM THE MFMA

The following sections form part of this policy and must be applied directly from the Act.

(a) SECTION 33: CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

(b) SECTION 116: CONTRACTS AND CONTRACT MANAGEMENT

45. ADOPTION OF NATIONAL TREASURY / MFMA CIRCULARS

By adopting this policy, Council acknowledge the adoption of the following Circulars;

MFMA Circular No. 29 - Supply Chain Management Issues

MFMA Circular No. 62 - SCM: Enhancing Compliance and Accountability

MFMA Circular No. 81 - Web Based Central Supplier Database (CSD)



LOCAL GOVERNMENT FRAMEWORK FOR INFRASTRUCTURE DELIVERY AND PROCUREMENT MANAGEMENT

PURPOSE

In order to establish a common approach to infrastructure delivery across all organs of state, the Standard for Infrastructure Procurement and Delivery Management (SIPDM) was issued for municipalities and communicated in MFMA Circular 77.

In the process of institutionalising the SIPDM municipalities experienced challenges with some aspects thereof. The reforms to the Preferential Procurement Regulations, 2017 which was promulgated and effected also had an impact on the earlier reform.

The National Treasury, in consultation with relevant stakeholders, initiated the SIPDM review process which resulted in the development of the Local Government Framework for Infrastructure Delivery and Procurement Management (LGFIDPM). The LGFIDPM introduces minimum requirements for effective governance of infrastructure delivery and procurement management.

BACKGROUND AND DISCUSSION

In 2012, the Infrastructure Delivery Management System (IDMS) was adopted as the chosen government wide system for infrastructure delivery in South Africa. In the same year (2012), the National Treasury, together with the eight metropolitan municipalities, initiated the customisation of the IDMS for implementation by municipalities. The product of that engagement became the Cities Infrastructure Delivery Management Toolkit (CIDMT), focusing mainly on metropolitan municipalities.

The Planning Commission's National Development Plan 2030: *Our future-make it work* proposes that the following five areas be focused on in designing a procurement system that is better able to deliver value for money, while minimising the scope for corruption:

- a) differentiate between the different types of procurement which pose different challenges and require different skills sets;
- b) adopt a strategic approach to procurement above the project level to balance competing objectives and priorities rather than viewing each project in isolation;
- c) build relationships of trust and understanding with the private sector;

- d) develop professional supply chain management capacity through training and accreditation; and
- e) incorporate oversight functions to assess value for money.

National Treasury's 2015 Public Sector Supply Chain Management Review expressed the view that supply chain management (SCM) is one of the key mechanisms enabling government to implement policy which traditionally has been misunderstood and undervalued. This Review, which identified the need for SCM reform, suggests that if such reforms are implemented as envisaged in terms of section 217 of the Constitution, the benefits will be enormous and include, amongst others:

- a) good quality service delivery will be increasingly possible, with significant improvements in the welfare of citizens, especially the poor who rely heavily on government for support;
- b) the economy will grow as economic infrastructure is expanded and efficiently maintained;
- c) goods, services and infrastructure will be bought at lower costs;
- d) innovation will result in different approaches to the commodities used in some sectors; and
- e) for suppliers, the cost of doing business with the state should decrease substantially.

There is a need to develop an infrastructure delivery management system tailor-made for municipalities and municipal entities which integrate asset management strategy, policy to guide infrastructure planning, delivery management and decision-making. The LGFIDPM introduces this and focuses on the implementation of project processes and infrastructure procurement that forms part of the infrastructure delivery management.

Due care and focus must be given to addressing institutional arrangements, internal controls, and gaps to ensure value is extracted from this reform.

CONCLUSION

This MFMA Circular provides the basis for municipalities and municipal entities to establish an appropriate system for implementation of the project process and infrastructure procurement in the infrastructure delivery management value chain.

Accounting officers of municipalities and municipal entities are therefore advised to bring the contents of this Circular and the LGFIDPM annexure to the attention of their respective municipal councils, board of directors of municipal entities, and to expedite the process to amend and align their SCM policies accordingly. This will require undertaking a proper assessment of its ability to implement the content of the Framework and to only insert those parts that is practically implementable into the SCM Policy, to be approved by the municipal council.

Therefore, municipalities and municipal entities are advised to customise the model policy to suit the specific needs of its environment before tabling it in the municipal council and municipal entity board for adoption.

It is envisaged that a phase-in process will be considered by municipalities and municipal entities, however, it is expected that this be implemented as soon as possible.

This Circular replaces MFMA Circular 77.

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Date: 15 September 2020

Annexure A: *Local Government Framework for Infrastructure Delivery and Procurement Management*

Annexure A

Local Government Framework for Infrastructure Delivery and Procurement Management

Date of issue: 01 October 2020

Effective Date: 01 July 2021



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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Foreword

In 2012, the Infrastructure Delivery Management System (IDMS) was adopted as the chosen government wide system for infrastructure delivery in South Africa. In the same year (2012), the National Treasury, together with the eight metropolitan municipalities, initiated the customisations of the IDMS for implementation by municipalities. The product of that engagement became the Cities Infrastructure Delivery Management Toolkit (CIDMT), focusing mainly on cities or metros.

In order to establish a common approach to infrastructure delivery across all organs of state, the Standard for Infrastructure Procurement and Delivery Management (SIPDM) was issued for adaptation and adoption by municipalities in terms of Circular 77.

In the process of implementing and institutionalising the SIPDM, institutions expressed concerns regarding the operational challenges imposed by aspects of the SIPDM. This constraint was further compounded when the Preferential Procurement Regulations, 2017 were promulgated and effected, resulting in conflict between the SIPDM and the Regulations.

The National Treasury, in consultation with relevant stakeholders, initiated the SIPDM review process, which resulted in the development of the Local Government Framework for Infrastructure Delivery and Procurement Management (LGFIDPM). The LGFIDPM provides for minimum requirements for effective governance of infrastructure delivery and procurement management. It also recognises the different capacities in the various categories of municipalities and therefore requests municipalities to review their institutional and capacities before adapting and adopting this model.

Introduction

- a) The Integrated Development Plan (IDP) is the principal strategic planning instrument for municipalities. The IDP process requires a robust process of gathering and synthesising information related to the medium to long-term management of the municipality's infrastructure needs.
- b) The preparation of Roads and Storm Water Services, Water and Sanitation Services, Waste Disposal Services, Electricity Services and Community Facilities and Municipal Buildings, Infrastructure Asset Management Plans (IAMPs) enables municipalities to rank projects and determine budgets, based on a holistic view of local needs and priorities; and serves as a source of valuable information in preparing the IDP.
- c) Through the Infrastructure Delivery Management System, Cities Infrastructure Delivery Management System was developed to provide a holistic system for the management of infrastructure based on the requirements of SANS 55001: Asset management tailored for application in South African metropolitan spaces and specifically in support of the country's spatial transformation agenda.
- d) There is need to develop an infrastructure delivery management system tailor-made for all municipalities (excluding cities) which should integrate asset management strategy, policy to guide infrastructure planning, delivery management and decision making. The LGFIDPM introduces the initial process focusing on the project processes of the infrastructure delivery management and infrastructure procurement.
- e) The Framework for Infrastructure Procurement Management should be implemented together with the project management processes, to ensure alignment, integration and efficient and effective service delivery.

1. Scope

- 1.1. The Local Government FIDPM applies to organs of state which are subject to the Municipal Finance Management Act (MFMA).
- 1.2. The Framework provides minimum requirements for the implementation of Infrastructure Delivery and Procurement Management through the:
 - a) Project processes for infrastructure delivery management, and
 - b) Infrastructure procurement gates.
- 1.3. The Framework specifies the allocation of responsibilities for performing activities and making decisions at project stages and procurement gates.

2. Terms and Definitions

Approved: Officially agreed and signed-off by an Accounting Officer or a delegated person / body.

Construction: Everything constructed or resulting from construction operations.

Employer: Organ of state intending to, or entering into, a contract with a contractor.

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

Gateway review: An independent review of the available information at a gate upon which a decision is made whether to proceed to the next process, or not.

Infrastructure:

- a) Immovable asset, which is acquired, constructed or results from construction operations; or
- b) Movable asset, which cannot function independently from purpose-built immovable asset(s).

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

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

Organ of State: Any department of state or administration in the national, provincial and local sphere of government.

Procurement strategy: The selected packaging, contracting, pricing and targeting strategy and procurement procedure for a particular procurement.

Project: A unique set of processes consisting of coordinated and controlled activities with start and end dates, performed to achieve the project objective.

Stage: A collection of periodical and logically related activities in the Project Management Control Stages, that culminates in the completion of an end of stage deliverable.

3. ABBREVIATIONS

CIDB	Construction Industry Development Board
IDP	Integrated Development Plan
FIDPM	Framework for Infrastructure Delivery and Procurement Management
MFMA	Municipal Finance Management Act
PSP	Professional Service Provider
PPPFA	Preferential Procurement Policy Framework Act
SCM	Supply Chain Management
SDBIP	Service Delivery Budget Implementation Plan

4. NORMATIVE REFERENCES

4.1 Acts of Parliament

The following referenced Acts of Parliament are indispensable in the application of this document:

- Architectural Profession Act, 2000 (Act No. 44 of 2000)
- Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003)
- Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)
- Construction Industry Development Board Act, 2000 (Act No. 38 of 2000)
- Division of Revenue Act (Annual)
- Engineering Profession Act, 2000 (Act No. 46 of 2000)
- Landscape Architectural Profession Act, 2000 (Act No. 45 of 2000)
- Municipal Finance Management Act, (No. 56 of 2003)
- Local Government: Municipal Systems Act, 2000 (Act No. 32 Of 2000)
- National Archives and Record Services of South Africa Act, 1996 (Act No. 43 of 1996)
- Occupational Health and Safety Act, 1993 (Act No. 85 of 1993)
- Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
- Project and Construction Management Professions Act, 2000 (Act No. 48 of 2000)
- Public Finance Management Act, 1999 (Act No. 1 of 1999)
- Quantity Surveying Profession Act of 2000 (Act No. 49 of 2000)
- Other Sector Specific Acts of Parliament.

4.2 Regulations issued in terms of the MFMA and MFMA Circulars

- Regulations issued in terms of the MFMA
- Preferential Procurement Policy Framework Act Regulations (PPPFA of 2017 or as amended from time to time) and circulars.

4.3 Standards

- Applicable Construction Industry Development Board Standard for Uniformity
- Construction Sector Code.

4.4 Management System

- Infrastructure Delivery Management System (IDMS)
- Cities Infrastructure Delivery Management Toolkit (CIDMT).

4.5 National Treasury Guidelines

- Local Government Capital Asset Management Guideline and Planning Guidelines
- Budget Facility for Infrastructure (BFI).

4.6 Department of Cooperative Governance and Traditional Affairs Guidelines

- Guidelines for Infrastructure Asset Management in Local Government.

5. FRAMEWORK FOR INFRASTRUCTURE DELIVERY

5.1 The Infrastructure Delivery Management Project Processes

- a) The project process of infrastructure delivery management contains control stage deliverables at the end of each stage. Table 1 outlines the stage deliverables that must be approved. The control stages are specific to project management processes; and outline and describe the stages in the life of a project from start to end. The specific stages are determined by the specific project's governance and control needs. The stages follow a logical sequence with a specified start and end. The deliverable is considered to have passed through the relevant stage when it is approved and signed off. The project then moves on to the next sequential stage. It is expected that the municipality's organisation reflects an engagement between the Budget Treasury Office, Engineers and Planners when developing and approving projects. It is also expected that there should be engagements with the National and Provincial Treasury where appropriate or where projects dictate so.

Table 1: Project stage deliverables

Stage		Project Stage Deliverables
No	Name	End of Stage Deliverables
1	Initiation	<p>Initiation Report or Pre-feasibility Report</p> <p>(i) The Initiation Report defines project objectives, needs, acceptance criteria, organisation's priorities and aspirations, and procurement strategies, which set out the basis for the development of the Concept Report.</p> <p>Or</p> <p>(ii) A Pre-feasibility Report is required on Mega Capital Projects, to determine whether to proceed to the Feasibility Stage; where sufficient information is presented to enable a final project implementation decision to be made. Mega capital projects should be determined in the municipality's policy approved by the Municipal Council.</p> <p>Stage 1 is complete when the Initiation Report or Pre-feasibility Report is approved.</p>
2	Concept	<p>Concept Report or Feasibility Report</p> <p>(i) The Concept Stage presents an opportunity for the development of different design concepts to satisfy the project requirements developed in Stage 1. This stage presents alternative approaches and an opportunity to select a particular conceptual approach. The objective of this stage is to determine whether it is viable to proceed with the project, premised on available budget, technical solutions, time frame and other information that may be required.</p> <p>(ii) The Concept Report should provide the following minimum information:</p>

Stage		Project Stage Deliverables
No	Name	End of Stage Deliverables
		<p>a) Document the initial design criteria, cost plan, design options and the selection of the preferred design option; or the methods and procedures required to maintain the condition of infrastructure, or the project.</p> <p>b) Establish the detailed brief, scope, scale, form and cost plan for the project, including, where necessary, the obtaining of site studies and construction and specialist advice.</p> <p>c) Provide an indicative schedule for documentation and construction, or maintenance services, associated with the project.</p> <p>d) Include a site development plan, or other suitable schematic layouts, of the works.</p> <p>e) Describe the statutory permissions, funding approvals and utility approvals required to proceed with the works associated with the project.</p> <p>f) Include a baseline risk assessment for the project and a health and safety plan, which is a requirement of the Construction Regulations issued in terms of the Occupational Health and Safety Act.</p> <p>g) Contain a risk report, need for further surveys, tests, investigations, consents and approvals, if any, during subsequent stages.</p> <p>(iii) A Feasibility Report must provide the following minimum information:</p> <p>a) Details regarding the preparatory work covering:</p> <ul style="list-style-type: none"> • A needs and demand analysis with output specifications. • An options analysis. <p>b) A viability evaluation covering:</p> <ul style="list-style-type: none"> • A financial analysis. • An economic analysis, if necessary. <p>c) A risk assessment and sensitivity analysis;</p> <p>d) A professional analysis covering:</p> <ul style="list-style-type: none"> • A technology options assessment. • An environmental impact assessment. • A regulatory due diligence. <p>e) An implementation readiness assessment covering:</p> <ul style="list-style-type: none"> • Institutional capacity. • A procurement plan. <p>Stage 2 is complete when the Concept Report or the Feasibility Report is approved.</p>
3	Design Development	<p>Design Development Report</p> <p>(i) The Design Development Report must, as necessary:</p> <p>a) Develop, in detail, the approved concept to finalise the design and definition criteria.</p>

Stage		Project Stage Deliverables
No	Name	End of Stage Deliverables
		<ul style="list-style-type: none"> b) Establish the detailed form, character, function and costings. c) Define the overall size, typical detail, performance and outline specification for all components. d) Describe how infrastructure, or elements or components thereof, are to function; and how they are to be safely constructed, be commissioned and be maintained. e) Confirm that the project scope can be completed within the budget, or propose a revision to the budget. <p>Stage 3 is complete when the Design Development Report is approved.</p>
4	Design Documentation	<p>Design Documentation</p> <ul style="list-style-type: none"> (i) Design documentation provides: <ul style="list-style-type: none"> a) the production information that details performance definition, specification, sizing and positioning of all systems and components that will enable construction; b) the manufacture, fabrication and construction information for specific components of the work, informed by the production information. <p>Stage 4 is complete when the Design Documentation Report is approved.</p>
5	Works	<p>Completed Works capable of being used or occupied</p> <ul style="list-style-type: none"> (i) Completion of the Works Stage requires: <ul style="list-style-type: none"> a) Certification of the completion of the works in accordance with the provisions of the contract; or b) Certification of the delivery of the goods and associated services in accordance with the provisions of the contract. <p>Stage 5 is complete when the Works Completion Report is approved.</p>
6	Handover	<p>Works which have been taken over by the user or owner; Completed Training; Record Information</p> <ul style="list-style-type: none"> (i) The handover stage requires the following activities to be undertaken: <ul style="list-style-type: none"> a) Finalise and assemble record information which accurately reflects the infrastructure that is acquired, rehabilitated, refurbished or maintained; b) Hand over the works and record information to the user organisation and, if necessary, train end user staff in the operation of the works. <p>Stage 6 is complete when the Handover/Record Information Report is approved.</p>
7	Close-Out	<p>Defects Certificate or Certificate of Final Completion; Final Account; Close-Out Report</p>

Stage		Project Stage Deliverables
No	Name	End of Stage Deliverables
		(i) The Close-Out Stage commences when the end user accepts liability for the works. It is complete when: <ul style="list-style-type: none"> a) Record information is archived; b) Defects certificates and certificates of final completion are issued in terms of the contract; c) Final amount due to the contractor is certified in terms of the contract; d) Close-Out Report is prepared by the Implementer and approved by the Municipality. Stage 7 is complete when the Close-out Report is approved.

- b) Procurement of PSPs and Contractors can occur at different points in the project stages.
- c) Additional stages may be added to the described stages above, if deemed necessary. For example, additional stages could include those necessary to ensure that project activities are appropriately carried out and stages linked. Contract activities would, in many instances, be contingent upon the requirements of the specific contract being used.
- d) For project progress using the project stages, reporting must be for the deliverable achieved in the stage immediately prior to the 'in progress' stage. For example, if a project is shown as being at Stage No. 3 (Design Development), it implies that the deliverable for Stage No. 2 (i.e. the Concept Report) has been achieved; and that the deliverable for Stage 3 (i.e. the Design Development Report) is in the process of being prepared.
- e) Where an organ of state engages another organ of state to provide agency services, a service delivery agreement must be developed that outlines the roles and responsibilities for each organ of state; and establishes a relationship between the client and the implementer. The development of all deliverables should be carried out in a cooperative and consultative manner between the Client and Implementer parties. All deliverables must be developed and signed off in compliance with the specific service delivery agreement.

5.2 Gateway Reviews

5.2.1 Gateway reviews for mega capital projects

- (i) The MFMA (Act 56 of 2003), section 19 (2) states: "Before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider the projected cost covering all financial years from the start until the project is operational; and the future operational costs and revenue on the project, including municipal tax and tariff implications."
- (ii) The LGFIDPM prescribes the Gateway Review at the end of stage 2, as the minimum requirement to comply with section (i) above.
- (iii) The focus of such a review must be on the quality of the documentation in the first instance, and thereafter on:
 - a) Deliverability: the extent to which a project is deemed likely to deliver;
 - b) Expected benefits: within the declared cost, time and performance area;
 - c) Affordability: the extent to which the project's level of expenditure and financial risk can be accepted, given the organisation's overall financial position, both singly, and when considering its other current and projected commitments; and

- d) Value for money: The optimum combination of whole life costs and quality (or fitness of purpose), to meet the user's requirements.
- (iv) A gateway review team must comprise of not less than three persons who are neither involved, nor associated with the project, but have a broad understanding of the subject matter.
- (v) A gateway review must be led by a person who has experience in the planning of infrastructure projects and is registered as a professional with a statutory council under the built environment professions. The members of the team must, as relevant, have expertise in the key technical areas, cost estimating, scheduling and implementation of similar projects.
- (vi) It is the duty of the institution's Accounting Officer or Authority to appoint a team responsible for the gateway review of his or her institution.
- (vii) The gateway review team must base its findings primarily on:
 - a) The information contained in the end-of-stage deliverable;
 - b) Supplementary documentation, if any, provided by key staff and obtained during an interview process; and
 - c) Interviews with key staff members and stakeholders.
- (viii) The gateway review team must issue a report at the conclusion of a gateway review, which reflects the team's assessment of the information at the end of a stage; and provides findings or recommendations on areas where further work should be undertaken to improve such information.
- (ix) The gateway review findings must be classified by the gateway review team as:
 - a) Critical: Findings that pose adverse effect to the project or package. Critical findings are findings related to the stage deliverable that are wholly unacceptable.
 - b) Major: Findings that pose a potentially adverse effect to the project or package. Major findings are serious findings and are in direct violation of key legislation, e.g. The Constitution of the Republic of South Africa, the MFMA or the PPPFA.
 - c) Minor: Findings that do not pose any adverse effect to the project or package. Minor findings indicate the need for improvement of practices and processes.
- (x) A Stage 2 deliverable must not be approved until such time that all findings have been resolved.

6. FRAMEWORK FOR INFRASTRUCTURE PROCUREMENT

6.1 INTRODUCTION

The framework for infrastructure procurement outlines the minimum infrastructure procurement policy requirements for municipal planning and implementation.

The strategic direction set in the Integrated Development Plan (IDP) informs the framework for infrastructure procurement. For example, procurement strategies must be aligned to the municipality's developmental and internal transformation needs, as specified in the IDP.

6.2 MINIMUM REQUIREMENT FOR INFRASTRUCTURE PROCUREMENT

- 6.2.1 Infrastructure procurement must be undertaken in accordance with all applicable Infrastructure Procurement related legislation and this Framework.
- 6.2.2 Infrastructure procurement must be implemented in accordance with the institutional Supply Chain Management System, which promotes differentiated procurement for infrastructure.
- 6.2.3 Infrastructure procurement must be implemented in accordance with the procurement gates prescribed in clause 6.3 below.
- 6.2.4 The Accounting Officer must ensure that a budget is available for the duration of the project, in line with MFMA provisions for capital and operating budgets.
- 6.2.5 The Accounting Officer must ensure that cash flow management processes are in place to meet payment obligations within the time periods specified in the contract.
- 6.2.6 Procurement gates provided in 6.3 below must be used, as appropriate, to:
 - a) Authorise commencement of activities that lead to the next control gate;
 - b) Confirm conformity with requirements; and/or
 - c) Provide information to eliminate any cause of non-conformity and to prevent reoccurrence.
- 6.2.7 The authorisation to proceed to the next procurement gate must be given by a delegated person or body. The delegated person or body must be able to apply relevant built environment knowledge and skill to achieve the intended results required at the relevant procurement gate. The level of detail contained in the documentation on which a decision to proceed to the next procurement gate is made, must be sufficient to enable an informed decision.
- 6.2.8 The Accounting Officer must develop and implement effective and efficient emergency procurement procedures, including relevant approval delegation, in compliance with relevant legislation.
- 6.2.9 The Accounting Officer must develop and implement an effective and efficient infrastructure disposal policy in line with the Municipal Asset Transfer Regulations. The institution may consider disposal strategies aligned to their internal disposal policy, prior to proceeding with the procurement strategy.
- 6.2.10 The Accounting Officer must keep records of Procurement Gate Approvals, in a manual or electronic format, with the following minimum requirements:
 - a) Procurement gate;
 - b) Delegated person/s or body;
 - c) Date on which the approval request was received;
 - d) Date on which the approval was actioned; and
 - e) Signature of the delegated person or body.
- 6.2.11 All assets must be recorded in the municipal asset register as required by the GRAP standards.

6.3 Infrastructure Procurement Gates

6.3.1 Procurement Gate 1 (PG 1)

- a) Initiate a procurement process;
- b) **Minimum Requirement for PG 1:**
 - 1) Establish and clarify the procurement need, aligned to the municipality's development and transformation priorities specified in the IDP.
 - 2) Determine a suitable title for the procurement, to be applied as the project description.
 - 3) Prepare the broad scope of work for the procurement.
 - 4) Perform market analysis.
 - 5) Estimate the financial value of proposed procurement and contract for budgetary purposes, based on the broad scope of work.
 - 6) Confirm the budget.
 - 7) Compliance with section 33 of the MFMA with respect to community and stakeholder consultation.
- c) **PG 1 is complete when a designated person or body makes the decision to proceed/not to proceed, with the procurement of the infrastructure.**

6.3.2 Procurement Gate 2 (PG 2)

- a) Approve procurement strategy to be adopted.
- b) **Minimum Requirement for PG 2:**
 - 1) Develop a procurement strategy aligned to the institutional procurement strategy:
 - a. Establish contracting and pricing strategy comprising of an appropriate allocation of responsibilities and risks; and the methodology for contractor payments.
 - b. Identify service required for works.
 - c. Decide on contracting strategy.
 - d. Decide on pricing strategy.
 - e. Decide on form of contract.
 - f. Establish opportunities for promoting preferential procurement in compliance with legislative provisions and the Construction Sector Code.
- c) **PG 2 is complete when a delegated person or body approves the procurement strategy that is to be adopted.**

6.3.3 Procurement Gate 3 (PG 3)

- a) Approve procurement documents.
- b) **Minimum requirements for PG 3:**
 - 1) Prepare procurement documents that are compatible with:
 - (i) approved procurement strategies.
 - (ii) project management design documentation.
- c) **PG 3 is complete when the Bid Specification Committee approves the procurement document. .**

6.3.4 Procurement **Gate 4 (PG 4)**

- a) Confirm that cash flow processes are in place to meet projected contractual obligations.
- b) **Minimum requirement for PG 4**
 - 1) Confirm that cash flow processes are in place to meet contractual obligations.
 - 2) Establish control measures for settlement of payments within the time period specified in the contract.
- c) **PG 4 is complete when a delegated person or body confirms in writing that cash flow processes are in place; and control measures are established for the procurement to take place.**

6.3.5 Procurement **Gate 5 (PG 5)**

- a) Solicit tender offers.
- b) **Minimum requirements for PG 5**
 - 1) Invite contractors to submit tender offers.
 - 2) Receive tender offers.
 - 3) Record tender offers.
 - 4) Safeguard tender offers.
- c) **PG 5 is complete when tender offers received are recorded and safeguarded by a delegated person from the SCM unit.**

6.3.6 Procurement **Gate 6 (PG 6)**

- a) Evaluate tender offers premised on undertakings and parameters established in procurement documents.
- b) **Minimum Requirement for PG 6:**
 - 1) Determine whether tender offers are complete.
 - 2) Determine whether tender offers are responsive.
 - 3) Evaluate tender submissions.
 - 4) Review minimum compliance requirements for each tender.
 - 5) Perform a risk analysis.
 - 6) Prepare a report on tender offers received, and on their achievement of minimum compliance.
- c) **PG 6 is complete when the chairperson of the Bid Evaluation Committee approves the BEC report.**

6.3.7 Procurement **Gate 7 (PG 7)**

- a) Award the contract.
- b) **Minimum Requirement for PG 7:**
 - 1) Bid adjudication committee review of the BEC evaluation report.
 - 2) Bid Adjudication Committee makes an award.
 - 3) Accounting Officer approval of the tender process.
 - 4) Notify successful tenderer and unsuccessful tenderers of the outcome.
 - 5) Sign contract document.
 - 6) Formally accept tender offer.
- c) **PG 7 is complete when the Accounting Officer, or the Bid Adjudication Committee where delegated, confirms that the tenderer has provided evidence of complying with all requirements stated in the tender data and formally accepts the tender offer in writing, and issues the contractor with a signed copy of the contract.**

6.3.8 Procurement **Gate 8 (PG 8)**

- a) Administer and monitor the contract.
- b) **Minimum Requirements for PG 8:**
 - 1) Finance department to:
 - (i) Capture contract award data.
 - (ii) Manage cash flow projection.
 - (ii) Administer contract in accordance with the terms and provisions of the contract.
 - 2) Delivery department to:
 - (i) Ensure compliance with contractual requirements.
- c) **PG 8 is complete when a delegated person captures the contract completion/termination data (close out reports and relevant documents), including payment certificates due.**

7. Conclusion

It is advised that municipalities and municipal entities review this document from a practical implementation perspective and amend its SCM policies accordingly by inserting those parts that is practically implementable into the SCM Policy to be approved by the municipal council. You are also encouraged to share this with the relevant officials within the institution to ensure organisational awareness of this reform.

Enquiries pertaining to the content of this framework may be directed to:

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VIREMENT POLICY

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1. Definitions

- 1.1. **“Accounting officer”** means the municipal official referred to in section 60 of the MFMA and includes a person acting as the accounting officer;
- 1.2. **“Approved budget”** means an annual budget approved by a municipal council.
- 1.3. **“Budget-related policy”** means a policy of a municipality affecting or affected by the annual budget of the municipality.
- 1.4. **“Chief Financial Officer”** means a person designated in terms of section 80(2)(a) of the MFMA.
- 1.5. **“Capital Budget”** This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.
- 1.6. **“Council”** means the council of a municipality referred to in section 18 of the Municipal Structures Act.
- 1.7. **“Financial year”** means a 12-month year ending on 30 June.
- 1.8. **“Line Item”** an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures.
- 1.9. **“Operating Budget”** The Entity’s financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.
- 1.10. **“Ring Fenced”** an exclusive combination of line items grouped for specific purposes for instance salaries and wages.
- 1.11. **“Service delivery and budget implementation plan”** means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality’s delivery of municipal services and its annual budget.

1.12. “Virement” is the process of transferring an approved budget allocation from one operating line item within a Vote (Strategic Objective) or capital item to another, with the approval of the Accounting Officer to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.

1.13. “Vote” (strategic objective) means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments of the municipality; and which specifies the total amount that is appropriated for the purposes of the department concerned **[See annexure “A” for current Vote structure]**.

1.14. “Cost center” means the lowest level in a Vote (strategic objective) at which a transaction is recorded.

2. Abbreviations

2.1. CFO – Chief Financial Officer

2.2. IDP – Integrated Development Plan

2.3. MFMA – Municipal Finance Management Act No. 56 of 2003

2.4. SDBIP - Service delivery and budget implementation plan

2.5. CM – Council Minute/’s

3. Objective

This policy aims to provide guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets. In addition, it specifically aims to empower senior managers with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the Municipality’s system of delegations. It allows limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

4. Financial Responsibilities

Strict budgetary control must be maintained throughout the financial year in order for potential overspending and / or income under-recovery within individual vote departments are identified at the earliest possible opportunity (Section 100 of the MFMA). The Accounting Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. The budget virement process is one of these controls (Section 27(4) of the MFMA). It is the responsibility of each Senior Manager and official, exercising financial management responsibilities within their respective areas of responsibility, to plan and conduct assigned operations to ensure that expenditure incurred does not exceed the allocated budget amount. In addition, they have the responsibility to identify and report any unauthorised, irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78 and 102.

5 MFMA Regulation on Budget versus Expenditure

5.1 The MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions.

5.1.1 Section 15 – Appropriation of funds for expenditure

“A Municipality may, except where otherwise provided in this Act, incur expenditure only-

- a)** *In terms of an approved budget; and*
- b)** *Within the limits of the amounts appropriated for the different votes in an approved budget.”*

5.1.2 Unauthorized Expenditure (MFMA Definition)

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

- a)** *Overspending of the total amount 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;
- 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;"

5.1.3 Overspending (MFMA Definition)

- a) In relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;
- b) In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
- c) In relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;"

6 Virement Restrictions

- 6.1 No funds may be viremented between votes (strategic objectives) without approval of Council during an Adjustments Budget process.
- 6.2 No funds may be viremented between votes (strategic objectives) as per Annexure A, except for the expenditure pertaining to provisions and depreciation which can only be **approved** by the Accounting Officer.
- 6.3 **No virements are allowed between items with different funding sources, except with the approval of and adjustments budget and virements approved at year end.**
- 6.4 In terms of Section 17 of the MFMA a municipality's budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets. A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years (Section 19 and 21 of the MFMA).

- 6.5** Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with

altered outputs and measurements for approval (MFMA Circular 13 page 3 paragraph 3).

- 6.6** No virement may be made where it would result in over expenditure (Section 32 of the MFMA).
- 6.7** No virement shall add to the staff establishment of the Municipality without the approval of Accounting Officer.
- 6.8** If the virement relates to an increase in the staff establishment, then the Council's existing recruitment policies and procedures will apply.
- 6.9** Virements may not be made in respect of ring-fenced allocations.
- 6.10** Virements are not allowed from and to Interdepartmental costs, Capital financing, Depreciation and Amortisation, Contributions to provisions, Income Foregone and Expenditure funded by grants, except for virements done at year end.
- 6.11** Budget allocations may not be transferred to and from Employee related costs and Remuneration to Councillors to any other expenditure category, except for virements done at year end, on recommendation of the Chief Financial Officer.
- 6.12** Virements in Capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications, except for virements done at year end, on recommendation of the Chief Financial Officer.
- 6.13** Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets (Section 30 of the MFMA).
- 6.14** An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the Supply Chain Management Policy of the Municipality as periodically reviewed.
- 6.15** Virements may not be made between Expenditure and Income unless there is a change in accounting policies which reclassify items.

7 Virement Procedure

- 7.1** All virement proposals must be submitted to the Budget and Treasury Office for verification after authorisation by the relevant Senior Manager. Thereafter, the Director: IDP, Performance & Risk

Management and CFO recommends to the Accounting Officer for approval.

7.2 The request for a virement should be completed on the prescribed form and must contain the following information:

7.2.1 A sound motivation why a virement is necessary.

7.2.2 Current budget amount of the transferring line item as well as the new budget amount should the transfer be approved.

7.2.3 Current budget amount of the receiving line item as well as the new budget amount should the transfer be approved.

8 Sources

8.1 Local Government: Municipal Finance Management Act, 2003 (Act No. of 2003)

8.2 MFMA Circular No.13 - Service Delivery and Budget Implementation Plan

8.3 Mark Pearson National Treasury Advisor

8.4 Airedale Primary Care Trust Budget Virement Policy: 2004-5 UK

8.5 George Mason University Virginia USA

Annexure "A"

Vote Structure/ Strategic Objective

Vote	Cost Centre	
	Code	Description
1. Community Development and Planning Services:		
	1004	Local Economic Development
	1103	Tourism
	1521	Land-use and Spatial Planning
	1441	Municipal Health Services
	1610	Disaster Management
	1620	Fire Services
	1475	Social Development
	1477	Rural Development
	1478	Management: Rural and Social Development
2. Technical Services:		
	1165	Buildings : Maintenance
	1330	Projects and Housing
	1301	Management: Engineering
	1210	Information Technology
	1215	Telecommunication Services
	1615	Public Transport Regulation
	1361	Roads-Main/Division Indirect
	1362	Management: Roads
	1363	Roads: Workshop
	1364	Roads: Plant
3. Financial and Strategic Services:		
	1102	Administration Support Services
	1010	Public Relations*
	1110	Human Resources Management
	1164	Property Management
	1166	Communication / Telephone
	1310	Transport Pool
	1001	Office of the Municipal Manager*
	1020	Internal Audit*
	1511	Performance Management*

	1512	IDP*
	1000	Expenditure of the Council
	1002	Sundry Expenditure of the Council
	1003	Office of the Mayor
	1005	Office of the Speaker
	1007	Office of the Deputy Mayor
	1101	Councilor Support
	1201	Management: Financial Services
	1202	Financial Management Grant
	1205	Budget and Treasury Office
	1235	Procurement
	1238	Expenditure

****Cost centres of the Office of the Municipal Manager is within the Vote (Strategic Objective) Financial and Strategic Support Services.***