

CAPE AGULHAS

Munisipaliteit / Municipality



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

- Draft Asset Management policy
- Draft Budget and Virement policy
- Draft Cash Management and Investment policy
- Draft Cost containment policy
- Draft Funding and Reserve policy
- Draft Long-term financial plan policy
- Draft Asset disposal policy
- Draft policy relating to the Management of Infrastructure

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Konsep / Draft Beleid / Policy

Draft Asset Management Policy

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Item

Contents

1. INTRODUCTION	4
2. OBJECTIVE	4
3. STATUTORY FRAMEWORK	4
4. ACCOUNTING STANDARDS	5
5. DEFINITIONS	5
6. BACKGROUND	9
7. DELEGATION OF POWERS	9
8. RESPONSIBILITY –	10
9. FINANCIAL MANAGEMENT	11
10. INTERNAL CONTROLS	13
11. PHYSICAL CONTROLS AND MANAGEMENT	14
12. MANAGEMENT AND OPERATION OF ASSETS	16
13. CLASSIFICATION, AGGREGATIONS & COMPONENTS	16
13.1 Property, plant and equipment	16
13.2 Investment property	17
13.3 Intangible assets	17
13.4 Agricultural assets	17
13.5 Heritage assets	17
14. ACCOUNTING TREATMENT OF ASSETS	17
15. MAINTENANCE	24
16. SHORT TITLE	24
17. APPENDIX A	2

1. INTRODUCTION

This Policy for the management of assets has been designed to assist management and officials of the Cape Agulhas Municipality with the description of management procedures for Property, Plant and Equipment, Investment Property, Heritage Assets and Intangible Assets. It also should assist with the capacity to differentiate between activities, which are acceptable in terms of general authorization, supervisory responsibilities and limits of authority to the management of assets and functions of the organisation.

This Policy will provide certainty with respect to the handling of asset management procedures undertaken within the organization and will ensure that management and employees understand their respective responsibilities and duties.

For the purpose of this policy, assets exclude inventory and monetary assets such as debtors.

This Policy replaces all asset management procedures/instructions and memoranda that have been previously issued.

Non-compliance with this policy will result in the following of disciplinary procedures in terms of the Human Resource policy and procedures of the Municipality.

2. OBJECTIVE

The objective of this policy is to ensure that assets of the Municipality are properly managed and accounted for by: -

- The accurate recording of essential asset information;
- The accurate recording of asset movements;
- Exercising strict physical controls over all assets;
- Treating the assets correctly in the Municipality's financial statements;
- Providing accurate and meaningful management information;
- Compliance with the Council's accounting policies and Generally Recognised Accounting Practices;
- Adequate insuring of assets;
- Sufficient maintenance of Council's assets;
- Ensuring that managers are aware of their responsibilities with regard to the assets; and
- Setting out the standards of management, recording and internal controls so as to safeguard the assets against inappropriate utilisation or loss.

3. STATUTORY FRAMEWORK

The statutory framework of this policy is:

- The Constitution of the Republic of South Africa; 1996;
- Local Government: Municipal Systems Act; 2000;
- Local Government: Municipal Finance Management Act; 2003;
- Regulation No. 878 of 2008;
- Generally Recognised Accounting Practice (GRAP); and
- Supply Chain Management Regulations No. 868 of 2005;

4. ACCOUNTING STANDARDS

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

- GRAP 1 - Presentation of Financial Statements;
- GRAP 13 - Leases;
- GRAP 16 - Investment Property;
- GRAP 17 - Property, Plant and Equipment;
- GRAP 21 – Impairment of Non-Cash Generating Assets;
- GRAP 26 - Impairment of Cash Generating Assets;
- GRAP 27 - Agriculture
- GRAP 31 - Intangible Assets;
- GRAP 100 - Discontinued Operations; and
- GRAP 103 – Heritage Assets.

Other relevant accounting standards:

- GRAP 12 - Inventory; and
- GRAP 11 – Construction Contracts.

5. DEFINITIONS

An attempt has been made to use definitions in terms of legislation, accounting standards and other guidance on asset management. Should any uncertainty occur regarding a certain definition, the definition must be referred to in terms of the original relevant legislation or accounting standard.

“Accounting officer” means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and in charge of the administration and accounting responsibilities in terms of Section 60 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003).

“Active market” is a market where all the following circumstances must be present:

- The assets which are traded in the market are homogenous;
- A willing buyer and willing seller normally exists at any given time; and
- Prices are available to the public.

“Agricultural activity” is the management by a municipality of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

“Agricultural produce” is the harvested product of the entity’s biological assets.

“Amortisation” is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

“Assets” are resources controlled by the municipality as a result of past events and from which future economic benefit or service potential are expected to flow. However for the purpose of this policy exclude inventory and other monetary assets.

“Asset Manager” is any official to whom the responsibility has been delegated and who needs to account for the control, use, physical and financial management of the Municipality’s assets, in terms of the municipality’s standards, policies and procedures and relevant guidelines.

“Asset register” is the recording of the information on each asset which supports the effective financial and technical management of the assets and which complies with statutory requirements.

“Biological Asset” is a living animal or plant.

“Biological Transformation” comprises the processes of growth, degeneration, production and procreation that cause qualitative or quantitative changes to a biological asset.

“Carrying amount” is the amount at which an asset is included in the financial statements after deducting any accumulated depreciation and accumulated impairment thereon from the recorded value thereof.

“Chief Financial Officer” means an officer of a municipality designated by the municipal manager to be administratively in charge of the budgetary and treasury functions.

“Class of property, plant and equipment” means a grouping of assets of a similar nature or function in a municipality’s operations that is shown as a single item for the purpose of disclosure in the financial statements.

“Commercial service” means a service other than a municipal service:

- a) Provided by a private sector party or organ of state to or for a municipality or municipal entity on a commercial basis; and
- b) Purchased by a municipality or municipal entity through the supply chain management policy.

“Community assets” are defined as any asset that contributes to the community’s well-being. Examples are parks, libraries and fire stations.

“Cost” is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of Standards of GRAP.

“Depreciation” is the systematic allocation of the depreciable amount of an asset over its useful life.

“Depreciable amount” for the calculation of depreciation is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

“Disposal” in relation to capital assets, includes-

- a) The deconstruction, demolition or destruction, of the capital assets; or
- b) Any other process that leads to a loss of ownership of capital assets, excluding transfer of ownership

“Disposal Management System” means the system envisioned in regulation 40 of the Municipal Supply Chain Management Regulations, published in General Notice Nr. 868 of 2005.

“Fair value” is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm’s length transaction.

“GRAP” is Standards of Generally Recognised Accounting Practice

“Head of Department / Senior Manager” means a manager referred to in Section 56 of the Municipal Systems Act.

“Heritage assets” are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

“Historical Cost” means the original purchase price or the cost of acquisition of capital assets at the time of acquiring the asset.

“Impairment loss” of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

“Impairment loss” of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

“Improvement / Rehabilitation” is an improvement or change to an existing asset to increase its original service potential, for example useful lifetime, capacity, quality and/or functionality.

“Infrastructure assets” are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewage purification and trunk mains, transport terminals and car parks.

“Investment properties” are defined as property (land or a building-or part of a building-or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- a) use in the production and supply of goods or services or for administrative purposes; or
- b) sale in the ordinary course of business.

“Intangible assets” are identifiable assets without physical substance.

“Manager” means each senior manager and each municipal official exercising financial management responsibilities.

“Municipal valuation” means the official valuation of an immovable property as reflected in the Municipality’s valuation roll.

“Municipality” means the Cape Agulhas Municipality.

“Other assets” are defined as assets utilized in normal operations. Examples are plant, equipment, motor vehicles and furniture and fittings.

“Property, plant and equipment” (PPE) means tangible assets that:

-
- a) are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- b) are expected to have a useful life extending for more than one financial year.

“Realisable Value” means the amount of cash or cash equivalents that currently can be obtained by transferring the capital assets, less the estimated costs of completion and the estimated costs of transferring the assets.

“Recoverable amount” is the higher of a cash-generating asset’s net selling price and its future value in use.

“Recoverable service amount” is the higher of a non-cash-generating asset’s net fair value minus the cost to sell and its future value in use.

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

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

“Senior Manager” is a manager as referred to in Section 57 of the Municipal Systems Act (MSA) who is somebody that reports directly to the Municipal Manager.

“Service Provider” –

- a) with regards to a municipal service, means a private sector party or organ of state appointed by the municipality, in terms of Section 8 of the MSA, to perform a municipal service accordance with the Act; or
- b) with regards to a commercial service, means a private sector party or organ of state appointed by the municipality or municipal entity in terms of the supply chain management policy to perform a commercial service to or for the municipality as an independent contractor.

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

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

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

“Useful life” – is or:

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

6. BACKGROUND

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

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

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

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

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

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

Accounting standards have been approved by the Accounting Standards Board to ensure the appropriate financial treatment for property, plant and equipment, investment property, intangible assets, heritage assets and agricultural assets. The requirements of these new accounting standards include:-

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

7. DELEGATION OF POWERS

This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Executive Mayor and the Council and the Municipal Manager. All delegations in terms of this policy must be recorded in writing.

In accordance with the Local Government: Municipal Finance Management Act (Act 56 of 2003) (MFMA), the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/her. The Municipal Manager is therefore accountable for all transactions entered into by his/her designates.

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

8. RESPONSIBILITY –

Municipal Manager

The Municipal Manager is responsible for the management of the assets of the Municipality, including the safeguarding and the maintenance of those assets. He/she must ensure that:-

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

Chief Financial Officer

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

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

Senior Manager

The Senior Managers must ensure that:

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

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

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

9. FINANCIAL MANAGEMENT

Pre-Acquisition Planning

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

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

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

Approval to Acquire Property

Plant and equipment

Expenditure can only be incurred on a capital project if:

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

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

Funding of capital projects

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

Funding source types can include the following:

- External loans;
- Government grants;
- Public contributions and donations;
- Finance leases; and
- Surplus cash.

Disposal of Assets

In terms of Section 14 of the MFMA the municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an asset needed to provide the minimum level of basic municipal services, unless such asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the minimum level of basic municipal services is not compromised as a result of the disposal of the asset.

The municipality may transfer ownership or otherwise dispose of an asset other than one contemplated above or moveable assets having an estimated carrying value above R50 000, but only after the Council, in a meeting open to the public:

- Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and
- Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

The decision that a specific asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset had been sold, transferred or otherwise disposed of.

The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality and the Asset Transfer Regulations.

The transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.

Every manager shall report in writing to the Chief Financial Officer as the needs arise on all assets controlled or used by the department concerned which such manager wishes to alienate by public auction or public tender.

The Chief Financial Officer shall thereafter consolidate the requests received from the various departments and shall promptly report such consolidated information to the Council or the Municipal Manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

Once assets are alienated, the Chief Financial Officer shall in terms of GRAP adjust the asset register for the current year and shall, for the ensuing year, delete the asset from the accounting records and the asset register.

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

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

All assets earmarked for write-off must be sold on a public auction or tender once the following steps have been followed:

- a notice was published in the local press of the municipality's intention to sell the asset;
- in the case of computer equipment the provincial department of education is first approached to determine within 30 days if any of the local schools are interested in the equipment;
- in the case where no such schools are interested in the computer equipment it must be donated to non-profit organisations who will have to motivate why the equipment must be donated to them and / or demolished in the presence of the internal auditor;
- In the case of an public auction an independent auctioneer was appointed to hold the auction; and
- In the case of a public tender the prescribed tender procedures were followed.

Loss, theft, destruction or impairment of assets

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

10. INTERNAL CONTROLS

Asset Register

The Chief Financial Officer will establish and maintain the Register containing key financial data on each item of Property, Plant or Equipment, Investment Property, Intangible Assets and Agricultural Assets that satisfies the criterion for recognition.

The Asset Manager is responsible for establishing and maintaining any additional register or database required by the managers to demonstrate their physical management of their assets.

The asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of GRAP and any other accounting requirements which may be prescribed.

The details in the asset register must, as far as possible, include:

- A unique identification number;
- GIS identification number in the case of infrastructure;
- A short but meaningful description of the each asset;
- Date of acquisition of the date that the asset was ready for use;
- Location of the asset;
- The responsible manager and department(s) or vote(s) within which the asset will be used;
- The title deed number, in the case of fixed property;
- The erf number, in the case of fixed property;
- The measurement basis of the asset (Cost or Fair Value);
- The original useful life of the asset;
- The revised useful life of the asset;
- The residual value of the asset;
- The revised residual value of the asset;

- The historical cost or revalued amount or fair value, where no cost is available;
- The (last) date of revaluation of the assets which must be valued;
- The revalued value of those assets;
- Who performed the (last) valuation;
- The accumulated depreciation to date;
- Depreciation charged for the current financial year;
- The carrying value of the asset;
- The depreciation methods and rate used;
- Impairment losses incurred during the financial year (and the reversal of such losses, where applicable);
- Method of calculating recoverable amount (in the case where an impairment is required in terms of GRAP);
- Increases or decreases resulting from revaluations (if relevant);
- Source of finance;
- Condition of the asset;
- Current insurance arrangements/agreements;
- Whether the asset is required to perform basic municipal services;
- Whether the asset has been used to secure any debt, and – if so - the nature and duration of such security arrangements;
- Security arrangements;
- Date and value of disposal;
- Selling price; and
- Date on which the asset is retired from use, if not disposed of.

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

An asset shall be recorded in the assets register as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset. The fact that an asset has been fully depreciated shall not in itself be a reason for deleting it from the register.

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

These controls must include:

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

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

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

11. PHYSICAL CONTROLS AND MANAGEMENT

Responsibilities of the Asset Control Section

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

The date of acquisition

- The date of acquisition of assets is deemed to be the time when legal title and control passes to the municipality.
- This may vary for different categories of assets but will usually be the point of time when an asset is brought into use or when final payment for that item is approved.

Transfers between Managers

Permanent transfers to another Manager

A Manager may transfer an asset under his control provided that another Senior Manager agrees in writing to accept responsibility for that asset. Copies of such approvals must be submitted to the Financial Services Department.

The Financial Services Department must appropriately amend the Asset register by recording all approved transfers.

The Manager to whom the asset is transferred must assume accountability for the transferred asset from a date specified in the written communication referred to above.

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

Relocation or Reassignment of Assets

A Manager must advise the Chief Financial Officer, in writing, whenever an asset is relocated or reassigned from the location (or base) or cost centre as recorded in the Asset Register.

In the case of assets such as vehicles being utilized in the normal course of operations away from its base such reporting is not necessary.

Verification of Assets

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

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

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

Insurance of assets

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

The Accounting Officer must, after consultation with the Chief Financial Officer recommend to the Council of the municipality, the insured value to be applied to each type of asset: either

the carrying value or the replacement value of the asset concerned. Such recommendation shall take due cognizance of the budgetary resources of the municipality.

12. MANAGEMENT AND OPERATION OF ASSETS

Accountability to manage assets

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

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

Strategic asset management plan

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

- Alignment with the Integrated Development Plan;
- Operational guidelines;
- Performance monitoring including benchmarking indicators and measurement;

- Maintenance programmes;
- Renewal, refurbishment and replacements plans;
- Disposal and Rehabilitation plans;
- Operational, financial and capital support requirements; and
- Risk mitigation plans including insurance strategies.

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

Reporting on Impeding Issues

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

13. CLASSIFICATION, AGGREGATIONS & COMPONENTS

Classification of assets

Any asset recognized as an asset under this policy will be classified according to nationally recognized categories.

These categories have been specified by the Accounting Standards Board.

All assets should be classified under the following headings in the Asset Register:

13.1 Property, plant and equipment

- Land and buildings, including community asset land and buildings (not held as investment assets).
- Infrastructure assets (assets which are part of a network of similar assets).

- Community assets (resources contributing to the general well-being of the community).
- Other assets (ordinary operational resources).

13.2 Investment property

13.3 Intangible assets

13.4 Agricultural assets

13.5 Heritage assets

Optional Treatment for Major Components

A Manager must, with agreement of the Chief Financial Officer, treat major components of an item of property plant or equipment as a separate asset for the purposes of this policy.

These major components may be defined by its physical parameters (e.g. a reservoir or roof) or its financial parameters.

In agreeing to these treatments the Manager must be satisfied that these components:

- Have significantly a different useful life or usage pattern to the main asset;
- Align with the asset management plans;
- Justify the costs of separate identification;
- Have probable future economic benefits or potential service delivery associated with the asset which will flow to the municipality;
- Is such that the cost of the asset to the municipality can be measured reliably,
- Is such that the municipality has control over the asset; and
- Is such that the asset is expected to be used during more than one financial year.

All such decisions and agreements must be confirmed before the beginning of the financial year and must be submitted for approval with the budget. Any amendments will only be permitted as part of a budget review (i.e. once or twice during the year).

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

14. ACCOUNTING TREATMENT OF ASSETS

Recognition of Assets

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

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

Initial Measurement

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

The “cost of acquisition” usually includes the following:

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

Donations or exchanges

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

Carrying amount of assets

Subsequent to initial recognition as an asset, an item of property, plant or equipment should be carried at its cost of acquisition less any accumulated depreciation and accumulated impairments.

The only exceptions to this rule shall be investment assets as well as heritage assets.

Depreciation

All assets, except land, assets under construction and heritage assets, shall be depreciated – or in the case of intangible assets, amortised.

Depreciation and amortisation are defined as the monetary quantification by which PPE and Intangible Assets are used in the provision of economic benefits or service delivery.

The depreciable amount of an item of property, plant or equipment should be allocated on a systematic basis over its useful life.

The depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and, therefore, is immaterial in the calculation of the depreciable amount.

When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition. The estimate is based on the residual value prevailing at the date of the estimate for similar property assets that have reached the end of their useful lives and have operated under conditions similar to those under which the property asset will be used.

The depreciation charge for each period will be recognized as an expense against the budget of the relevant Manager.

The depreciation method used shall reflect the pattern in which the assets' future economic benefits or service potential are expected to erode the value of the asset.

A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include

- the straight-line method;
- the diminishing balance method; and
- the units of production method.

Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change.

The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output.

The method of depreciation is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

The preferred depreciation method will be the straight-line method unless otherwise agreed to in writing by the Chief Financial Officer.

Depreciation shall initially be calculated from the day the asset is available for use.

Each manager, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

Initial determination of useful life

Each Manager needs to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:

- The program that will optimize the expected long term costs of owning that asset;
- Economic obsolescence because it is too expensive to maintain;
- Functional obsolescence because it no longer meets the municipality's needs,
- Technological obsolescence;
- Social obsolescence due to changing demographics; and
- Legal obsolescence due to statutory constraints.

A schedule of useful lives is included as an annexure. These should be used as a guide only because asset lives experienced may greatly vary from those recommended lives.

In the case of an item of PPE or Intangible Asset which is not listed in this annexure, the relevant head of department in consultation with the Chief Financial Officer shall determine a useful operating life and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.

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

Review of useful life and residual value

Only the Chief Financial Officer in consultation with the responsible Manager may amend the useful operating life or the residual value assigned to any asset.

The Chief Financial Officer shall amend the useful operating life or the residual value assigned to any asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

If the value of an asset item of PPE has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be written off from the date in which such diminution in value occurs.

Similarly, if an item of PPE has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the item has physically ceased to exist, it shall be written off in the fixed asset register.

In all of the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the item of PPE or intangible asset in question.

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

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

Review of depreciation method

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

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

Subsequent expenditure on assets

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

All other expenditure must be recognized as an expense in the period in which it occurred.

Before allowing the capitalization of subsequent expenditure, the Chief Financial Officer must be satisfied that this expenditure will significantly:

- Increase the life of that asset beyond that stated in the asset register, or
- Increase the quality of service provided by that asset beyond the existing level of service, or
- Increase the quantity of services that asset can provide, or
- Reduce the future assessed costs of maintaining that asset.

Expenditure that is proposed to be capitalized must also conform to recognition criteria for assets and should also be appropriately included in the approved capital budget.

Impairment Losses

The carrying amount of an item or a group of identical items of Property, Plant and Equipment, Intangible Assets and Investment Property should be reviewed periodical

in order to assess whether or not the recoverable amount has declined below the carrying amount.

The recoverable amount is the amount that the municipality expects to recover from the future use of the asset including its residual value on disposal. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification works is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

The following may be indicators that an asset is impaired:

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

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

Departments will identify and inform CFO – Asset Control of assets that:

- Are in a state of damage at year end;
- Are technologically obsolete at year end;
- Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life;
- Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is land that is purchased at market value and is to be utilized for subsidized housing developments.

The recoverable amounts of these assets need to be determined by calculating the net selling price per asset as defined above.

The impairment loss per asset is the difference between the net selling price and the carrying value of the asset.

Subsequent increase in recoverable amount

A subsequent increase in the recoverable amount of an asset, previously impaired due to a decline in the carrying amount, should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

Accounting treatment on Disposal

An asset should be eliminated from the Asset Register on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its existence.

Gains or losses arising from the retirement or disposal of an asset should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the financial records.

Reinstatement, maintenance and other expenses

Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised. Such expenses may include but need not be limited to import duties, forward cover costs, transportation, installation, assembly and communication costs.

The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:-

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

Assets held under leases

Finance leases are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the Asset Register. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement, or a price calculated after taking into account reasonable interest on the payments over the period of the lease. The asset is then depreciated over its expected useful life.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset register.

Investment Property

Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's financial statements.

Investment assets comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in a separate section of the assets register in the same manner as other assets.

Investment assets shall not be depreciated, but shall be valued annually at financial statements date to determine their fair market value. Investment assets shall be recorded in the financial statements at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records.

An expert valuer shall be engaged by the municipality to undertake such valuations unless such expertise is available in-house.

Assets treated as inventory

Any land or buildings owned or acquired by the municipality with the intention of reselling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of reselling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's financial statements.

Such inventories must be recorded in a separate section of the assets register in the same manner as assets.

Heritage Assets

Heritage assets shall be accounted for in terms of GRAP 103 and shall not be classified separately for purposes of preparing the municipality's financial statements.

Heritage assets shall be recorded in a separate section of the assets register in the same manner as other assets.

Heritage assets shall not be depreciated.

If no original costs or fair values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the asset register without an indication of the costs or fair value concerned.

For financial statements purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

Other write-offs of assets

An asset item, even though fully depreciated, shall be written off only on the recommendation of the manager controlling or using the asset concerned, provided it has been submitted to the Chief Financial Officer for approval.

Every manager shall report to the Chief Financial Officer as required on any asset which such manager wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall consolidate all such reports, and shall submit a recommendation to the Municipal Manager of the municipality on the assets to be written off.

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

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

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

15. MAINTENANCE

Maintenance Plans

Every manager shall ensure that a maintenance plan in respect of new infrastructure assets with a value of R100 000 or more is prepared as part of the annual budget preparation process.

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

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

General maintenance of Assets

Every Head of Department shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such assets attain their maximum useful operating lives

16. SHORT TITLE

This policy will be named the Asset Management Policy of the **Cape Agulhas Municipality**.

17. APPENDIX A

SCHEDULE OF EXPECTED USEFUL LIVES OF ASSETS

	<i>Years</i>		<i>Years</i>
<u>Infrastructure</u>		<u>Other</u>	
Streets and Stormwater	8 – 99	Buildings	100
Solid Waste	10 – 64	Specialist vehicles	12-30
Electricity	10-64	Other vehicles	10-15
Water	12-48	Office equipment	2-30
Sewerage and sanitation	13 - 89	Furniture and fittings	10-30
		Tools and equipment	5 - 30
		Equipment	5-50
<u>Community</u>		Tables	10 - 30
Recreational Facilities	5-50	Chairs	10-30
Clinics	100	Computer equipment	10
Halls	10 – 100	Landfill Sites	9 – 68
Libraries	10-100		
Parks and gardens	30		
Sport Facilities	10-100		
<u>Finance lease assets</u>			
Office equipment	3 – 5		
Vehicles	5		

CAPE AGULHAS

Munisipaliteit / Municipality



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

Konsep / Draft Beleid / Policy

Budget & Virement Policy

Goedgekeur / Approved: 31 March 2023

Raadsbesluit / Council's decision: Item

Table of Contents

1.	Definitions	5
2.	Introduction	9
3.	Objectives	9
4.	Budgeting principles	9
5.	Budget preparation process	10
5.1	Budget Steering Committee	10
5.2	Formulation of the budget	10
5.3	Public participation process	11
5.4	Approval of the budget	12
5.5	Service Delivery and Budget Implementation Plan (SDBIP)	13
6.	Capital Budget	13
6.1.	Funding of Capital expenditure	14
6.2.	Approval of capital projects	15
7.	Operating budget	2
8.	Funding of Capital and Operating budget	2
9.	Unspent Funds / Roll over of budget	2
10.	Budget transfers and veriments	3
11.	Framework for unforeseen and unavoidable expenditure	3
11.1.	Monetary limits on unforeseen and unavoidable expenditure	4
12.	Adjustment Budget	4
12.1	Formats of adjustments budgets	5
12.2	Funding of the adjustments budgets	5
12.3	Timeframes for tabling of adjustments budgets	5
12.4	Submission of tabled adjustments budgets	6
12.5	Approval of adjustment budget	7
12.6	Publications of approved adjustment budget	7
12.7	Submission of approved adjustments budget and other documents	7
13.	Budget Implementation	8
13.1	Monitoring	8
13.2	Reporting	8
14.	Conclusion	9

1. Definitions

"accounting Officer"-

means the Municipal Manager;

"allocation", means-

a municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution;

an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution;

an allocation of money to a municipality in terms of a provincial budget; or

any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

"annual Division of Revenue Act" means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

"approved budget," means an annual budget-

(a) approved by a municipal council, or

(b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

"asset" means a tangible or intangible resource capable of ownership;

"capital asset" means -

(a) any immovable asset such as land, property or buildings; or

(b) any movable asset that can be used continuously or repeatedly for more than one year in the production or supply of goods or services, for rental to others or for administrative purposes, and from which future economic or social benefit can be derived, such as plant, machinery and equipment;

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

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

(a) the **tariffs policy**, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;

(b) the **rates policy** which the municipality must adopt in terms of legislation regulating municipal property rates; or

(c) the **credit control and debt collection policy**, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

"budget transfer" means transfer of funding within a function / vote.

"budget Year" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

"chief financial officer" means a person designated in terms of section 80(2) (a) of the MFMA;

"councillor" means a member of a municipal council;

"creditor", means a person to whom money is owed by the municipality;

"current year" means the financial year, which has already commenced, but not yet ended;

"delegation", in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

"financial recovery plan" means a plan prepared in terms of section 141 of the MFMA
"financial statements", means statements consisting of at least-

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

"financial year" means a twelve months period commencing on 1 July and ending on 30 June each year

"financing agreement" includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

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

"irregular expenditure", means-

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

"investment", in relation to funds of a municipality, means-

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

"lender", means a person who provides debt finance to a municipality;

"local community" has the meaning assigned to it in section 1 of the Municipal Systems Act;

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

"Municipal Systems Act" means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

"long-term debt" means debt repayable over a period exceeding one year;

"executive mayor" means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act;

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

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

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

"municipality"-

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

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

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

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

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

"National Treasury" means the National Treasury established by section 5 of the Public Finance Management Act;

"official", means-

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

"overspending"-

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

"past financial year" means the financial year preceding the current year;

"quarter" means any of the following periods in a financial year: (a)

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

"service delivery and budget implementation plan" means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate-

- (a) projections for each month of-
 - (i) revenue to be collected, by source; and
 - (ii) operational and capital expenditure, by vote;
- (b) service delivery targets and performance indicators for each quarter; and
- (c) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) (c) of the MFMA;

"short-term debt" means debt repayable over a period not exceeding one year;

"standards of generally recognised accounting practice," means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board

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

- (a) overspending of the total amount appropriated 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 the MFMA;

"virement" means transfer of funds between functions / votes

"vote" means-

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

2. Introduction

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year.

According to subsection (2) of the Act concerned, in order to comply with subsection (1), the executive mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro- economic and fiscal policy fundamentals. In brief, the conceptualization and the operationalisation of the budget must be located within the national government's policy framework.

3. Objectives

The objective of the budget policy is to set out:

- a) The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget
- b) The responsibilities of the executive mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget
- c) To establish and maintain procedures to ensure adherence to Cape Agulhas Municipality's Integrated Development Plan (IDP) review and budget processes.

4. Budgeting principles

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

- b) Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.
- c) Cape Agulhas Municipality shall prepare three-year budget (medium term revenue and expenditure framework (MTREF)) and that be reviewed annually and approved by Council.
- d) The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan (IDP).

5. Budget preparation process

5.1 Budget Steering Committee

- a) The mayor of a municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act.
- b) The steering committee must consist of at least the following persons:
 - i. the councillor responsible for financial matters;
 - ii. the municipal manager;
 - iii. the chief financial officer;
 - iv. the senior managers responsible for at least the three largest votes in the municipality;
 - v. the manager responsible for budgeting;
 - vi. the manager responsible for planning; and
 - vii. any technical experts on infrastructure.

5.2 Formulation of the budget

- a) The Accounting Officer with the assistance of the Chief Financial Officer and the Director responsible for IDP shall draft the IDP process plan as well as the budget timetable for the municipality for the ensuing financial year.
- b) The executive mayor shall table the IDP process plan as well as the budget timetable to Council by 31 August each year for approval (10 months before the start of the next budget year).
- c) IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act as well as the guidelines set by National Treasury.
- d) The Executive mayor shall convene a strategic workshop before end of October with the mayoral committee and senior managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressures facing the municipality.
- e) The Executive Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings, etc).

- f) The Chief Financial Officer and senior managers undertake the technical preparation of the budget.
- g) The budget must be in the format prescribed by National Treasury, and must be divided into capital and operating budget.
- h) The budget must reflect the realistically expected revenues by major source for the budget year concerned.
- i) The expenses reflected in the budget must be divided into items.
- j) The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

5.3 Public participation process

- (a) Immediately after the draft resolutions of the annual budget is tabled in a municipal council, the accounting officer of the municipality must— in accordance with Chapter 4 of the Municipal Systems Act—
 - i. make public the annual budget and the documents referred to in section 17(3); and
 - ii. invite the local community to submit representations in connection with the budget; and
 - iii. submit the annual budget—(draft budget)
 - a. in both printed and electronic formats to the National Treasury and the relevant provincial treasury as prescribed by National Treasury ; and
 - b. in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.
- (b) When the annual budget has been tabled, the municipal council must consider any views of—
 - i. the local community; and
 - ii. the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (c) The Municipal Manager must also make public any information that the municipal council considers appropriate to facilitate the budget consultation process, including:
 - i. Summaries of the annual budget and supporting documents in alternate languages predominant in the community; and
 - ii. Information relevant to each ward in the municipality
 - iii. All the information contemplated in subregulation (c) must cover:
 - a) The relevant financial and service delivery implications of the annual budget; and
 - b) At least the previous year’s actual outcome, the current year’s forecast outcome, the budget year, and the following two years.
- (d) When submitting the annual budget to the National Treasury and the relevant provincial treasury, the municipal manager must also submit to National Treasury and the relevant provincial treasury, both in printed and electronic form -
 - i. The supporting budget documentation as tabled in the municipal council;
 - ii. The draft Service Delivery and Budget Implementation Plan (SDBIP); and
 - iii. Any other information as may be required by National Treasury.

- (e) The Municipal Manager must send copies of the annual budget and supporting documentation as tabled in the municipal council, in both printed and electronic form to:
 - i. Any other municipality affected by the annual budget within ten working days of the annual budget being tabled in the municipal council; and
 - ii. Any organ of state on receipt of a request from the organ of state.
- (f) After considering all budget submissions, the council must give the Executive Mayor an opportunity—
 - i. to respond to the submissions; and
 - ii. if necessary, to revise the budget and table amendments for consideration by the council.
- (g) Within consideration of the approval of the Annual Budget and thirty (30) days before the start of the budget year the Executive Mayor must table the following documents in the Council in consideration of the annual budget approval
 - i. A report summarizing the local community's views on the annual budget;
 - ii. Any comments on the annual budget received from National Treasury and Provincial Treasury
 - iii. Any comments on the annual budget received from any organ of state, including any affected municipality; and
 - iv. Any comments on the annual budget received from any other stakeholders.
- (h) The Municipal Manager must assist the Executive Mayor in the preparation of the documents referred to in subregulation (g) and 23 (2) of the Act.

5.4 Approval of the budget

- (a) Council shall consider the medium term revenue and expenditure framework budget (MTREF) for approval not later than 31 May (30 days before the start of the budget year).
- (b) The council resolution, must contain budget policies and the performance measures to be adopted.
- (c) The council must consider the full implications, financial or otherwise, of the annual budget and supporting documentation before approving the annual budget.
- (d) When approving the annual budget, the council must consider and adopt separate resolutions dealing with each of the matters contemplated.
- (e) Should the municipality fail to approve the budget before the start of the budget year, the executive mayor must inform the MEC for Finance that the budget has not been approved.
- (f) The budget tabled to Council for approval shall include the following supporting documents:
 - i. draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
 - ii. measurable performance objectives for each budget vote, taking into account the municipality's IDP;
 - iii. the projected cash flows for the financial year by revenue sources and expenditure votes;
 - iv. any proposed amendments to the IDP;
 - v. any proposed amendments to the budget-related policies;
 - vi. particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as Non- Governmental Organisations, welfare institutions and so on;

- vii. particulars of the municipality's investments;
- viii. particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
- ix. particulars of any proposed allocations or grants by the municipality to—
 - i. other municipalities;
 - ii. any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
 - iii. any other organs of state;
 - iv. any organisations or bodies referred to in section 67(1) of the Act;
- x. the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—
 - i. each political office-bearer of the municipality;
 - ii. councillors of the municipality; and
 - iii. the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;

5.5 Service Delivery and Budget Implementation Plan (SDBIP)

- (a) The Executive mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council, and within ten days(10) after the Executive Mayor has approved the Plan it has to be made public.
- (b) The SDBIP shall include the following components:
 - a) Projections for each month of-
 - i. Revenue to be collected, by source, and
 - ii. Operational and capital expenditure, by vote;
 - b) Service delivery targets and performance indicators for each quarter.
 - c) Monthly projections of revenue to be collected for each source;
 - d) Monthly projections of expenditure (operating and capital) and revenue for each vote;
 - e) Quarterly projections of service delivery targets and performance indicators for each vote;
 - f) Information for expenditure and delivery; and
 - g) Detailed capital works plan.

6. Capital Budget

- a) All expenditure of a project shall be included in the capital budget if it meets the asset definition as per Cape Agulhas Asset Management Policy.
- b) Vehicle replacement shall be done in terms of Council's vehicle replacement policy. The budget for vehicles shall distinguish between replacement and new vehicles. No globular amounts shall be budgeted for vehicle acquisition.
- c) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

6.1 Funding of Capital expenditure

- a) The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.
- b) An annual budget must show the total capital expenditure and the different sources of funding.
- c) The total budgeted capital funding by source must equal the total budgeted capital expenditure
- d) Funds created in terms of section 12 of the Act must be fully cash backed.
- e) A municipality may make expenditures or donations in support of the objectives for which funds created in terms of section 12 of the Act were established if approved in an annual budget or adjustment budget.
- f) No municipal funds may be paid into a fund created in terms of section 12 of the Act.
- g) The capital expenditure shall be funded from the following sources:
 - 1) Revenue or Surplus
 - i. If any project is to be financed from revenue this financing must be included in the cash budget to raise sufficient cash for the expenditure.
 - ii. If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project.
 - 2) External loans
 - i. External loans can be raised only if it is linked to the financing of an asset;
 - ii. A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured;
 - iii. The loan redemption period should not exceed the estimated life expectancy of the asset;
 - iv. Interest payable on external loans shall be included as a cost in the revenue budget;
 - v. Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.
 - 3) Capital Replacement Reserve (CRR)
 - i. Council may establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve may be established from the following sources of revenue:
 - a) unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
 - b) interest on the investments of the CRR, appropriated in terms of the investments policy;
 - c) additional amounts appropriated as contributions in each annual or adjustments budget; and
 - d) Sale of land and profit or loss on the sale of assets.
 - ii. Before any asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed;
 - iii. If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash with approval of Council;
 - iv. Transfers to the CRR must be budgeted for in the cash budget;

4) Grant Funding

- i. Non capital expenditure funded from grants must be budgeted for as part of the revenue budget;
- ii. Expenditure must be reimbursed from the unspent grants and transferred to the operating and must be budgeted for as such.
- iii. Capital expenditure must be budgeted for in the capital budget;
- iv. Interest earned on investments of Conditional Grant Funding shall be capitalized if the conditions state that interest should accumulate in the fund. If there is no condition stated the interest can then be allocated directly to the revenue accounts.
- v. Grant funding does not need to be cash backed but cash should be secured before spending can take place.

6.2. Approval of capital projects

- a) Before approving a capital project, the Council must consider:
 - i. the projected cost of the project over all the ensuing financial years until the project becomes operational,
 - ii. future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).
- b) Before approving the capital budget, the council shall consider:
 - i. the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans,
 - ii. depreciation of fixed assets,
 - iii. maintenance of fixed assets, and
 - iv. any other ordinary operational expenses associated with any item on such capital budget.
- c) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded.
- d) The municipality shall within ten (10) working days after the council has given individual approval for capital projects in terms of section 19(1)(b) of the Act, make public the following:
 - i. The municipal council resolution approving the capital projects; and
 - ii. Details of the nature, location and total project cost of the approved capital projects

7. Operating budget

- a) The municipality shall budget in each annual and adjustments budget for the contribution to:
 - i. provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year,
 - ii. provision for bad debts in accordance with its rates and tariffs policies
 - iii. provision for the obsolescence and deterioration of stock in accordance with its asset management policy
 - iv. depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.
 - v. If realistic at least a % as per National Treasury guidelines of the operating budget component of each annual and adjustments budget shall be set aside for maintenance.
- b) When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.
- c) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.
- d) The operating budget shall reflect the impact of the capital component on:
 - i. depreciation charges
 - ii. repairs and maintenance expenses
 - iii. interest payable on external borrowings
 - iv. other operating expenses.
- e) The chief financial officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.

8. Funding of Capital and Operating budget

- (a) The budget may be financed only from:
 - i. realistically expected revenues, based on current and previous collection levels;
 - ii. cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
 - iii. borrowed funds in respect of the capital budget only.

9. Unspent Funds / Roll over of budget

- (a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure.
- (b) Only unspent grant (if the conditions for such grant funding allows that subject to approval of National Treasury) or loan funded capital budget may be rolled over to the next budget year

- (c) Application for roll over of funds shall be forwarded to the budget office by no later than the end of April each year to be included in next year's budget for adoption by Council in May.
- (d) Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.
- (e) No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made 90 days (30 March each year) prior the end of that particular financial year.
- (f) No unspent portion operating budget shall be rolled over to the next budget year

10. Budget transfers and veriments

- (a) Budget transfers within the same vote shall be recommended by the Head of Departments (HOD's) and approved by the Chief Financial Officer, in consultation with the Municipal Manger.
- (b) Directors may utilize a saving in the amount appropriated under a main expenditure category (General Expenses, Repairs & Maintenance, etc.(excluding salaries)) within a vote which is under their control towards the defrayment of excess expenditure under another main expenditure category within the same vote, with the approval of the Chief Financial Officer.
- (c) Virements between votes shall only be permitted with approval by Council in the adjustment budget.
- (e) Virements will not be permitted in relation to the revenue side of the budget;
- (c) Virements from the capital budget to the operating budget will not be permitted;
- (d) Veriment limits on the amount of funds that may be moved to and from votes and sub-votes **may not exceed ten (10%)** per cent of the budget unless approved by council and incorporated as part of the adjustment budget.
- (e) Veriments required with relating to the Maintenance votes – Contracted services (1) and the Materials and Supplies (2) votes will be processed at full budget amounts if needed within the different votes and categories.

11. Framework for unforeseen and unavoidable expenditure

- (a) The mayor of a municipality may authorize expenditure in terms of section 29 of the Act only if –
 - a. the expenditure could not have been foreseen at the time the annual budget of the municipality was passed; and
 - b. the delay that will be caused pending approval of an adjustments budget by the municipal council in terms of section 28(2)(c) of the Act to authorize the expenditure may –

- i. result in significant financial loss for the municipality;
 - ii. cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;
 - iii. lead to loss of life or serious injury or significant damage to property; or
 - iv. obstruct the municipality from instituting or defending legal proceedings on an urgent basis.
- (b) The mayor of a municipality may not authorize expenditure in terms of section 29 of the Act if the expenditure –
- a. was considered by the council, but not approved in the annual budget or an adjustments budget;
 - b. is required for –
 - i. price increases of goods or services during the financial year;
 - ii. new municipal services or functions during the financial year;
 - iii. the extension of existing municipal services or functions during the financial year;
 - iv. the appointment of personnel during the financial year; or
 - v. allocating discretionary appropriations to any vote during the financial year; or
 - (c). would contravene any existing council policy; or
 - (d). is intended to ratify irregular or fruitless and wasteful expenditure.

11.1. Monetary limits on unforeseen and unavoidable expenditure

- (a) The amount of expenditure that a mayor of a municipality may authorize in terms of section 29 of the Act is limited to –
- i. 5% of the municipality’s own revenue in the case of a municipality with approved total revenue in its current annual budget not exceeding R250 million;
 - ii. The greater of R5 million or 4% of the municipality’s own revenue in the case of a municipality with an approved budget total revenue in its current annual budget greater than R250 million but not exceeding R500million; and
 - iii R25 million in the case of a municipality with an approved total revenue in its current annual budget greater than R500 million.

12. Adjustment Budget

- (a) Each adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.
- (b) The chief financial officer shall ensure that the adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the executive mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the executive mayor on the revision of the IDP and the budget-related policies where these are indicated.

- (c) Council may revise its annual budget by means of an adjustments budget as regulated.
- (d) The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.
- (e) The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council in compliance with Item 2 of Section 10.
- (f) The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.
- (g) Only the Executive mayor shall table an adjustment budget. Adjustments budget shall be done once as part of the mid-year budget performance assessment:
- (h) An adjustments budget must contain all of the following:
 - a. an explanation of how the adjustments affect the approved annual budget;
 - b. appropriate motivations for material adjustments; and
 - c. an explanation of the impact of any increased spending on the current and future annual budgets.
- (i) Any unappropriated surplus from previous financial years, even if fully cash-backed, may not be used to balance any adjustments budget, but may be appropriated to the municipality's capital replacement reserve.
- (j) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan and or per National Treasury Regulations.
- (k) Unauthorised expenses may be authorised in an adjustments budget.

12.1 Formats of adjustments budgets

- (a) An adjustment budget and supporting documentation of a municipality must be in the format specified by National Treasury and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

12.2 Funding of the adjustments budgets

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

12.3 Timeframes for tabling of adjustments budgets

- (a) An adjustments budget referred to in section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time during the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.
- (b) Only one adjustments budget referred to in subregulation (1) may be tabled in the municipal council during a financial year, except when the additional revenues contemplated in section 28(2)(b) of the Act are allocations to a municipality in a national or provincial adjustments budget, in which case subregulation (3) applies.
- (c) If a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget referred to in section 28(2)(b) of the Act in the municipal council to appropriate these additional revenues.
- (d) An adjustments budget referred to in section 28(2)(c) of the Act must be tabled in the municipal council at the first available opportunity after the unforeseeable and unavoidable expenditure contemplated in that section was incurred within the period set in section 29(3) of the Act.
- (e) An adjustments budget referred to in section 28(2)(e) of the Act may only be tabled after the end of the financial year to which the roll-overs relate, and must be approved by the municipal council by 25 August of the financial year following the financial year to which the roll-overs relate.
- (f) An adjustments budget contemplated in section 28(2)(G) of the Act may only authorise unauthorised expenditure as anticipated by section 32(2)(a)(i) of the Act, and must be –
- (g) dealt with as part of the adjustments budget contemplated in subregulation (1); and
- (h) a special adjustments budget tabled in the municipal council when the mayor tables the annual report in terms of section 127(2) of the Act, which may only deal with unauthorised expenditure from the previous financial year which the council is being requested to authorise in terms of section 32(2)(a)(i) of the Act.

12.4 Submission of tabled adjustments budgets

- (a) The municipal manager must comply with section 28(7) of the Act, read together with section 22(b)(i) of the Act, within ten working days after the mayor has tabled an adjustments budget in the municipal council.
- (b) When submitting the tabled adjustments budget to the National Treasury and the relevant provincial treasury in terms of section 28(7) of the Act, read together with section 22(b)(i) of the Act, the municipal manager must submit in both printed and electronic form –
 - i. the supporting documentation referred to in section 28(5) of the Act within ten workin days of the adjustments budget being tabled in the municipal council; and
 - ii. any other information as may be required by National Treasury.

- (c) The municipal manager must send copies of an adjustments budget and supporting documentation, in both printed and electronic form to –
 - iii. any other municipality affected by that adjustments budget within ten working days of the adjustments budget being tabled in the municipal council; and
 - iv. any other organ of state on receipt of a request from that organ of state.

12.5 Approval of adjustment budget

- (a) A municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation referred to in section (1) (a) before approving the adjustments budget.
- (b) When approving the adjustment budget, a municipal council must consider and adopt separate resolutions dealing with each of the matters listed in item 4 of Schedule B

2.6 Publications of approved adjustment budget

- (a) Within ten 10 working days after the municipal council has approved an adjustment budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting documentation, as well as the resolutions referred to in section 5 (a).
- (b) When making public an adjustment budget and supporting documentation, the municipal Manager must make public awareness of the adjustment budget, including –
- (c) Summaries of the adjustment budget and supporting documentation in alternate languages predominant in the community;
- (d) Information relevant to each ward in the municipality, if that ward is affected by the adjustments budget; and
- (e) Any consequential amendment of the service delivery and budget implementation plan that is necessitated by the adjustments budget.

12.7 Submission of approved adjustments budget and other documents

- (a) The municipal Manger must comply with section 28(7) of the Act read together with section 24(3) of the Act within ten working days after the municipal council has approved and adjustments budget.
- (b) When submitting an adjustments budget to National Treasury and other relevant provincial treasury in terms of section 28(7) of the Act read together with section 24(3) of the Act, the municipal manager must also submit to National Treasury and the relevant provincial treasury, I both printed and electronic form –
 - i. The supporting documentation within ten working days after the municipal council has approved the adjustments budget;

- ii. The amended service delivery and budget implementation plan, within ten working days after the council has approved the amended plan in terms of the section 54(1)(c) of the Act; and
 - iii. Any other information as may be required by the National Treasury.
- (c) The municipal manager must send copies of an adjustments budget and supporting documentation, in both electronic and printed form to –
- i. Any other municipality affected by that adjustments budget within ten (10) working days of the adjustments budget being tabled in the municipal council; and
 - ii. Any other organ of state on receipt of a request from that organ of state.

13. Budget Implementation

13.1 Monitoring

- (a) The accounting officer with the assistance of the chief financial officer and other senior managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
- i. funds are spent in accordance with the budget;
 - ii. expenses are reduced if expected revenues are less than projected; and
 - iii. revenues and expenses are properly monitored.
- b) The Accounting officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the Executive mayor for consideration and tabling to Council.
- (c) The Accounting officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

13.2 Reporting

Monthly budget statements

- (a) The accounting officer with the assistance of the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.
- (b) This report must reflect the following:
- i. actual revenues per source, compared with budgeted revenues;
 - ii. actual expenses per vote, compared with budgeted expenses;
 - iii. actual capital expenditure per vote, compared with budgeted expenses;
 - iv. actual borrowings, compared with the borrowings envisaged to fund the capital budget;
 - v. the amount of allocations received, compared with the budgeted amount;

- vi. actual expenses against allocations, but excluding expenses in respect of the equitable share;
 - vii. explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
 - viii. the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
 - ix. projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.
- (c) The report to the National Treasury must be both in electronic format and in a signed written document.

Quarterly Reports

- (d) The Executive mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

Mid-year budget and performance assessment

- (e) The Accounting officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.
- (f) The Accounting officer must then submit a report on such assessment to the Executive mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year
- (g) The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

14. Conclusion

The Chief Financial Officer will ensure the following on the municipality's official website:

- (a) the annual and adjustments budgets and all budget-related documents;
- (b) all budget-related policies;
- (c) the integrated development plan
- (d) the annual report;
- (e) all performance agreements;

- (f) all service delivery agreements; (g) all long-term borrowing contracts;
- (h) all monthly, quarterly and mid-year reports submitted the Council on the implementation of the budget and the financial state of affairs of the municipality.

CAPE AGULHAS

Munisipaliteit / Municipality



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

Draft

Cash Management and Investments Policy

Goedgekeur / Approved :
Raadsbesluit / Council Decision:

30 March 2023
Item

Contents

1.	INTRODUCTION.....	13
2.	SCOPE OF THE POLICY.....	13
3.	OBJECTIVES OF THE POLICY.....	14
4.	DUE CARE	14
5.	DELEGATION OF AUTHORITY	14
6.	MANAGEMENT AND INTERNAL CONTROL PROCEDURES.....	15
7.	CASH MANAGEMENT	0
7.1	BANK ACCOUNT ADMINISTRATION	0
7.2	RECEIPTING MANAGEMENT	2
7.3	EXPENDITURE MANAGEMENT	2
7.4	WITHDRAWALS	2
7.5	DEBT MANAGEMENT	3
7.6	CASH FLOW BUDGET	3
7.7	WORKING CAPITAL MANAGEMENT.....	3
7.8	CASH PROCEDURES.....	4
8.1	INVESTMENT MANAGEMENT	6
8.2	INVESTMENT ETHICS	7
8.3	INVESTMENT OBJECTIVES.....	8
8.4	TYPES OF INVESTMENT ACCOUNTS.....	8
8.5	APPROVED INVESTMENTS.....	9
8.6	QUALIFYING INSTITUTIONS	9
8.7	INVESTMENT DIVERSIFICATION	10
8.8	COMPETITIVE SELECTION OF BIDS OR OFFERS	10
8.9	COMMISSIONS OR COSTS.....	10
8.10	PERFORMANCE	11
8.11	FORBIDDEN ACTIVITIES	11
8.12	REPORTING	11
9	REVIEW OF THE POLICY.....	11

CASH MANAGEMENT AND INVESTMENT POLICY FOR THE CAPE AGULHAS MUNICIPALITY

1. INTRODUCTION

- 1.1 In terms of the Local Government: Municipal Finance Management Act, 2003 (Act No.56 of 2003) (The Act), the municipality must establish an appropriate and effective cash management and investment policy with the implementation date being 1 July 2004 first time implementation.
- 1.2 Further, the Minister of Finance urged all Municipalities, in Government Gazette 27431 of 1 April 2005, to prepare for implementing proposed new regulations immediately.
- 1.3 Due to the delay in the promulgation of the regulations and the fact that the municipality must have a Cash management and investment policy consistent with the abovementioned Act as well as the permission to implement the draft regulations, this policy, which complies with the requirements of the Act as well as the draft regulations, was prepared.
- 1.4 The Cape Agulhas Municipal Council considered and approved the underlying policy as its "Cash Management and Investment Policy" to which all functionaries of the municipality and Municipal Entities involved in cash management and investments must comply.

2. SCOPE OF THE POLICY

In order to ensure sound and sustainable management of the cash resources of the municipality this policy addresses all principles and processes involved in cash management and investments and includes:

- 2.1 The objectives of the policy.
- 2.2 Due care;
- 2.3 Delegation of authority;
- 2.4 Management and internal control procedures;
- 2.5 Cash Management;
- 2.6 Investments; and
- 2.7 Review of the policy.

3. OBJECTIVES OF THE POLICY

The objectives of the policy are to –

- 3.1 Establish the general framework within which the municipality should invest and manage funds;
- 3.2 Ensure compliance with all legislation governing the investment of funds and management of cash;
- 3.3 Maintain adequate liquidity to meet cash flow requirements and needs;
- 3.4 Ensure diversification of permitted investments;
- 3.5 Ensure optimal performance with the least possible risk, in managing and investing the cash resources of the municipality;
- 3.6 Ensure transparency, accountability and appropriate lines of responsibility in the process.
- 3.7 Ensure the preservation and safety of investments

4. DUE CARE

- 4.1 Each functionary in the cash management and investment process must do so with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of his or her own affairs and with his or her primary regard being to the probable safety of his or her own capital, in the second instance to his or her liquidity needs and lastly to the probable income derived.
- 4.2 Officials entrusted with investment and management of funds, have a responsibility and are accountable to the community to exercise due care when investing funds.
- 4.3 Speculation may not be undertaken in any of the processes.

5. DELEGATION OF AUTHORITY

- 5.1 The management of all the cash resources of the municipality is the responsibility of the Municipal Manager, as Accounting Officer, who must, for the proper application of this policy, develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the management of the cash resources.
- 5.2 The Chief Financial Officer, as designated in writing by the Municipal Manager, must advise the Municipal Manager on the exercise of the powers and duties with regards to this policy and must assist the Municipal Manager in the administration of the cash resources, the bank accounts and the investment accounts.
The Chief Financial Officer may not sub – delegate the duty to assist the Municipal Manager in the administration of the municipality's bank and investment accounts.

- 5.3 The delegation to withdraw money from the municipality's bank or investment accounts may only be given to the Chief Financial Officer or any other senior financial officer as determined, in writing, by the Municipal Manager and of which a copy, signed by the Municipal Manager, must be kept with the official set of delegations of the municipality.
- 5.4 The Municipal Manager may not delegate any power or duty in the administration of the municipality's cash resources to a political structure or councillor and no councillor is allowed to interfere or attempts to interfere in the management of the municipality's cash resources.
- 5.5 Any delegation by the Municipal Manager in terms of this policy:
- 5.5.1 must be in writing;
 - 5.5.2 is subject to any limitations and conditions as the Municipal Manager may impose;
 - 5.5.3 May either be to a specific individual or to the holder of a specific post in the municipality and may not be to a committee of officials; **and**
 - 5.5.4 Does not divest the Municipal Manager of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.
- 5.6 The Municipal Manager may confirm, vary or revoke any decisions taken in consequence of a delegation or sub – delegation in terms of this policy, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.
- 5.7 For the application of this policy any referral to "Municipal Manager" also means "Any other person acting under a delegated power or performs a function delegated by the Municipal Manager" in terms of paragraph 5 of this document.

6. MANAGEMENT AND INTERNAL CONTROL PROCEDURES

- 6.1 The Municipal Manager, assisted by the Chief Financial Officer, must take all reasonable steps to ensure:
- 6.1.1 That the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework;
 - 6.1.2 That the municipality has and maintains a management, accounting and information system that accounts for all bank and investment accounts, receipting, withdrawals, cash management and investment transactions;
 - 6.1.3 That the municipality has and maintains a system of internal control over its bank and investment accounts, receipting, withdrawals, cash management and investment transactions.
- 6.2 In order to prevent losses arising from fraud, misrepresentations, error, conflict of interest or imprudent action, a system of internal controls governs the administration and management of the investment and cash management portfolios.

- 6.3 Controls deemed most important include –
- 6.3.1 Control of collusion, separation of duties;
 - 6.3.2 Custodial safekeeping;
 - 6.3.3 Clear delegation of duties;
 - 6.3.4 Written confirmation of telephonic transactions;
 - 6.3.5 Minimizing the number of authorized investment officials;
 - 6.3.6 Checking and verification by senior officials of all investment
 - 6.3.7 Documentation of transactions and strategies;
 - 6.3.8 Code of ethics and standards;
 - 6.3.9 Strict adherence to Investment Framework Policy and Guidelines;
 - 6.3.10 Limits placed on investments by the various officials;
 - 6.3.11 Procedures manuals;
 - 6.3.12 Electronic Funds Transfer limits and a detailed procedure manual for the system; and
 - 6.3.13 Regular reporting to Committee of all investments.

7. CASH MANAGEMENT

7.1 BANK ACCOUNT ADMINISTRATION

- 7.1.1 The Municipal Manager or delegated nominee is responsible for the administration of the municipality's bank accounts including the opening of the bank accounts, the designation of the primary bank account and all banking and withdrawal procedures. The bank account may only be managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Chapter 3 of the Act as well as section 64 of the Act.
- 7.1.2 The Municipal Manager may delegate the duties attached to the administration of the bank accounts as per paragraph 5 of this policy.
- 7.1.3 The Accounting Officer (MM), in conjunction with the Chief Financial Officer (CFO) is responsible for the effective and efficient management of the council funding, namely-
- 7.1.3.1 The municipality must open at least one bank account in the name of the municipality;
 - 7.1.3.2 The municipality may not open a bank account –
 - abroad; (**Foreign currency**)
 - with an institution not registered as a bank in terms of the Banks Act, 1990 (Act 94 of 1990); or
 - otherwise in the name of the municipality.
 - 7.1.3.3 ensure that its funding always has sufficient money for appropriated expenditure and direct charges to meet the progressive cash flow requirements.
- 7.1.4 Bank account requirements, guidelines and regulations in terms of sections 7, 8, 9, 10 and 11 of the MFMA are adhered to
- 7.1.5 Ensure that the municipality accounts daily for the cash movements of all bank accounts in the financial records.

- 7.1.6 The Municipal Manager, in conjunction with the CFO are responsible for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management for the treasury and budget offices.
- 7.1.7 Sound cash management would include -
- Collecting revenue when it is due and banking it promptly;
 - Making payments, including transfers, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the municipality's normal terms for account payments;
 - Avoiding prepayments for goods or services (i.e. payments in advance of the receipt of the goods or services), unless required by the contractual arrangements with the supplier;
 - Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the municipality are collected and banked promptly;
 - Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or under utilized assets
 - Performing bank reconciliations on a monthly basis to detect any unauthorised entries;
 - The separation of duties to minimise the incidence of fraud.
- 7.1.9 Delegated authority by the accounting officers of departments must assign authority in writing to officials to approve warrant vouchers, or electronic payments.
- 7.1.10 Deposit all money received into the bank account(s) promptly and in accordance with the MFMA, Chapter 3.
- 7.1.11 Withdrawals from bank account(s) should be completed in terms of the MFMA, Section 11.
- 7.1.12 Designate and advise NT in writing of details of the primary bank account, or any change in the primary bank account.
- 7.1.13 In cases where a municipality has more than one bank account, ensure that only the municipal manager or CFO is delegated authority to withdraw funds from the primary bank account.
- 7.1.14 Check to ensure that all relief, charitable and trust accounts are set up in the name of the municipality and are administered by the municipal manager.
- 7.1.15 Deposit all money received for relief, charitable and trust accounts into the correct account, and make withdrawals from those accounts only for the purposes for which the fund was established and where appropriately authorised by the municipal manager in terms of the MFMA.
- 7.1.16 Notify NT of occasions when the bank account(s) of the municipality show an (consolidated) overdraft position for a period exceeding a

prescribed period, and provide details of the amount, the reasons for the overdraft and the steps taken to correct the matter.

- 7.1.17 Table in council a consolidated report of withdrawals each quarter, and submit a copy of the consolidated report to the provincial treasury and Office of the Auditor General.
- 7.1.18 Submit to provincial treasury and the Office of the Auditor General written details of new bank accounts when opened, and all bank accounts each year.

7.2 RECEIPTING MANAGEMENT

- 7.2.1 The Municipal Manager is responsible for the administration of all receipting procedures and must take all reasonable steps to ensure receipting is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 64 of the Act.
- 7.2.2 The Municipal Manager may delegate the duties attached to receipting as per paragraph 5 of this policy.

7.3 EXPENDITURE MANAGEMENT

- 7.3.1 The Municipal Manager is responsible for the administration of all expenditure procedures and must take all reasonable steps to ensure expenditure is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 65 of the Act, giving due consideration to Section 11 of the Act.
- 7.3.2 The Municipal Manager may delegate the duties attached to expenditure as per paragraph 5 of this policy.

7.4 WITHDRAWALS

- 7.4.1 The Municipal Manager is responsible for the administration of all withdrawals procedures and must take all reasonable steps to ensure withdrawals are being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 11 of the Act.
- 7.4.2 The Municipal Manager may delegate the duties attached to withdrawals as per paragraph 5 of this policy.

7.5 DEBT MANAGEMENT

- 7.5.1 In order to ensure adequate cash flow the municipality may incur short – or long-term debt, provided that the Council approves all debt agreements, the Mayor must sign the resolutions approving the debt agreements and the Municipal Manager signed the debt agreements.
- 7.5.2 The municipality is, in terms of Section 46(5) of the Local Government: Municipal Finance Management Act, 2003, allowed to refinance its long – term debt for the purpose of saving on the cost of debt. The Municipal Manager must, for this purpose, at least annually and as part of the budget process evaluate and report to the Council on the cost of existing debt and whether re-financing such debt will be beneficial to the municipality. As part of the evaluation the Municipal Manager must determine the types of repayments and whether bullet payments at the end of the debt period and the reasonably determined nett cost thereof will not be more beneficial to the Council if the repayments are invested in sinking funds and the reasonable projected yield on the investments are being brought into account.
- 7.5.3 The Municipal Manager is responsible for the administration of all debt procedures and must take all reasonable steps to ensure debt is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Chapter 6 of the Act.
- 7.5.4 The Municipal Manager may delegate the duties attached to debt management as per paragraph 5 of this policy.

7.6 CASH FLOW BUDGET

- 7.6.1 In order to ensure that the municipality has sufficient cash available to comply with the municipality's commitments to its lenders, creditors, statutory payments and any other commitments, it is necessary to annually compile and submit to Council, as part of the budget documentation, a cash flow projection for the budget year by revenue-source, broken down per month.

7.7 WORKING CAPITAL MANAGEMENT

- 7.7.1 The Municipal Manager must take all reasonable steps to ensure that the municipality obtains maximum performance on its assets and for this purpose the working capital of the municipality must as far as possible be managed to the maximum benefit of the municipality.
- 7.7.2 An acceptable level for the Bad Debt Reserve is 2:1 or better and the Municipal Manager must take all reasonable steps to ensure that the level is being maintained. The exercise to provide for a sufficient level of working capital must be done as part of the budget process in order

to budget accordingly. Inventory levels for own use, must be kept as low as possible, creditors must be paid within 30 days of date of receipt of invoice or statement, whichever is the latest or applicable but as late as possible but with due regards to possible discounts on offer and all steps, consistent with the Council's Credit Control and Debt Collection Policy, must be taken to recover moneys due to the municipality.

7.7.3 The Municipal Manager must, as part of the monthly reporting to the Mayor within 10 working days of the end of each month, report on:

- The combined nett balance of the bank and investment accounts of the municipality excluding any balances of unutilised conditional grants, trust moneys kept in accordance with trust deeds, Sinking Fund Investments made in accordance with any loan- or other agreements with investors/lenders, other conditional funds for which moneys were received in accordance with Section 12 of the Act, Debt Guarantee Reserve Funds and other cash- backed funds for which spending authority must be obtained from other persons or spheres of government.
- Whether all commitments and accounts had and can be paid on time from the nett balance above and nett realisable accounts receivable.
- Whether there is a nett outflow of cash not in accordance with the cash flow budget.
- Whether all of the above might cause a financial problem on which the Mayor must act in accordance with the provisions of the Act.

7.7.4 The Mayor must, within 30 days of the end of each quarter, report to the municipal council on the above, and, in the case of identifying a financial problem, promptly inform the council and act in accordance with the provisions of the Act.

7.8 CASH PROCEDURES

7.8.1 Payments received at the Municipal Cashiers, Traffic and Amenities / Resorts.

7.8.1.1 Internal Controls:

- Segregation of duties (Cashier and Checking Officer);
- Rotation and switching of Cashiers, must be preceded by a cash up procedure (including the float on hand)
- Cash float values should be recorded;
- Cash floats should be periodically reviewed and should be sample checked on a daily basis;
- Shortages and surpluses in cash should be recorded; and
- Cash collection times by third parties and banking should not be at set times.

7.8.1.2 Issuing of Receipts:

- All payments (including payments received in the mail) should be accompanied by a computer-generated receipt.
- Receipts numbers should be sequential and missing sequences should be accounted for.
- Original receipts must be given to the customer.

- A duplicate computer generated receipt should be printed for the audit and paper trail purposes.
- The following should appear on a computer generated receipt –
 - Date on which the receipt was issued;
 - Amount for which the receipt was issued;
 - Cashier responsible for issuing the receipt;
 - Vote or Account to which the payment is to be credited;
 - Type of payment transaction (cash, debit order, etc.); and
 - Computer generated receipt number.

7.8.1.3 Cancellation of Receipts:

- Receipts that are cancelled are to be clearly marked with cancelled written across the face of the receipt.
- Cancelled receipts are to include the original receipt (attached to transaction report).
- Reasons for the cancellation are to be marked on the cancelled receipt and should include the signatures of the cashier and Checking Officer.
- The transaction trail for the Cashier for the day should be reconciled to the number of cancelled receipts on hand.

7.8.1.4 Cash Balancing:

- Daily day end cash-up procedures must be completed before the Cashier and Checking Officer may leave the municipal premises.
- Balancing of the cash on hand to the computer records must be performed by means of reconciliation before closing of offices everyday.
- Cash on hand should be counted and the cash float should be removed before balancing to the computer records for the receipts for the day, for a given cashier.
- Cash received for the day is keyed into the computer system for each note and coin denomination
- The Checking Officer is responsible for ensuring that the records balance.
- Shortages are immediately made good by the Cashier and surpluses are immediately receipted into the cashier surplus vote.
- The Cashier amends the cash received on the computer system and the correct totals are banked.
- Cashiers takings are locked in the safe overnight.
- In the morning the Cashier and the Checking Officer recheck the takings.
- The takings and deposit book are placed in the deposit box and the deposit box is sealed.
- The seal number is recorded in a seal register.
- The Security firm responsible for lifting and banking the municipal takings records the seal number in their records and the Checking Officer and the Security firm representative sign the documentation as receipt of the takings from the Municipality to the Security firm for banking purposes.

7.8.1.5 Deposit Books for Municipal Takings:

- The deposit book serves as an agreement between the municipality and the bank of the funds forwarded to the bank for deposit purposes, into the appropriately defined municipal banking account.
- Completion of deposit slips (in ink), by the Cashier, must be appropriate, comprehensive and accurate.
- The deposit book sheets are in duplicate –
 - Original for the bank; and
 - Copy 1 fixed copy (book).

- The complete deposit books with all slips are forwarded to the bank for stamping purposes.
- On return from the bank the deposit slips are reviewed by the Checking Officer to follow-up on any discrepancies.

7.8.2 Other Payment Methods

These relate to other payment mediums such as internet banking, direct deposits, ACB's, EasyPay, and Pay-A-Bill transactions.

7.8.2.1 Direct Deposits:

- These transactions are handled by the Accountant: Cash Management.
- A summary is prepared and the transactions are captured into the receipting system by a Cashier.
- Balancing between the Accountant: Cash Management summary and the cashier transactions summary is completed.

7.8.2.2 EasyPay / ACB and Pay-A-Bill Transactions:

- The Operator: Data & Systems Maintenance within the Financial Information Section transfers the payments received from EasyPay to the Debtors System.
- Balancing of the EasyPay transaction totals to the Bank totals received is completed by the Accountant: Cash Management who completes the cashbook reconciliation.
- Variances are followed up by the Accountant: Cash Management.
- The serial numbers of receipt transfers from the institutions must be checked on a daily basis by accountant to ensure that all receipts/deposits are transferred to the Municipality on a daily basis. These serial numbers must be recorded by the accountant and any discrepancies must be followed up on a daily basis by the accountant.

7.8.2.3 Payments received by branches of CAM

- All payments received on behalf of CAM by the branches of CAM should follow the same procedures as stipulated in sections 7.8.1.1 to 7.8.1.5 above.
- After the daily reconciliation had been completed, it must be reconciled with the computer records at the head office in Bredasdorp, before deposit slips are compiled.

7.8.2.4 Payments received by Agencies on behalf of CAM

- Receipts issued for payments received are reconciled with amount recognised for deposit into CAM's bank account.
- Any variances are followed up by the Accountant: Cash Management.
- The Agency is accountable for all monies received until the Security firm, responsible for lifting and banking the municipal takings, collects the deposit box.

8.1 INVESTMENT MANAGEMENT

8.1.1 The Municipal Manager is responsible for the administration of all investment procedures and must take all reasonable steps to ensure investments are being managed in accordance with any auditing

requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 13 of the Act.

8.1.2 The Municipal Manager may delegate the duties attached to investments as per paragraph 5 of this policy.

8.1.3 In order to ensure that the Municipal Manager or any person delegated in terms of paragraph 5 complies with this policy in terms of investments and to capacitate the municipality further, the Municipal Manager may contract an Investment Manager who is a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act (Act No. 55 of 1989) and Stock Exchanges Control Act (Act No. 1 of 1985). The Investment Manager must advise the Municipal Manager or delegated officials on investments and may manage investments on the municipality's behalf, subject to any conditions and controls the Municipal Manager may determine, examples this investment and cash management policy.

8.2 INVESTMENT ETHICS

8.2.1 All functionaries in the investment management process must act with fidelity, honesty, integrity and in the best interest of the municipality and must seek, within the spheres of influence of the functionaries, to prevent any prejudice to the investments of the municipality.

8.2.2 No functionaries in the investment management process may use their position or privileges of, or confidential information obtained as, functionary in the process for personal gain or to improperly benefit another person. Interest rates quoted by one institution should never be disclosed to another.

8.2.3 No person contracted by the municipality for the purpose of investments or no person submitting quotes, bids or any other means of competitive submissions may, either directly or through a representative or intermediary promise, offer or grant any reward, gift, sponsorships, loan, bursary, favour or hospitality to –

- Any official, spouse or close family member of such official or spouse; and
- Any councillor, spouse or close family member of such councillor or spouse.

8.2.4 The Municipal Manager must promptly report to the Mayor and National Treasury any alleged contravention of the above and may make recommendations as to whether the alleged offending party should be listed on the National Treasury's database of persons prohibited from doing business with the public sector. Any such report by the Municipal Manager must give full details of the alleged breach and a written response from the alleged offending party, as well as proof that the alleged offending party received the allegations in writing and were given at least 7 (seven) working days to respond, in writing, to the allegations.

8.2.5 Any sponsorship promised, offered or granted to the municipality must promptly be disclosed to the National Treasury.

8.2.6 Investments by a municipality or municipal entity, or by an investment manager on behalf of a municipality –

- Must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs;
- May not be made for speculation but for investment; and
- Must in the first instance be made with primary regard being to the probable safety of the investment, the second instance to the liquidity needs of the municipality or entity and lastly to the probable income derived from the investment.

8.2.7 Any uncertainty originating from consultation with an institution prior to making the investment, will be considered as a significant reason for not making an investment with this particular institution.

8.3 INVESTMENT OBJECTIVES

8.3.1 Objective 1 – Security

The first and foremost objective for investments is the preservation and safety of the principal amount invested. It is a requirement that investments may only be made with institutions with a creditworthy rating of A1 and better. Any investments made must be liquidated if an institution's creditworthy rating falls below the level of A 1.

8.3.2 Objective 2 - Liquidity

The cash flow budget must be used as an instrument in determining liquidity needs. Other factors such as the payment runs for creditors, dates for salary and statutory payments and dates for debt repayments must also be brought into account to ensure cash requirements, and resultant investment periods, are being calculated to such an extent that maximum yield on surplus cash can be obtained.

8.3.3 Objective 3 - Yield

It is necessary to ensure optimal yield on the municipality's investments, but a higher yield should never increase the risk of preservation and safety of the principal amount invested or not meeting cash flow requirements. Where an institution has a sudden increase above the average market increase in investment returns, the Municipal Manager must determine whether the institution is in liquidity or financial problems, and in such an instance liquidate the investments with such an institution as soon as possible.

8.4 TYPES OF INVESTMENT ACCOUNTS

8.4.1 The following cash – backed investment accounts should be established:

- General surplus cash

- Capital replacement reserve fund
- “Allocation “ funds as described in Section 1 of the Local Government: Municipal Finance Management Act, 2003, but excludes the equitable share
- Self – insurance reserve, if applicable

8.4.2 It is a general principle, the higher the investment the better the yield, and for this purpose the Municipal Manager should combine as much cash allocated to the above funds as possible, and invest it together. Yield should then be allocated according to the capital of the individual cash – backed funds, through the Statement of Financial Performance.

8.5 APPROVED INVESTMENTS

8.5.1 Investments should be structured according to the best yield available and the liquidity needs of the municipality. This can include Call Deposits, Fixed Term Deposits and Endowment Policies for the purpose of Sinking Funds only. Sinking funds must be created for the purpose of bullet – payment loans and to provide for future commitments such as building enough cash to be able to cover post – retirement benefits in full.

8.6 QUALIFYING INSTITUTIONS

8.6.1 It is of utmost importance that the investments only be placed with credit–worthy institutions with a credit–rating of A1 and A1+, unless such Institution is the Bank where the Council’s current account is held.

8.6.2 An Institution’s quotation will only be considered if its current grading as well as the date of the grading is shown on the quotation.

8.6.3 The following investments are permitted:

8.6.3.1 Securities issued by National Government

8.6.3.2 Listed corporate bonds with an investment grade rating from a nationally or an internationally recognized credit rating agency.

8.6.3.3 Deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)

8.6.3.4 Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act 45 of 1984)

8.6.3.5 Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984)

8.6.3.6 Banker’s acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)

8.6.3.7 Guaranteed endowment policies with the intention of establishing a sinking fund

8.6.3.8 Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)

8.6.3.9 Municipal Bonds issued by the municipality

8.6.3.10 Any other as might be approved by the Minister of Finance

8.7 INVESTMENT DIVERSIFICATION

- 8.7.1 Without limiting the Municipal Manager to any specific amount or percentage of investments, it is hereby established that investments made by the municipality should be diversified as much as possible between different institutions, maturity dates and types, but nothing prevents the Municipal Manager from investing more cash with an institution than by another institution with due regards to the standard of care and objectives set in this policy.
- 8.7.2 Having determined that funds are available for investment and the maximum period for which the funds may be invested, the CFO (or his delegated nominee in the treasury and budget section) needs to consider the manner in which the investments are placed. As rates can vary according to the money market perception related to the term of the investment, there is merit in obtaining quotes for periods within the maximum determined.
- 8.7.3 Funds should be invested, as far as it is practically possible, with the two institutions that offer the highest rates. This form of diversification is used to lower the aggregate risk of the investment.

8.8 COMPETITIVE SELECTION OF BIDS OR OFFERS

- 8.8.1 In establishing where investments must be made, at least 3 (three) written quotations must be obtained by the Municipal Manager from any of the institutions listed in paragraph 8.6 above. The Municipal Manager may not divulge interest rates to other institutions during the quotation process. If Investments Managers use treasury desks for the purpose of obtaining quotations, the quotations, with a written reason why a specific institution was chosen if the yield is lower than that of another institution, must be forwarded to the Municipal Manager, who must evaluate the reasons and issue such instructions as deemed necessary.
- 8.8.2 Before placing funds externally, consideration must be given to whether the funds cannot be utilised at an equivalent rate to substitute external borrowing, as there is normally a margin between the rate at which local authorities can borrow funds and the rate at which investments can be made over similar periods.

8.9 COMMISSIONS OR COSTS

- 8.9.1 No commission for investments made or referred is payable to an official or councillor, or spouse, business partner or close family member of an official or councillor by an institution or investment manager.
- 8.9.2 Any commissions, other rewards or costs paid to an investment manager by an institution must be declared to the municipality by the institution and Investment Manager by way of certificates. Any quotation given to the municipality by an institution or Investment

Manager must be net of costs, rewards or commissions, but must also indicate the commissions, rewards or costs which will be paid in respect of the investments.

8.10 PERFORMANCE

8.10.1 The Municipal Manager must annually measure and report to the Council on the performance of its:

- Investments in terms of the stipulated objectives of this Policy; and
- Investment Managers in terms of the stipulated objectives of this policy.

8.11 FORBIDDEN ACTIVITIES

8.11.1 No investments may be made other than in the name of the municipality.

8.11.2 Money may not be borrowed for the purpose of investments

8.11.3 No person, including officials and councillors, may interfere or attempt to interfere in the management of investments entrusted to the Municipal Manager or persons delegated by the Municipal Manager including with the Investment Managers.

8.11.4 No investments may be made other than be denominated in Rand and which is not indexed to, or affected by, any fluctuations in the value of the Rand against any foreign currency.

8.12 REPORTING

8.12.1 The Municipal Manager must, in addition to the reporting in paragraph 7.7 above, within 10 working days of the end of each month submit to the Mayor a report describing in detail the investment portfolio of the municipality as at the end of the month.

8.12.2 The report referred to above must contain at least a statement, prepared in compliance with generally accepted municipal accounting principles, as amended from time to time, that gives the

- Beginning market value of each investment for the month;
- Additions and changes to the investment portfolio for the month;
- Ending market value of each investment for the month; and
- Fully accrued interest/yield for the month.

8.12.3 The Municipal Manager, in making investments, must remind the relevant institutions of the institutions' legal reporting responsibilities in terms of Sections 13 (3) and 13 (4) of the Local Government: Municipal Finance Management Act, 2003 and must get a certificate from the institutions that the institutions will comply with the Act. A single certificate per institution for any current and future investments may be obtained and must be kept on the municipality's investment file.

9 REVIEW OF THE POLICY

- 9.1 This Cash Management and Investment Policy is the sole policy governing cash management and investments in the municipality. Any reviews to this policy must be approved by the Municipal Council.
 - 9.2 The Mayor must submit any proposed changes to this policy to the Council as part of the annual review of policies submitted with the budget documentation.
 - 9.3 Whenever the Minister of Finance or the National Treasury or the Auditor-General requires changes to the policy by means of legislation or requests it should be reviewed promptly in accordance with such requirements, giving full details of the reasons for the revision.
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**Kaap Agulhas Munisipaliteit
Cape Agulhas Municipality**



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

**DRAFT
COST CONTAINMENT POLICY**

Goedgekeur / Approved:

30 March 2023

Raadsbesluit / Council's decision:

Item

Table of Contents

VOLUME 1: INSTITUTIONALISATION	15
1. INTRODUCTION.....	16
2. PROBLEM STATEMENT.....	16
3. PURPOSE OF THE POLICY	16
4. APPLICATION OF POLICY.....	16
5. DEFINITIONS.....	16
6. DESIRED OUTCOMES	17
7. REGULATORY FRAMEWORK	18
8. GUIDING PRINCIPLES	18
9. USE OF CONSULTANTS.....	18
10. VEHICLES FOR POLITICAL OFFICE-BEARERS	19
11. TRAVEL AND SUBSISTENCE.....	19
12. AIR TRAVEL.....	20
13. DOMESTIC ACCOMMODATION.....	21
14. CREDIT CARDS	21
15. SPONSORSHIPS, EVENTS AND CATERING.....	22
16. COMMUNICATION	22
17. GENERAL MEASURES TO BE IMPLEMENTED.....	22
18. CONFERENCE, MEETINGS AND STUDY TOURS	22
19. OTHER RELATED EXPENDITURE ITEMS.....	23
20. ENFORCEMENT PROCEDURES.....	24
21. DISCLOSURES OF COST CONTAINMENT MEASURES	24
22. SHORT TITLE AND COMMENCEMENT.....	24
ANNEXURE A: CAPE AGULHAS MUNICIPALITY CONSULTANCY REDUCTION PLAN	25

VOLUME 1: INSTITUTIONALISATION

1.1.1 ISSUING CERTIFICATE

Version 01

Date 30 March 2023

Summary This document is the Cost Containment Policy applicable to the Cape Agulhas Municipality

Signature

Date:

ACCOUNTING OFFICER

As delegated in terms of the AO Finance Delegations, item 856797 issued in terms of section 79 of the MFMA, dated 25 February 2015

Approved by the Council

Date:

Resolution

Transitional Arrangements

Effective Date

Next Revision date

1. INTRODUCTION

- 1.1 The Minister of Finance first announced during the February 2016 Budget Speech and the October 2016 Medium Term Budget Policy Statement that the National Treasury would issue regulations on cost containment measures for local government. This is in line with Government's policy to implement cost-saving measures across all three spheres of government to assist in re-prioritising expenditure and free up resources that can be better targeted towards service delivery.
- 1.2 The Draft Regulations were first published for public comment on 16 February 2018.
- 1.3 The Regulations were finalised and published on 7 June 2019 in the Government Gazette, with the effective date being 1 July 2019.
- 1.4 Section 168(1)(b) and (p) of the Municipal Finance Management Act (Act No. 56 of 2003), provides that the Minister may regulate financial management and internal controls and any other matter that may facilitate the enforcement and administration of the Act. The Local Government: Municipal Finance Management Act, 2003: Municipal Cost Containment Regulations, 2019 are aimed at ensuring that the resources of municipalities are used effectively, efficiently and economically.

2. PROBLEM STATEMENT

- 2.1 In terms of the legal framework, elected Councils and Accounting Officers are required to institute appropriate measures to ensure limited resources and public funds are appropriately utilised to ensure value for money is achieved in fulfilling the municipality's mandate.

3. PURPOSE OF THE POLICY

- 3.1 The purpose of this policy is to direct the Municipality on cost containment measures that must be implemented to ensure that resources of the Municipality are used effectively, efficiently and economically.

4. APPLICATION OF POLICY

- 4.1 This Policy applies to all officials, Political office-bearers and Councillors in the Municipality.
- 4.2 The cost containment measures are intended to eliminate wastage of public resources on non-service delivery items, and to enhance service delivery models through measures such as containing costs.

5. DEFINITIONS

In this policy, a word or expression to which a meaning has been assigned in the act has the same meaning as in the Act, unless the context indicates otherwise, and-

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

“Accounting Officer” means the Municipal Manager appointed as such by the Council of Cape Agulhas Municipality in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) and as contemplated in Chapter 8 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003);

“Municipality” means the Cape Agulhas Municipality established by Government Notice No PN 495/2000 issued in terms of section 12 of the Local Government: Municipal Structures Act (Act No. 117 of 1998), or any structure or employee of Cape Agulhas Municipality acting in terms of delegated authority;

“Councillor” means a member of Council;

“Consultant” means a professional person, individual, partnership, corporation, or a company appointed to provide technical and specialist advice or to assist with a design and implementation of projects or to assist a municipality to perform its functions to achieve the objects of local government in terms of section 152 of the Constitution, normally on a time and material basis;

“Cost containment” means measures implemented to curtail spending in terms of National Treasury regulations;

“Council” means the Council of Cape Agulhas Municipality;

“Credit Card” means a card issued by a financial services provider, which grants a line of credit to the cardholder and is a revolving account;

“Delegated Authority” means any person or committee delegated with authority by the Council or Municipal Manager in terms of the provisions of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003);

“Delegation” in relation to a duty, includes an instruction or request to perform or assist in performing a duty the duty, and “delegate” has a corresponding meaning;

“Official” means an employee of Cape Agulhas Municipality responsible for carrying out a duty or function or exercising any power in terms of this policy and includes any employee delegated to carry out or exercise the duty, function or power;

“Political Office Bearer” means the Speaker, Executive Mayor, Deputy Mayor or Member of the Executive Committee as referred to in the Municipal Structures Act; and

“Regulations” means the Local Government: Municipal Finance Management Act, 2003: Municipal Cost Containment Regulations, 2019.

6. DESIRED OUTCOMES

- 6.1 To ensure that the resources of the Municipality are used effectively, efficiently and economically; and
- 6.2 To implement cost containment measures to monitor and reduce spending in areas as determined with this policy.

7. REGULATORY FRAMEWORK

- 7.1 The policy must be read in conjunction with:
 - 7.1.1 The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
 - 7.1.2 The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) Municipal Cost Containment Regulations, 2019;
 - 7.1.3 The Municipal Finance Management Act, Act 2005 (Act No. 56 of 2003), Circular 97, published on 31 July 2019 or any other subsequent circulars issued to replace or enhance municipal cost containment measures;
 - 7.1.4 Cape Agulhas Municipality By-Laws; and
 - 7.1.5 Cape Agulhas Municipality policies.

8. GUIDING PRINCIPLES

- 8.1 All related policies (e.g. dealing with procurement, sponsorships, travel, catering, use of vehicles etc.) must be aligned with this Policy.
- 8.2 The policy will apply to the procurement of the following goods and services where applicable:
 - Use of Consultants;
 - Vehicles used for political office-bearers;
 - Travel and subsistence;
 - Domestic Accommodation;
 - Credit Cards;
 - Sponsorships, events and catering;
 - Communication;
 - Conference, meetings and study tours; and
 - Other related expenditure items.

9. USE OF CONSULTANTS

- (1) The municipality may only appoint consultants if an assessment of the needs and requirements confirms that the municipality does not have the requisite skills or resources in its full-time employ to perform the function.
- (2) The accounting officer must adopt a fair and reasonable remuneration framework for consultants taking into account the rates –
 - (a) determined in the “Guideline on fees for audits undertaken on behalf of the Auditor-General of South Africa”, issued by the South African Institute of Chartered Accountants;
 - (b) set out in the “Guide on Hourly Fee Rates for Consultants”, issued by the Department of Public Service and Administration; or
 - (c) as prescribed by the body regulating the profession of the consultant.
 - (d) Any other remuneration framework as approved by the accounting officer.

- (3) The tender documentation for the appointment of consultants must include a clause that the remuneration rates will be subject to negotiation, not exceeding the applicable rates mentioned in (2) above.
- (4) When negotiating cost-effective consultancy rates for international consultants, the accounting officer must take into account the relevant international and market-determined rates.
- (5) When consultants are appointed, the accounting officer must –
 - (a) appoint consultants on a time and cost basis with specific start and end dates;
 - (b) where practical, appoint consultants on an output-specified basis, subject to specific measurable objectives and associated remuneration;
 - (c) ensure that contracts with consultants include overall cost ceilings by specifying whether the contract price is inclusive or exclusive of travel and subsistence disbursements;
 - (d) ensure the transfer of skills by consultants to the relevant officials of a municipality or municipal entity;
 - (e) undertake all engagements of consultants in accordance with the Municipal Supply Chain Management Regulations, 2005 and the municipality's supply chain management policy; and
 - (f) develop consultancy reduction plans to reduce the reliance on consultants (Refer Annexure A).
- (6) All contracts with consultants must include a fee retention or penalty clause for poor performance.
- (7) The municipality must ensure that the specifications and performance are used as a monitoring tool for the work to be undertaken and are appropriately recorded and monitored.
- (8) The travel and subsistence costs of consultants must be in accordance with the national travel policy issued by the National Department of Transport, as updated from time to time.
- (9) The contract price must specify all travel and subsistence costs and if the travel and subsistence costs for appointed consultants are excluded from the contract price, such costs must be reimbursed in accordance with the national travel policy of the National Department of Transport.

10. VEHICLES FOR POLITICAL OFFICE-BEARERS

- (1) No vehicle will be purchased for the use of political office bearers;
- (2) If a municipal vehicle is to be used by a political office bearer, it will only be permitted if:
 - There is a municipal vehicle available;
 - The political office bearer does not have a vehicle of his/her own;
 - The political office bearer has not structured his remuneration packet to include a travel allowance.
 - He/she has a valid driver's licence
 - With prior approval from the Accounting Officer or Delegated Authority where:
 - (i) Circumstances and limitations result it impractical.

11. TRAVEL AND SUBSISTENCE

- (1) The accounting officer –

- (a) may approve the purchase of economy class tickets for all officials or political office bearers where the flying time for the flights is five hours or less; and
 - (b) may only approve the purchase of business class tickets for officials, political office bearers and persons reporting directly to the accounting officer for flights exceeding five hours.
- (2) In the case of the accounting officer, the mayor may approve the purchase of economy class tickets where the flying time is five hours or less and business class tickets for flights exceeding five hours.
- (3) Notwithstanding sub-regulation (1) or (2), an accounting officer, or the mayor in the case of an accounting officer, may approve the purchase of business class tickets for an official or a political office bearer with a disability or a medically certified condition.
- (4) International travel will only be permitted if it is considered to be critical, and if the expense has been budgeted for.
- (5) The accounting officer, or the mayor in the case of the accounting officer, may approve accommodation costs that exceed an amount as determined from time to time by the National Treasury through a notice only –
- (a) during peak holiday periods; or
 - (b) when major local or international events are hosted in a particular geographical area that results in an abnormal increase in the number of local and/or international guests in that particular geographical area.
- (6) An official or a political office bearer of the municipality must –
- (a) utilise the municipal fleet, where viable, before incurring costs to hire vehicles;
 - (b) make use of available public transport or a shuttle service if the cost of such a service is lower than –
 - (i) the cost of hiring a vehicle;
 - (ii) the cost of kilometres claimable by the official or political office bearer; and
 - (iii) the cost of parking.
 - (c) not hire vehicles from a category higher than Group B or an equivalent class; and
 - (d) where a different class of vehicle is required for a particular terrain or to cater for the special needs of an official, seek the written approval of the accounting officer before hiring the vehicle.
- (7) The municipality may utilise the negotiated rates for flights and accommodation as communicated from time to time by the National Treasury through a notice or any other available cheaper flight and accommodation unless the municipality can negotiate lower air travel rates or utilise other service providers that offer lower rates.

12. AIR TRAVEL

The Municipality where feasible may utilise The National Treasury negotiated rates with South African Airways (SAA) and Comair/British Airways (BA) for upfront discounted air fares for government employees, including councillors, travelling domestically for official purpose. These Domestic Air Travel Fares will

be regularly reviewed by the National Treasury (These rates are not applicable for International Air Travel).

- a. For SAA, the discounts range from 5% (L class) up to 30% (Y Class) for Economy Class tickets; and 10% (D Class) up to 26% (C Class) for Business Class tickets. Please note that business class is not encouraged, however where a single flight exceeds 5 hours, consideration may be applied.
 - b. For BA the discounts range from 10% (O, Q class) up to 25% (Y class) for Economy Class tickets; and 20% (J Class) for Business Class tickets. Please note that business class is not encouraged, however where a single flight exceeds 5 hours, consideration may be applied.
 - c. The premise of “Best Fare on the Day” should be implemented making full use of the negotiated Government Corporate Agreements with SAA and BA Comair. Quotations are to be obtained from at least SAA and BA Comair before issue. Municipalities and municipal entities must also request quotations from other Low-Cost Carriers. Please note that all discounted rates are subject to class availability.
- (1) The municipality must book against the relevant deal codes as detailed in Annexure B as issued by National Treasury contained in the relevant circular.
 - (2) Travel agencies are only permitted to make booking arrangements on behalf of the municipality in line with the MCCR, 2019 read together with the applicable issued Circular.
 - (3) Where Disabled persons cannot be accommodated in economy class, or in extremely exceptional and rare cases the Accounting Officer or Delegated official may approve, with evidence, other than economy class air travel.

13. DOMESTIC ACCOMMODATION

- (1) The accounting officer must ensure that costs incurred for domestic accommodation and meals are in accordance with the maximum allowable rates for domestic accommodation and meals as communicated from time to time by the National Treasury through a notice.
- (2) Overnight accommodation may only be booked where the return trip exceeds 500 kilometres or with prior approval from the Accounting Officer or Delegated Authority where:
 - (i) Circumstances and limitations result it impractical;
 - (ii) Circumstances that poses a risk to the health of the official or councillor.

14. CREDIT CARDS

- (1) The accounting officer must ensure that no credit card or debit card linked to a bank account of the municipality is issued to an official or political office bearer.
- (2) Where officials or political office bearers incur expenditure in relation to official municipal activities, such officials or political office bearers must use their personal credit cards or cash or arrangements made by the

municipality, and request reimbursement in accordance with the written approved policy and processes.

15. SPONSORSHIPS, EVENTS AND CATERING

- (1) The municipality may not incur catering expenses for meetings which are only attended by persons in the employ of the municipality, unless the prior written approval of the accounting officer is obtained.
- (2) The accounting officer may incur catering expenses for the hosting of meetings, conferences, workshops, courses, forums, recruitment interviews, and proceedings of council where:
 - (i) that meetings, conferences, workshops, courses, forums, recruitment interviews, and proceedings of council exceed five hours.
 - (ii) in exceptional circumstances.
- (3) The municipality may not incur expenses on alcoholic beverages unless the municipality recovers the cost from the sale of such beverages.
- (4) The accounting officer must ensure that social events, team building exercises, year-end functions, sporting events and budget vote dinners are not financed from the municipality's budget or by any suppliers or sponsors.
- (5) The municipality may not incur expenditure on corporate branded items like clothing or goods for personal use of officials, other than uniforms, office supplies and tools of trade unless costs related thereto are recovered from affected officials or is an integral part of the business model.
- (6) The accounting officer may incur expenditure not exceeding the limits for petty cash usage to host farewell functions in recognition of officials who retire after serving the municipality for ten or more years or retire on grounds of ill health.

16. COMMUNICATION

- (1) The municipality must, as far as possible, advertise municipal related events on its website instead of advertising in magazines or newspapers.
- (2) The accounting officer must ensure that the cost of private telephone calls is recovered by officials making them.
- (3) Newspapers and other related publications which is not available in electronic format, which are for official use only is permitted.
- (4) The municipality may participate in the transversal term contract arranged by the National Treasury for the acquisition of mobile communication services.

17. GENERAL MEASURES TO BE IMPLEMENTED

- (1) To curb fuel expenditure, the municipality's vehicle tracking system must be utilised by the directorates to monitor usage in order to restrict abuse and excessive fuel consumption of municipal vehicles.
- (2) Bulk purchases must be considered for regularly consumed inventory.

18. CONFERENCE, MEETINGS AND STUDY TOURS

- (1) The accounting officer must establish policies and procedures to manage applications to attend conferences or events hosted by professional bodies or non-governmental institutions held within the

borders of South Africa taking into account their merits and benefits, costs and available alternative.

- (2) When considering applications from officials or political office bearers to attend conferences or events within the borders of South Africa, the Accounting Officer or mayor as the case may be, must take the following into account –
 - (a) the official's or political office bearer's role and responsibilities and the anticipated benefits of the conference or event;
 - (b) whether the conference or event addresses relevant concerns of the institution;
 - (c) the appropriate number of officials or political office bearers, not exceeding three, attending the conference or event; and
 - (d) the availability of funds to meet expenses related to the conference or event.
- (3) The Accounting Officer may consider appropriate benchmark costs with other professional bodies or regulatory bodies prior to granting approval for an official to attend a conference or event within the borders of South Africa.
- (4) The benchmark costs referred to in (3 above) may not exceed an amount as determined from time to time by the National Treasury through a notice.
- (5) The amount referred to in (4) excludes costs related to travel, accommodation and related expenses, but includes –
 - (a) conference or event registration expenses; and
 - (b) any other expense incurred in relation to the conference or event.
- (6) When considering costs for conferences or events these may not include items such as laptops, tablets and other similar tokens that are built into the price of such conferences or events.
- (7) The accounting officer must ensure that meetings and planning sessions that entail the use of municipal funds are, as far as may be practically possible, held in-house.
- (8) Municipal office facilities must be utilised for conference, meetings, strategic planning sessions, inter alia, where an appropriate venue exists within the municipal jurisdiction.
- (9) The accounting officer must grant the approval for officials and in the case of political office bearers and the accounting officer, the mayor, as contemplated in sub-regulation (2).
- (10) A municipality must, where applicable, take advantage of early registration discounts by granting the required approvals to attend the conference, event or study tour, in advance.

19. OTHER RELATED EXPENDITURE ITEMS

- (1) All commodities, services and products covered by a transversal contract concluded by the National Treasury must be considered before approaching the market, to benefit from savings where lower prices or rates have been negotiated.
- (2) Municipal resources may not be used to fund elections, campaign activities, including the provision of food, clothing, printing of agendas and brochures and other inducements as part of, or during election periods or to fund any activities of any political party at any time.

- (3) Expenditure on tools of trade for political office bearers must be limited to the upper limits as approved and published by the Cabinet member responsible for local government in terms of the Remuneration of Public Office Bearers Act, 1998.
- (4) The municipality must avoid expenditure on elaborate and expensive office furniture.
- (5) The municipality may only use the services of the South African Police Service to conduct periodical or quarterly security threat assessments of political office bearers and key officials and a report must be submitted to the speaker's office.
- (6) The municipality may consider providing additional time-off in lieu of payment for overtime worked. Planned overtime must be submitted to the relevant manager for consideration on a monthly basis. A motivation for all unplanned overtime must be submitted to the relevant manager before approval of such overtime.
- (7) The municipality must ensure that due process is followed when suspending or dismissing officials to avoid unnecessary litigation costs.

20. ENFORCEMENT PROCEDURES

- (1) Failure to implement or comply with this policy may result in any official of the municipality, political office bearer that authorised or incurred any expenditure contrary to these regulations being held liable for financial misconduct or a financial offence in the case of political office bearers as defined in Chapter 15 of the Act read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014.

21. DISCLOSURES OF COST CONTAINMENT MEASURES

- (1) Directorates are to ensure that the disclosure of cost containment measures applied by the municipality be included in the municipal in-year budget reports and annual costs savings disclosed in the annual report.
- (2) The measures implemented, and aggregate amounts saved per quarter, together with the regular reports on reprioritisation of cost savings and on the implementation of the cost containment measures must be submitted by the directorates to the Municipal Council for review and resolution. The municipal council can refer such reports to an appropriate Council Committee for further recommendations and actions.
- (3) The reports referred to in (2) must be copied to the National Treasury and the relevant provincial treasury within seven calendar days after the report is submitted to municipal council.

22. SHORT TITLE AND COMMENCEMENT

This policy is called the Cape Agulhas Municipality Cost Containment Policy and takes effect from 1 July 2023.

ANNEXURE A: CAPE AGULHAS MUNICIPALITY CONSULTANCY REDUCTION PLAN

AIM

The aim of this plan is to reduce the dependence on consultants.

DEPENDENCY

The Municipality is dependent on external consultants due to a lack of resources.

The following resources impacts on the capability of the municipality to be self-sufficient and to limit the use of external consultants:

1. Human resources:

The current staff establishment does not provide for the appointment of specialists in the various fields of local government competencies.

The municipality is dependent on the external public works programme to fill gaps on lower levels of the staff establishment.

The high overtime expenditure is also a further indicator of a lack of staff capacity.

Various small contractors are being appointed through supply chain management processes to fill gaps in the administration and to execute essential tasks.

The creation of one senior post will have to be funded through the freezing of a number of labour posts and the lower labour vacancy rate are already under pressure.

2. Structural responsibilities

The managers appointed in terms of the organisational structure is responsible to manage the various existing works on a daily basis. They are overloaded with administrative work and compliance matters. They don't have the time and is not fully equipped in terms of their experience and professional training to act as a consultant for the municipality. They will also not be covered in terms of the current insurance policy of the municipality for professional failures. The insurance policy will have to be extended to include professional indemnity insurance.

The municipality manages seven towns and other rural areas from a centralised administration, making it very difficult to attend to community needs by professional people. If there is funds for extension of the staff establishment, it would be more reasonable to extend the management in the various towns rather than to appoint professional advisers and project managers.

3. Limited budget

The municipality's budget is already under tremendous constraint and cannot accommodate the funding of additional posts. The high cost of employment is detrimental to the maintenance and operating budget and places a huge burden on service delivery.

4. Upper limits and task job limits

The upper limits of municipal remuneration are not market related compared to the remuneration of professional people in the private sector. The municipality experience a serious challenge to attract and retain staff in professional fields of management and it will be much more difficult to appoint professional people for the achievement of specific objectives such as drafting tender specifications for bulk services projects; managing such projects and be accountable and taking the risk associated therewith. In many instances, more than one specialist is needed to draft tender specifications for a single project, such as civil-, structural- and electrical engineering, planners, environment specialist and planning designers/architects to plan, design and construct a sewer plant or water purification works. There will have to be a huge hike in upper limits in order to appoint professionals in the various fields.

5. Offices and equipment

The municipality is not equipped to accommodate additional staff as the current staff is already accommodated in remote buildings spread all over the Cape Agulhas municipal area. Additional office space will be needed and the municipality's capital budget is insufficient to accommodate this. There are also no grant funding for the construction of office space.

Furthermore, offices for certain professionals must be equipped with specialist equipment such as designer tables, designer's software, plan printers, laboratories, testing equipment and various other.

6. Systems and programmes

There are a number of systems and programmes that the municipality need to maintain in order to render a cost effective, efficient and reliable service and to be compliant with legislation.

JUSTIFICATION

The use of consultants is currently non-negotiable for the municipality as it is of utmost importance to ensure service delivery and executive construction work of essential services. We, however recognise that any decision to employ consultants or any other external professional service must be fully justified, the procurement properly conducted, the assignment managed effectively, and the costs recorded.

Consultants are only used as and when the strategy, structure, management or operations of the specific department is under pressure to fulfil its mandate and render basic services.

We endeavour to use consultants outside the 'business-as-usual' environment when in-house skills are not available, and it will be time-limited. Such consultancy services are expected to either provide additional skills or expertise which are not available within the municipality and are engaged to carry out activities such as investigating problems, providing analysis or advice, or assisting with the development of new systems, new structures or new capabilities within the organisation and to prepare specifications and manage construction of essential services and works.

In some areas of normal daily administration consultancy engagement is seen to be appropriate when:

- a. internal capacity is unavailable to undertake a new area of work;
- b. internal capacity is lacking due to a resignation and for the recruitment and training period as such, for instance where a specific system or programme is utilised;
- c. independence/objectivity is required and cannot be provided within the municipality;
- d. specialist knowledge or expertise is unavailable internally;
- e. legislative requirement where a directive is required to be complied with arising from legislation or due to compliance.

SKILLS TRANSFER

Skills transfer can only be applicable as and when there is internal capacity to be trained and utilised in future. We endeavour to always give explicit consideration to the potential for transferring skills, but it will be limited to areas where capacity exist.

Where skills transfer is not considered practical or appropriate, it will be recorded as such.

REDUCTION OPTIONS

- a. When the municipality do not have any form of oversight competency that can manage, guide or control the utilization of external consultancy for the execution of their mandate in a specific field of expertise the municipality will endeavour to get assistance from Provincial and National Government departments to take sole responsibility for the execution of such speciality engineering fields and/or construction projects where it will not impact on existing infrastructure, operational and maintenance functionally.
- b. Implement a shared services model within the district for professional services;
- c. Constantly inform other spheres of government on the cost of compliance and the unnecessary detail needed to comply with legislative requirements;
- d. Appoint competent staff;
- e. Annually evaluates the staff structure to establish opportunities to extend and fill vacant posts and provide for new posts. The Budget Steercom will annually during the budgetary process consider the annual management report on the appointment of consultants in order to decide on replacing consultants with full time staff.

CAPE AGULHAS Munisipaliteit / Municipality



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

DRAFT

FUNDING AND RESERVES POLICY

Goedgekeur / Approved :

30 March 2023

Raadsbesluit / Council Decision:

Item

TABLE OF CONTENTS

TABLE OF CONTENTS	30
ABBREVIATIONS	31
1. PURPOSE OF THIS DOCUMENT	31
DEFINITIONS	31
2. BACKGROUND	33
3. OBJECTIVES	33
4. APPROVAL AND EFFECTIVE DATE	34
5. POLICY AMENDMENT	34
6. RELATIONSHIP WITH OTHER POLICIES	34
7. REFERENCES	34
8. PRINCIPLES REGARDING THE FUNDING OF THE ANNUAL BUDGET	34
9. FUNDING THE OPERATING BUDGET	35
10. FUNDING THE CAPITAL BUDGET	38
11. CAPITAL REPLACEMENT RESERVE	40
12. ASSET FAIR VALUE RESERVE	40
13. PUBLIC CONTRIBUTIONS RESERVE	40
14. PROVISIONS	41
15. LEAVE PROVISION / ACCRUAL	41
16. LANDFILL REHABILITATION PROVISION	41
17. PROVISION FOR LONG SERVICE AWARDS	41
18. PROVISION FOR POST EMPLOYMENT MEDICAL BENEFITS	41
19. OTHER ITEMS TO BE CASH BACKED	42
20. POLICY IMPLEMENTATION	42

ABBREVIATIONS

AO	Accounting Officer
ASB	Accounting Standards Board
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practise
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MSA	Municipal Systems Act
VAT	Value Added Tax
SDBIP	Service Delivery and Budget Implementation Plan

1. PURPOSE OF THIS DOCUMENT

This policy sets out the principles for determining the following:-

- Projected billings, collections and all direct revenues;
- The provision for revenue that will not be collected;
- The funds the Municipality can expect to receive from investments;
- The proceeds the Municipality can expect to receive from the transfer or disposal of assets;
- The funds to be set aside in reserves.

DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003), has the meaning so assigned, and:

“Accounting Officer” – means the Municipal Manager and vice versa;

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

“Chief Financial Officer” – means an officer of the Municipality, designated by the Municipal

Manager to be administratively in charge of the financial affairs of the municipality;

“Council” or “Municipality” – means the Municipal Council of Cape Agulhas Municipality as referred to in Section 18 of the Municipal Structures Act;

“Creditor” – in relation to a municipality, means any person or service provider to whom money is owing by the Municipality;

“Debt” – means –

- (a) a monetary liability of obligation created by a financing agreement, note, debenture, bond, overdraft or the issuance of municipal securities; or
- (b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

“Delegate” – means an official / person delegated to perform tasks on behalf of another person;

“Financial Statement” – means statements consisting of at least –

- (a) a balance sheet (statement of financial position);
- (b) an income statement (statement of financial performance);
- (c) a cash-flow statement;
- (d) any other statements that may be prescribed; and
- (e) any notes to these statements.

“Financial year” – means a period of twelve months ending on the 30 June;

2. BACKGROUND

The Local Government: Municipal Finance Management Act No 56 of 2003 (*hereafter MFMA*) section 18 requires that an annual budget may only be funded from:

- (a) Realistically anticipated revenues to be collected;
- (b) Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- (c) Borrowed funds, but only for capital projects.

Section 19 of the MFMA also requires spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes. Furthermore, Chapter 6 of the MFMA 6 guides on the requirements of obtaining Short Term and Long Term Debt, Conditions to comply with when applying for Debt, Security, Disclosures and Municipal Guarantees.

The Local Government: Municipal Finance Management Act No 56 of 2003 Municipal Budget and Reporting Regulations, 2009 Section 8 requires that each Municipality should have a Funding and Reserves Policy.

3. OBJECTIVES

The objectives of the policy relating to funding and reserves are as follows: (a) To comply with the legislative requirements;

- (b) To ensure that the Municipality's Operating and Capital budgets are adequately funded;
- (c) To ensure that the Municipality's provisions and reserves are maintained at the required levels, in order to mitigate unfunded liabilities in future financial years; and
- (d) To achieve financial sustainability with acceptable levels of service delivery to the community.

4. APPROVAL AND EFFECTIVE DATE

The policy will be effective as from 1 July 2023

5. POLICY AMENDMENT

The AO must–

- (a) at least annually review the implementation of this Policy; and
- (b) when the AO considers it necessary, submit proposals for the amendment of this Policy to the Council.

The review of this policy and any amendment should be made with due consideration and in conjunction with the annual review of the budget related policies as prescribed in the Municipal Budget and Reporting Regulations, 2008.

6. RELATIONSHIP WITH OTHER POLICIES

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

- Accounting Policy;
- Cash Management and Investment Policy
- Long Term Financial Sustainability Policy
- Long Term Financial Plan Policy;

7. REFERENCES

The following references were observed in compiling this document:

- Municipal Finance Management Act, 2003
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- Accounting Standards Board
- MFMA Circular 18 & 44
- MFMA Budget Circular 51
- Municipal Budget and Reporting Regulations, 2008
- Government Gazettes (30013 & 31021)
- Generally Recognised Accounting Practice

8. PRINCIPLES REGARDING THE FUNDING OF THE ANNUAL BUDGET

8.1 An annual budget may only be funded from:-

8.1.1 Realistically anticipated revenues to be collected;

8.1.2 Cash backed accumulated funds from previous years surpluses and reserves not committed for any other purpose; and

8.1.3 Borrowed funds but only for the capital budget.

8.2 Realistic anticipated revenue projections must take into account:-

8.2.1 Projected revenue for the current year based on collection levels to date; and

8.2.2 Actual revenue collected in previous financial years.

8.3 Spending on a capital project may only occur if:-

8.3.1 The money for the project, excluding the cost of feasibility studies, has been appropriated in the budget;

8.3.2 The project, including the total cost, has been approved by Council;

8.3.3 The sources of funding have been considered, are available and have not been committed for other purposes;

8.3.4 Council has considered:-

8.3.4.1 The projected cost covering all financial years until the project is operational; and

8.3.4.2 The future operations costs and revenue on the project, including municipal tax and tariff implications.

9. FUNDING THE OPERATING BUDGET

9.1 The operating budget provides funding to departments for their medium term expenditure as planned.

9.1.1 The Municipality categorises services rendered to the community according to its revenue generating capabilities as follows:-

9.1.2 Trading services (services that generate predetermined surpluses that can be used to fund other services rendered by the Municipality);

9.1.3 Economic services (services that should at least break-even, but do not necessarily generate any surpluses to fund other services rendered by the Municipality);

9.1.4 Rates and General (services that are funded by property rates, government grants or surpluses generated by the trading services).

9.2 The operating budget is funded from the following main sources of revenue:-

9.2.1 Property rates;

9.2.2 Service charges;

9.2.3 Government grants and subsidies;

9.2.4 Other sundry revenue, such as fines, interest received etc; and

9.2.5 Cash backed accumulated surpluses from previous years not committed for any other purposes.

9.3 The following guiding principles apply when compiling the operating budget:-

9.3.1 The annual budget must be funded ;

9.3.2 Growth parameters must be realistic taking into account the current economic conditions;

9.3.3 Tariff adjustments must be realistic, taking into consideration affordability, bulk increases and future projected growth according to the approved Integrated Development Plan (IDP);

9.3.4 Revenue from government grants and subsidies must be in line with allocations gazetted in the Division of Revenue Act and Provincial Gazettes;

9.3.5 Revenue from public contributions, donations or any other grants may only be included in the budget if there are acceptable documentation that guarantees the funds such as:-

9.3.5.1 A signed service level agreement;

9.3.5.2 A contract or written confirmation; or

9.3.5.3 Any other legally binding document.

9.3.6 Property rates are levied according to the Municipal Property Rates Act and Property Rates Policy based on the market values. The budget is compiled using the latest approved Valuation Roll and any Supplementary Roll, consistent with current and past trends. Property rates tariffs and rebates are determined annually as part of the tariff setting process;

9.3.7 Property rates rebates, exemptions and reductions are budgeted either as revenue foregone or as a grant as per MFMA Budget Circular 51 depending on the conditions thereof;

9.3.8 Projected revenue from service charges must be realistic - based on current and past trends with expected growth considering the current economic conditions. The following factors must be considered for each service:-

9.3.9 Metered services comprising of electricity and water:-

10.3.9.1 The consumption trends for the previous financial years;

10.3.9.2 Envisaged water restrictions or load shedding when applicable; and

10.3.9.3 Actual revenue collected in previous financial years.

9.3.10 Refuse removal services:-

10.3.10.1 The actual number of erven receiving the service per category; and

10.3.10.2 Actual revenue collected in previous financial years.

9.3.11 Sewerage services:-

9.3.11.1 The actual number of erven receiving the service per category and the consumption trends per category; and

9.3.11.2 Actual revenue collected in previous financial years.

9.3.12 Rebates, exemptions or reductions for service charges are budgeted either as revenue foregone or as a grant as per MFMA Budget Circular 51 depending on the conditions thereof;

9.3.13 Other projected revenue is charged in terms of the approved sundry tariffs and fines considering the past trends and growth for each category.

9.3.14 Provision for revenue that will not be collected is made against the expenditure item debt impairment and is based on actual collection levels for the previous financial year and the latest projected annual non-payment rate.

9.3.15 Transfers from the accumulated surplus to fund operating expenditure will only be allowed for specific once-off projects and with no recurring operating expenditure resulting thereof.

9.3.16 Interest received from actual long-term and or short-term investments are based on the amount reasonably expected to be earned on cash amounts available during the year according to the expected interest rate trends.

9.3.17 Depreciation charges are fully budgeted for according to the asset register and to limit the impact of the implementation of Asset Related GRAP Standards a transfer is made from the accumulated surplus.

9.3.18 A detailed salary budget is compiled on an annual basis. All funded positions are budgeted for in total and new and/or funded vacant positions are budgeted 12 months of the total package considering the time for the recruitment process.

9.3.19 To ensure the health of the municipal asset base, sufficient provision must be made for the maintenance of existing and infrastructure assets based on affordable levels as maintenance budgets are normally lower than the recommended levels. As a guiding principle repair and maintenance should constitute as per National Treasury recommendation of total operating expenditure and should annually be increased incrementally until the required targets are achieved. Actual spending in previous years

9.3.20 Individual expenditure line items are to be revised each year when compiling the budget to ensure proper control over operating expenditure. Increases for these line items must be linked to the average inflation rate and macro-economic indicators unless a signed agreement or contract stipulates otherwise.

10. FUNDING THE CAPITAL BUDGET

10.1 The municipality's objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non – existent. In order to achieve this objective the municipality must annually, within financial means, budget for the replacement of redundant assets as well as new assets. The capital budget provides funding for the

Municipality's capital programme based on the needs and objectives as identified by the community through the Integrated Development Plan and provides for the eradication of infrastructural backlogs, renewal and upgrading of existing infrastructure, new developments and enlargement of bulk infrastructure. Provisions on the capital budget will be limited to availability of sources of funding and affordability.

The main sources of funding for capital expenditure are:-

- 10.1.1 Cash backed accumulated surpluses;
- 10.1.2 Borrowings;
- 10.1.3 Government grants and subsidies;
- 10.1.4 Public donations and contributions; and
- 10.1.5 Operating revenue.

10.2 The following guiding principles apply when considering sources of funding for the capital budget:-

10.2.1 Government grants and subsidies:-

10.2.1.1 Only gazette allocations or transfers as reflected in the Division of Revenue Act or allocations as per Provincial Gazettes may be used to fund projects;

- 10.2.1.2 The conditions of the specific grant must be taken into consideration when allocated to a specific project; and
- 10.2.1.3 Government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent that the conditions will be met during the financial year.
- 10.2.2 In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual budget if the funding is guaranteed by means of:-
- 10.2.2.1 A signed service level agreement;
 - 10.2.2.2 A contract or written confirmation; and/or
 - 10.2.2.3 Any other legally binding document.
- 10.2.3 Public donations, contributions and other grants are provided for on the relevant department's operating budget to the extent that the conditions will be met during the financial year.
- 10.2.4 The borrowing requirements as contained in the borrowing policy are used as a basis to determine the affordability of external loans over the Medium Term Revenue and Expenditure Framework. The ratios to be considered to take up new borrowings include:-
- 10.2.4.1 long-term debt to revenue (excluding grants) not to exceed 40%;
 - 10.2.4.2 payment rate of above 90%;
 - 10.2.4.3 percentage of capital charges to operating expenditure less than 15% (Interest and redemption).
- 10.2.5 Allocations to capital projects from cash backed accumulated surpluses will be based on the available funding for each ring-fenced reserve according to the conditions of each reserve as follows:-
- 10.2.5.1 Capital projects of a smaller nature such as office equipment, furniture, plant and equipment etc. must be funded from own generated revenue from the operating budget for that specific year;
 - 10.2.5.2 Capital projects to upgrade bulk services will be allocated to the capital bulk contributions reserve for each service.
- 10.2.6 All capital projects have an effect on future operating budgets. The following cost factors should therefore be considered before approval:-
- 10.2.6.1 Additional personnel cost to staff new facilities once operational;
 - 10.2.6.2 Additional contracted services, such as security, cleaning etc.
 - 10.2.6.3 Additional general expenditure, such as services cost, stationery, telephones, material etc.
 - 10.2.6.4 Additional other capital requirements to operate the facility, such as vehicles, plant and equipment, furniture and office equipment etc.

- 10.2.6.5 Additional costs to maintain the assets;
- 10.2.6.6 Additional interest and redemption in the case of borrowings;
- 10.2.6.7 Additional depreciation charges;
- 10.2.6.8 Additional revenue generation. The impact of expenditure items must be offset by additional revenue generated to determine the real impact on tariffs.

All Reserves are “ring fenced” as internal reserves within the accumulated surplus, except for provisions as allowed by the standards of Generally Recognised Accounting Practices (GRAP).

The following ring fenced reserves exist:-

11. CAPITAL REPLACEMENT RESERVE

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

This reserve once fully established will enable the Municipality to provide internal funding for its capital replacement and renewal programme. Other contributions to the capital replacement reserve through the operating budget may include interest received on investments.

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

12. ASSET FAIR VALUE RESERVE

The Asset Fair Value Reserve is created through the transfer of the increase in the carrying value of Property, Plant and Equipment identified through the adoption of GRAP17. This is an accounting concept and the reserve does not represent a cash reserve in the true sense. The reserve cannot be utilised for any other purpose than the accumulation of the increase in carrying value, or offsetting of a decrease in carrying value of Property, Plant and Equipment. The reserve and accounting treatment thereof is governed by GRAP 17.

13. PUBLIC CONTRIBUTIONS RESERVE

Bulk contributions charged to developers in terms of Councils Bulk Contributions Policy are ringfenced and must be kept in cash. The reserve can only be utilised for the funding of capital infrastructure and in accordance with Council’s approved Capital Budget.

14. PROVISIONS

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

Provisions are revised annually and those estimates to be settled within the next twelve (12) months are treated as current liabilities.

The municipality has the following provisions:

15. LEAVE PROVISION / ACCRUAL

Liabilities for annual leave are recognised as they accrue to employees. An annual provision is made from the operating budget to the leave provision.

16. LANDFILL REHABILITATION PROVISION

The landfill site rehabilitation provision is created for the current operational site at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the landfill site. This provision must be cash backed as determined in the Cash Management Policy, to ensure availability of cash for rehabilitation on closure.

17. PROVISION FOR LONG SERVICE AWARDS

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

Long service awards can be encashed at the discretion of the Municipal Manager and will be subject to the cash flow position of Council.

18. PROVISION FOR POST EMPLOYMENT MEDICAL BENEFITS

The municipality provides retirement medical care benefits by subsidizing the medical aid contributions to retired employees and their legitimate spouses. The entitlement to retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over a period of employment.

The provision is cash backed.

19. OTHER ITEMS TO BE CASH BACKED

The Cash Management Policy also specifies certain other items (in addition to fund and reserves) that must be cash backed.

20. POLICY IMPLEMENTATION

This policy will effective as from 1 July 2023

Kaap Agulhas Munisipaliteit

Cape Agulhas Municipality



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

LONG TERM FINANCIAL PLAN

Goedgekeur / Approved:

30 March 2023

Raadsbesluit / Council's decision:

Item

RECOMMENDED

Date 30 March 2023

Summary Long Term Financial Plan Policy and Procedures

Signature

Date:

ACCOUNTING OFFICER

**Approved by the
Council**

Date:

Resolution

**Transitional
Arrangements**

Effective Date

Next Revision date

Contents

1.	Policy.....	46
1.1	Overview.....	46
1.2	Purpose.....	46
1.3	Objectives	46
1.4	Legal and Accounting Framework Definitions.....	47
1.4.1	Legal Framework	47
1.4.2	Accounting Framework.....	47
1.5	Recommendations.....	47
2.	Processes.....	47
2.1	Methodology.....	47
2.2	Financial Strategies.....	48
2.3	Non Financial Strategies	48
3.	Procedures	48
3.1	Crafting the Long Term Financial Plan.....	48
3.2	Implementation	50
3.3	Amendment and Review of the policy.....	50

21. Policy

1. Overview

Cape Agulhas Municipality has appointed INCA Portfolio Managers to conduct an Independent Macro Financial Assessment as the basis for the development its Long-Term Financial Plan in consultation with the Council of Cape Agulhas Municipality with a view to ensure financial sustainability and capacity to accommodate future planning. This in recognising its:

- i. community orientation; and
- ii. the need for good governance.

The policy is a transparent and codified internal control system aimed at promoting its core municipality's objectives to ensure that the limited resources at the disposal of Cape Agulhas Municipality will be focused towards serving the various stakeholders in the pursuit of their interactions with Cape Agulhas Municipality both efficiently and congruent to approved budgets and broader financial policies of Cape Agulhas Municipality, whilst minimizing the temptation of misuse of municipality funds.

The policy is applicable to all Cape Agulhas Municipality staff charged with discharging municipality related activities. It seeks to institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

- i. A guideline for all stakeholders;
- ii. An internal dynamic document detailing the processes required for the efficient discharge of duties to ensure the efficient administration of Cape Agulhas Municipality budgets.

The policy is intended to provide a framework for Municipality's processes to sustain cash flow in a manner prescribed in the Municipal Finance Management Act, 2003 and National Treasury Regulations.

2. Purpose

The purpose of this policy is to adhere to all legislative, regulatory and policy imperatives by infusing effective and efficient budget monitoring processes and procedures into Cape Agulhas Municipality.

The policy is further intended to meet the requirements of the Municipal Finance Management Act, 2003 and to be consistent with any prescripts by National Treasury. Central to these are the need to infuse sound financial management practices and structures for long term sustainability.

3. Objectives

The policy objectives of the **Long Term Financial Plan** also specifically seeks to address the following:

- 2.1 A seamless integration of the financial relationship between the various revenue and expenditure streams upon which the Integrated Development Plan (IDP) is based – by clustering the current budgets to allow cost benefit effects to be tested on the overall budgets and thereby on service tariffs.
- 2.2 Cape Agulhas Municipality has on the basis of scenario planning developed financial model consistent with a 10 year view on the financial sustainability of the Municipality.

4. Legal and Accounting Framework Definitions

1. Legal Framework

The Municipal Finance Management Act (MFMA) 56 of 2003, the Municipal Systems Act (MSA) 32 of 2000, and all other applicable legislation, policies and circulars make reference.

Section 21 of the **MFMA** requires the Executive Mayor to table before Council 10 months before the start of the budget year a time schedule outlining key deadlines inclusive of the annual budget process, the Integrated development Plan as prescribed by section 34 of the **MSA**, the budget related policies, any amendments to the IDP or budget related policies, and the necessary consultative process which need to give effect to the above.

Section 7(1) of the **MBRR** makes reference to the fact that the annual budget of the municipality should include a policy related to long term financial planning.

Section 26(h) of the **MSA** holds that the IDP needs to incorporate a financial plan inclusive of three years budget projections.

2. Accounting Framework

The responsibility of financial planning rests with the Municipal Manager and the Chief Financial Officer. The performance of this function may be delegated to subordinates; however, this however does not alleviate the responsibility of the Municipal Manager and Chief Financial Officer.

5. Recommendations

- i.** This policy, processes and procedures document be adopted as the Long Term Financial Policy of Cape Agulhas Municipality.
- ii.** This policy, processes and procedures document be recognised as identifying, characterizing and addressing the various stages of long term financial planning process;
- iii.** This policy, processes and procedures document be recognised as denoting all internal control mechanisms relevant to the efficient and effective discharge of the policy;
- iv.** This policy document is adopted by the Executive Management and the broader Council of Cape Agulhas Municipality as the framework for the Long term financial planning.

22. Processes

1. Methodology

The long term policy needs to incorporate the various variables consistent with good scenario planning. In this regard aside from the regulatory compliance, the

municipal records, financial statements and performance reviews of the various business units, expression is also to be given to the strategic direction the municipality is embarking on.

In this regard it needs to pay heed to the clearly identified strategic priorities of the district, intertwined with the constituency desires – as contracted in SDBIP – and match it with the practical realities of the financial constraints of the district. Such constraints also need to be aligned with the ability to raise funding from whichever source for future capital projects for enlargement of the taxable base for revenue growth. It will thus in crafting the long term plan consider both the financial strategies and realities with the non-financial strategies and pressure dictates. In essence the plan would be to craft a feasible socio economic plan rooted in firm and prudent fiscal principles.

2. Financial Strategies

Central to the planning process is the economic realities the area faces. The plan would thus have to consider the following, indicative but not exhaustive list:

- i. The current financial position of the municipality;
- ii. Current debt levels and prescribed debt appetite;
- iii. Capital / Infrastructure maintenance and renewal;
- iv. The need to improve on the municipality's rating;
- v. Improving service delivery mechanisms and thereby budgets;
- vi. Maintaining equitable and fair rates and tariffs;
- vii. Cost recovery for internal services provided;
- viii. Operational efficiencies consistent with or improving on budgeted operational expenditure

3. Non Financial Strategies

- i. The municipalities key strategic objectives;
- ii. The spatial development plan;
- iii. The environmental plan;
- iv. Infrastructure led development;
- v. Community dictates

23. Procedures

1. Crafting the Long Term Financial Plan

3.1.1 Both past and present data should be considered in conjunction with economic forecasts, and market borrowing appetites. More specifically attention should be paid to:

- i. Current events, trends, financial forecasts which have prevailed over the past 12 months;
- ii. Trends obtained from stress testing the past 3 years audited financials;
- iii. Financial objectives and assumptions;
- iv. Economic indicators;
- v. The municipal financial position and liquidity status;
- vi. The present funding mix of the municipality and the prospects in this regard;
- vii. Regulatory and legislative frameworks;
- viii. Current and future challenges and constraints and possible solutions thereto

3.1.2 Via sound methodology create the necessary assumptions;

- i. Socio economic dictates on the municipality;
- ii. Economic indicators pertinent to inflation, interest rates etc;
- iii. Collection aged analyses and the projections stemming there from;
- iv. Potential revenue streams;
- v. Widening the net of collectable tariffs;
- vi. Price movements;
- vii. Labour costs and the unemployment figures;
- viii. Demand side indicators;
- ix. Supply side indicators, constraints and challenges;
- x. Programme and project management ability

3.1.3 Access to inter governmental funding pools inclusive of the equitable share, fuel levy and various grants;

3.1.5 Forecasting based on sound modeling which pays cognizance to National Treasury prescripts and parameters, resources available, expansion bases and strategic initiatives;

3.1.6 Balance revenue collection and municipal spend optimally – by

looking at:

- i. Scenarios impacts on the plan;
- ii. Whether scenarios are realistic;
- iii. Revenue enhancement strategies;
- iv. Cost saving mechanisms;
- v. Capital and infrastructure projects

2. *Implementation*

3.3.1 This policy shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.

3. *Amendment and Review of the policy*

The Long Term Financial Plan shall be reviewed at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise.



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

PROPERTY MANAGEMENT POLICY

Approve by council on 30 March 2023

TABLE OF CONTENTS

CHAPTER 1: INTERPRETATION, SCOPE, PURPOSE AND OBJECTIVE OF THE POLICY .54	
1. DEFINITIONS	54
2. SCOPE AND PURPOSE.....	57
3. RESPONSIBILITIES	57
CHAPTER 2: DISPOSAL MANAGEMENT SYSTEM FOR PROPERTY TRANSACTIONS ...58	
4. LEGISLATIVE AND POLICY FRAMEWORK FOR THE MANAGEMENT OF THE MUNICIPALITY’S PROPERTY	58
5. APPLICATION OF THE POLICY	58
6. GUIDING PRINCIPLES.....	59
CHAPTER 3: RESERVATION AND MANAGEMENT OF IMMOVABLE PROPERTY 59	
7. AUTHORITY TO RESERVE AND MANAGE IMMOVABLE PROPERTY	59
8. KEY PRINCIPLES PERTAINING TO THE RESERVATION AND MANAGEMENT OF IMMOVABLE PROPERTY.....	59
9. SERVICE LEVEL AGREEMENTS.....	60
CHAPTER 4: ACQUISITION OF IMMOVABLE PROPERTY AND RIGHTS IN IMMOVABLE PROPERTY..... 60	
10. AUTHORITY TO ACQUIRE.....	61
11. GENERAL PRINCIPLES	61
12. ASSESSMENT	61
13. SITE SELECTION.....	62
14. VALUATIONS	62
15. METHODS OF ACQUIRING IMMOVABLE PROPERTY.....	62
16. MANDATORY CONSULTATION	62
17. APPROVAL PROCESS.....	63
CHAPTER 5: DISPOSAL OF IMMOVABLE PROPERTY AND RIGHTS IN IMMOVABLE PROPERTY 63	
18. AUTHORITY TO DISPOSE OF IMMOVABLE PROPERTY	63
19. DISPOSAL MANAGEMENT PRINCIPLES.....	63
19.1 Core Principles 63	
19.2 General Principles pertaining to the disposal of immovable property and rights in immovable property 64	
19.3 General principles and guidelines pertaining to the letting by council of immovable property 64	
20. MOST APPROPRIATE USE ASSESSMENT.....	64
21. METHODS OF DISPOSAL	65
21.1 Public Auction 65	
21.2 Closed Tender 65	
21.3 Unsolicited proposals 66	
21.4 Non-Competitive Processes: Private Treaty Agreements 66	
Non-Viable Property 66	
Viable Property: Deviation from a Competitive process 66	
21.5 Key principles and guidelines pertaining to the disposal and letting of immovable property for social care uses 67	
22. DECISION – MAKING PROCESS	67

CHAPTER 6: CONTRACTUAL OBLIGATIONS..... 69

23. TERMS AND CONDITIONS OF SALE..... 69

24. CONDITIONS OF LEASE 69

CHAPTER 7: FAIR MARKET VALUE/RENTAL..... 71

25. CRITERIA FOR DETERMINING COMPENSATION AND FAIR MARKET VALUES .71

26. CRITERIA FOR DETERMINING OF FAIR MARKET RENTALS 72

CHAPTER 8: MISCELLANEOUS..... 72

27. MUNICIPAL LAND REGISTER (MLR)..... 72

28. STRATEGIC IMMOVABLE PROPERTY MANAGEMENT PLAN 72

CHAPTER 1:

INTERPRETATION, SCOPE, PURPOSE AND OBJECTIVE OF THE POLICY

1. 1. DEFINITIONS

1.1 In this policy, unless inconsistent with the context, the following expressions bear the meanings assigned to them below:

“**acquisition**” means to acquire by way of purchase or lease.

“**adequate notice**” means a notice period of not less than 30 days within which representations, comments or objections may be made.

“**advertise**” means the giving of adequate notice of the nature and purpose including the material substance of the proposed administrative actions, by publishing a notice in the press, and where deemed necessary by the Municipal Manager, any additional form of notice, which may include-

- (a) displaying on a notice board; or
- (b) holding a public meeting.

“**alienate**” means to dispose of immovable property in favour of another person with the intention of transferring the ownership of the immovable property to the acquirer thereof.

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

“**bid**” means a written offer submitted in a prescribed or stipulated form, in response to an invitation by the Municipality for a procurement or disposal, as part of the competitive bidding process of the Municipality SCM policy;

“**church**” means a place of worship to the extent and for that portion of facility being used for spiritual gathering and/or social/pastoral/welfare caring.

“**chief financial officer**” means a person designated in terms of Section 80(2)(a) of the MFMA.

“**close**” in relation to a public street or public place, means to close for all purposes.

“**commercial service**” means a commercial service as defined in section 1 of the MATR;

“**Community value**” is the extent of benefit or gain generated when resources, input, processes or policies are combined to improve the lives of individuals or society as a whole.

“**competitive bidding process**” means a process whereby prospective bidders are invited through public media to submit bids and such bids are administered in a fair, transparent, competitive and cost effective manner;

“**constitution**” means the Constitution of the Republic of South Africa, 1996

“**council**” means the Council of the Municipality of Cape Agulhas and includes any Political Structure, Political Office Bearer, Councillor or Official, acting under delegated authority. COUNCIL is the custodian of all immovable property of the municipality and is responsible for the administration thereof.

“**disposal**”, means the sale, exchange, donation, or letting of Municipal land, the conclusion of any form of land availability agreement in respect of immovable property with any person and the registration of any real or personal right in respect of Municipal land, including servitudes.

“**disposal management system**, means the system contemplated in regulation 40 of the Municipal Supply Chain

Management Regulations.

"**emergency**" means an emergency dispensation in which one or more of the following conditions are present –

- 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 the necessary action may result in the municipality not being able to render an essential service; and
- g) the possibility that the security of the state could be compromised.

"**exchange**" means the simultaneous acquisition and disposal of immovable property or any right in respect of immovable property in terms of an agreement between the Municipality and any other party or parties where the compensation payable by the parties to each other, are offset and only the difference, if any, is payable to the appropriate party.

"**exempted capital asset**" means a Municipal capital asset which is exempted in terms of section 14(6) or 90(6) of the Act from other provisions of that section.

"**fair market value**" means the estimated amount for which an capital asset should be exchanged on the date of valuation between a willing buyer and a willing seller after proper marketing wherein the parties have each acted knowledgeable, prudently, and without compulsion.

"**fraudulent practice**" means a misrepresentation of fact in order to influence a selection process and includes: collusive practices among bidders (prior to or after submission of proposals) designed to establish prices at artificial, non-competitive levels and to deprive the municipality of the benefits of free and open competition.

"**high value**" means that the fair market value of the Property exceeds R50 million or 1% of the total value of the capital assets of the Municipality as determined from the latest available audited financial statements of the Municipality, or such lower amount as may from time to time be determined by a resolution of the Council of the Municipality;

"**housing stock**" means housing units that are leased to members of the public as well as housing subsidised units that are earmarked for disposal to qualifying beneficiaries.

"**IDP**" means the approved Integrated Development Plan of Cape Agulhas Municipality, as provided for in Chapter 5 of the Systems Act.

"**Immovable property**" means vacant land and includes any structural improvements thereon.

"**Independent property valuer**" means a person registered as a professional associated valuer in terms of property valuers Professional Act, 2000(Act 472/2000)

"**lease agreement**" means a written agreement specifying rights and duties pertaining to the exclusive use of property for a continuous period of time, thirty (30) calendar days or longer, and which sets forth the terms and conditions of the use of the real property.

"**Long term Lease**" means a signed lease agreement longer than three years.

"**MATR**" means the Municipal Asset Transfer Regulations promulgated in terms of the MFMA and published in *Government Gazette* No. 31346 of 22 August 2008;

"**MFMA**" means the Local Government: Municipal Finance Management Act, 56 of 2003, including any Regulations promulgated in terms thereof from time to time;

"**municipality**" means Cape Agulhas Municipality established in terms of Section 4 of the Establishment Notice;

"**municipal area**" means the area under the jurisdiction and control of the Council.

"**municipal land audit (MLA)**" means the audit of municipal owned properties which was conducted during the latest audit as per municipal operations.

“**municipal manager**” means a person appointed in terms of Section 82 of the Municipal Structures Act, No 117 of 1998 as the head of the Municipality’s administration.

“**municipality’s property**” or “**property**” means all the Immovable Property owned and managed by the Municipality in terms of this Policy;

“**Municipal systems act**” means the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000).

“**non exempted capital asset**” means a Municipal capital asset that is not exempted in terms of section 14(6) or 90(6) of the Act.

“**non-Significant Property Right**” means a Property Right in respect of the following categories of Property –

- a) Property right with a Value less than R10 million, Property Right longer than 3 years;
- b) Property right with a Value more than R10 million, Property Right less than 3 years;
- c) Property right with a Value less than R10 million, Property Right less than 3 years.

“**non-viable property**” means Property that, owing to urban planning, physical constraints or extent cannot be developed on its own or function as a separate entity and that can therefore become functional only if used by an adjoining owner in conjunction with such owner’s property;

“**official**” means an official as defined in section 1 of the MFMA;

“**organ of state**” means an organ of state as defined in the MATR;

“**owner**” in relation to land, means the person in whose name that land is registered in a deeds registry, which may include the holder of a registered servitude right or lease and any successor in title of such a person, and includes any person authorized to act as such by the registered owner, any person who in law has been entrusted with the control of such assets or a person to whom land has been made available in terms of a land availability agreement.

“**plight of the poor**” means the needs of the people that are vulnerable and unable to meet their socio-economic needs independently or to support themselves and their dependants and are in need of social assistance.

“**property laws**” means the relevant provisions of the MFMA and the MATR collectively;

“**property right**” means a right to use, control or manage a property for a period exceeding a calendar month, as granted by the Municipality without ceding legal ownership in the Property. For the avoidance of any doubt, a servitude or encroachment in, on, over or under Property granted by the Municipality, or a lease agreement entered into by the Municipality as lessor, constitutes a Property Right;

“**private treaty**” means where the proposed disposal involves a disposal without public competition as defined in the MFMA to a non-government entity.

“**property transaction**” means either a Disposal of Property or the granting of a Property Right;

“**public place**” means any land indicated on an approved plan, diagram or map as an open space of which ownership as such vests in the Municipality.

“**SCM policy**” means the Supply Chain Management Policy of the Municipality, as approved and implemented in terms of section 111 of the MFMA, read with the SCM Regulations;

“**SCM regulations**” means the Municipal Supply Chain Management Regulations promulgated in terms of the MFMA and published under GN 868 in *Government Gazette* No. 27636 of 30 May 2005;

“**significant Property Right**” means a Property Right with a value in excess of R10 million which is granted for a period exceeding 3 years;

“**Social Care Organisations**” is defined as:

- Childcare facilities in so far as it contributes to the functioning of a multi-use child care facility and is operated on a non-profit basis
- Services provided by registered welfare, charitable, non-profit, cultural, organizations
- Centres utilized as homes for the handicapped and disabled persons

- Non-Profit rehabilitation centres
- Homes/centres for indigent, battered or destitute persons
- Organizations for the homeless and elderly
- Youth activity/culture centres and organizations.
- Facilities for accommodation, care and burial of animals
- Community development organisations operating on a non-profit basis

“**spatial development framework**” means the framework contemplated in Section 26(1)(e) of the Municipal Systems Act.

“**Systems act**” means the Local Government: Municipal Systems Act, 32 of 2000, including any Regulations promulgated in terms thereof from time to time;

“**unsolicited bid**” is a bid/proposal received from a developer to acquire immovable property, or rights in immovable property, that is owned by the Municipality, outside the normal bidding process, i.e. without the Municipality having asked for such proposal/bid.

“**viable property**” means Property that can be developed and function as a separate entity capable of registration by the Registrar of Deeds.

1.2 Words not defined in this Policy have the meaning assigned to them in the MATR.

2. 2. SCOPE AND PURPOSE

2.1 The purpose of this Policy is to provide a framework for the management and disposal of the municipality’s land and other immovable capital assets that are not needed to provide the minimum level of basic municipal services and that are surplus to the municipality’s requirements.

2.2 The Municipality’s land and other immovable capital assets shall be disposed of in the manner as provided for in this policy as well as per the SCM policy. The Property Management Department is responsible for the administration of this Policy, and shall in this regard, in consultation with the Supply Chain Management Unit of the municipality, be responsible for the administration of the competitive bidding process relating to the disposal and leasing of the Municipality’s land.

2.3 In compliance with the provisions of section 14(1) of the MFMA, the Municipality shall not transfer ownership as a result of a sale or other transaction, or otherwise permanently dispose of a capital asset that is needed to provide the minimum level of basic municipal services. The following municipal services are classified as basic municipal services for the purposes of section 14(1) of the MFMA, and this classification must be used by the administration as criteria to compile a List of all Municipal Land and Buildings:

- a) Electricity services
- b) Water services
- c) Sanitation services
- d) Refuse removal, refuse dumps and solid waste disposal services
- e) Municipal Roads
- f) Public Places
- g) Cemeteries

3. 3. RESPONSIBILITIES

The Municipality has a core responsibility to acquire and avail land and buildings, in the first instance, for its own use for purposes of developing and maintaining municipal infrastructure, promoting service delivery and for facilitating social and economic development and spatial integration.

Land assets unrelated to these responsibilities are, by implication, surplus to the municipality's requirements although future requirements must be acknowledged and hence the need to hold immovable property in reserve.

The municipality has a further responsibility in terms of acquiring, managing, developing and releasing its land, buildings and rights. In this regard the key consideration is that the best interests of the municipality (and thus its residents) rather than that of individuals should be paramount in all real estate transactions that the municipality enters into. This demand that, in all transactions that the municipality enters into, there should be maximum benefit to the municipality, its operational requirements and the broader community.

Land and buildings affect the municipality's entire organization. Therefore, the municipality's policy in this respect must act in support of sectoral policies such as economic development, environment management, land use, housing, social and community infrastructure, physical planning and infrastructure, and culture and recreation. Market forces will always be the point of departure in any land or property transactions, and this must therefore be recognized and acknowledged.

The Municipality should dispose of Property only in circumstances where the Municipality is satisfied that it cannot derive a reasonable economic and/or social return from continued ownership of the Property.

CHAPTER 2:

DISPOSAL MANAGEMENT SYSTEM FOR PROPERTY TRANSACTIONS

4. 4. LEGISLATIVE AND POLICY FRAMEWORK FOR THE MANAGEMENT OF THE MUNICIPALITY'S PROPERTY

5.

4.1 The legislative framework for the management of the Municipality's Property is contained in a number of pieces of legislation, including but not limited to:

4.1.1 the MFMA, in particular section 14, which deals with disposal of capital assets;

4.1.2 the MATR, which governs –

- a) the transfer and disposal of capital assets by municipalities and municipal entities; and
- b) the granting by municipalities and municipal entities of rights to lease, use, control or manage capital assets;

6. 5. APPLICATION OF THE POLICY

5.1 Section 14 of the MFMA and the MATR apply to capital assets, which are defined in the MATR to include Immovable Property, as well as certain movable assets. This Policy only applies to Immovable Property.

5.2 This Policy does not apply to:

5.2.1 The municipality's housing stock

5.2.2 Property owned by the Municipality which is subject to a Public Private Partnership

5.3 In terms of section 40 of the Municipal Supply Chain Management regulations, a Municipal Supply Chain policy must provide for an effective system of disposal management for the disposal and letting of assets. For that purpose of immovable assets of the municipality, this policy must be seen as the disposal management policy of the municipality.

7. 6. GUIDING PRINCIPLES

8.

6.1. The following principles and values should underpin land acquisition and disposal activities:

- 6.1.1 The use of Council's immovable property to promote social integration, to redress existing spatial inequalities, to promote economic growth, to build strong, integrated and dignified communities and to provide access to housing, services, amenities, transport and opportunities for employment.
- 6.1.2 The management of Council's immovable property as a sustainable resource, where possible, by leveraging environmental, social and economic returns on such immovable property while Council retains ownership thereof.
- 6.1.3. Immovable property will be sold or leased at a **market related value** except when the public interest or the plight of the poor demands otherwise. Council may likewise determent subsidized selling prices of lease rates in respect of certain classes of property in order to promote Council's functions or goals as set out in the Constitution. Should it be intended to transfer immovable property for less than its market related value, the considerations listed under regulation 13((2) of the MATR, must be taken into account.
- 6.1.4. **Direct sale or lease of immovable property** to social care organizations is permitted where Council is of the opinion that public competition would not serve a useful purpose or that it is in the interest of the community or the poor. Such applications will be fully motivated in the report submitted to Council. Where sales are transacted below market value the sales will be subject to suitable reversionary clause registered against the title deed of the property.
- 6.1.5. Subsidized rates or selling prices in respect of certain classes of property to be alienated to approved categories of applicants with the view to promote Councils functions and goals as set out in the Constitution. When subsidized rates are proposed, the issues as listed in Regulation 13(2) of the MATR, must be considered. Subsidized selling prices may apply in respect of the following transactions:
 - a) The sale of land to social care organizations. The rate payable by social care organisations in respect of the sale or lease of immovable property shall be fixed by Council between 5% and 20% of the market value, subject to, in the case of sale of property, a reversionary clause being registered against the title of the property.
 - b) Redundant strips of land may be lease for garden purpose, at a nominal value as determent by Council.
 - c) The selling of land in approved industrial parks or special economic zones, at the prices as approved by Council from time to time through other policies or Council's decisions.
 - d) The rental in respect of the lease of land for commercial purposes shall be based on market value. Council may however consider a subsidized rental if in the interest of the public during the first 3 years of the lease period in the case of projects initiated by starter businesses for the purpose of Local Economic Development.

CHAPTER 3:

RESERVATION AND MANAGEMENT OF IMMOVABLE PROPERTY

9. 7. AUTHORITY TO RESERVE AND MANAGE IMMOVABLE PROPERTY

10.

7.1 Council may reserve and manage immovable property in its ownership for municipal purposes aligned with its operational needs.

11. 8. KEY PRINCIPLES PERTAINING TO THE RESERVATION AND MANAGEMENT OF IMMOVABLE PROPERTY

- 8.1 Unless it is precluded from doing so by law or by the conditions in terms of which immovable property was acquired and subject to observation of due statutory process and alignment with Council's strategic objectives, Council may:
- (a) use immovable property in its ownership to promote social integration, to redress existing spatial inequalities, to build strong, integrated and dignified communities and to provide access to housing, services, amenities, transport and opportunities for employment on a temporary or permanent basis.
 - (b) enhance immovable property in its ownership by pursuing the amendment of existing rights, establishment of new rights and the provision of municipal services.
 - (c) improve immovable property in its ownership by the erection of structures thereon.
 - (d) permit immovable property to be managed on behalf of Council, permit it to be enclosed and permit it to be cultivated.
- 8.2 When immovable property under the control or management of Council is encroached upon, the Council may take such steps as may, in the opinion of the Council, be necessary to remove or regularize such encroachment. In such instances Council may reduce the extent of a public place or public street which is encroached upon by the extent of the encroachment or by such greater extent as may, in Council's interest, be desirable.

12. 9. SERVICE LEVEL AGREEMENTS

- 9.1 In all circumstances where a Property or Properties is/are reserved for a purpose which falls within a functional responsibility of another line department within the Municipality, the Municipality's Property Administration Department will enter into a service level agreement (SLA) with that line department.
- 9.2 An SLA shall regulate the respective roles and responsibilities of the Property Administration Department and the line department in respect of the following reserved Property(ies):
- a) Properties used by the line department itself, for example, where the line department uses the Property(ies) for provision of a municipal service (where the municipal service is provided through an internal mechanism as provided for in the Systems Act);
 - b) Properties used by third party service providers, for example, where the line department appoints a service provider to provide a municipal service;
 - c) Properties in respect of which the line department has appointed a private party to manage the Property, for example, in terms of facilities management agreements.
- 9.3 The SLA's shall include provisions dealing with:
- a) the purpose for which a Property is reserved;
 - b) the responsibility for the safekeeping and maintenance of the building;
 - c) the insurance of the building;
 - d) the need for a security system in the building;
- 9.4 Given that the Property Administration Department is the custodian of the Municipality's Property, it is the only department within the Municipality that may conclude a contract with a third party in respect of a Disposal and the granting of a Property Right. Other line Departments may conclude agreements ancillary to immovable property assets including but not limited to Management Agreements and Facilities Management Agreements so far as such agreements do not grant the third party the right of tenure.

CHAPTER 4:

ACQUISITION OF IMMOVABLE PROPERTY AND RIGHTS IN IMMOVABLE PROPERTY

13. 10. AUTHORITY TO ACQUIRE

- 10.1 Council may acquire immovable property and rights in immovable property within or outside its municipal area by purchase, expropriation, exchange, donation, gift, lease or otherwise, subject to compliance with the procedures set out in this policy.;
- 10.2 Council may expropriate immovable property in terms of the Expropriation Act (Act 63 of 1975), or any other applicable legislation, provided that such expropriation shall only be for public purposes or in the interest of the public.

14.

15. 11. GENERAL PRINCIPLES

- 11.1 Council must ensure that decisions to acquire property (land, buildings and land improvements) are based on sound business and planning principles which are fully accountable and comply with:
 - (a) Council priorities and initiatives;
 - (b) Corporate and service plans;
 - (c) Planning Policies; and
 - (d) Regional plans and area planning schemes.
- 11.2 The Property Administration Department undertakes the acquisition (purchase or expropriation) of Immovable Property (land) and rights in Immovable Property (servitudes) for municipal purposes on behalf of all the service departments.
- 11.3 It is the responsibility of a Service Department to timeously, by a predetermined date as specified by the Property Administration Department, advise the Property Administration Department of the land or servitudes that are required in a particular financial year. The service department is required to furnish the Property Administration Department with the full particulars of the land or servitude(s) required. The particulars required must stipulate the erf or farm number if the entire erf or farm is required, or the coordinates and extent of the land or servitude if a portion of a farm or erf or a servitude is required.
- 11.4 The Service Department is required to confirm that the acquisition is required for an approved municipal project and that funding has been approved on an approved budget for the payment of the purchase price and the costs that the Municipality will incur when transferring the land or registering the right in the name of the Municipality in the Deeds Registry.
- 11.5 The municipality will purchase the land or servitude at the market value of the land or servitude as determined by a professional valuer or at such lesser amount as may be agreed to by the seller.
- 11.6 In the case of an expropriation the compensation payable for the land or servitude shall be determined in accordance with prescripts of the legislation in terms of which the land or servitude was expropriated.
- 11.7 Once the Immovable Property has been acquired, it will be reserved for the municipal purpose for which it was acquired and dealt with in accordance with the reservation procedures outlined above.

16. 12. ASSESSMENT

- 12.1 Prior to arriving at a decision to acquire an immovable property the Municipal Manager is required to undertake a detailed assessment to ensure that:
 - (a) the service delivery needs of the Municipality are best met by the proposed acquisition;
 - (b) that broader government objectives are also considered; and
 - (c) the expenditure of public funds is justified and are approved.
 - (d) the planned acquisition is in line with the approved Spatial Development Framework(s).
- 12.2 The Municipal Manager must ensure land acquisitions associated with infrastructure projects are consistent with (where relevant) Regional Plans, State Infrastructure Plans, Municipal Infrastructure Master Plans, or other plans that cover a significant proportion of the municipal area. This is to ensure strategic landholdings contribute to a

range of social, economic and environmental outcomes sought by Council, including the efficient, coordinated and timely provision of infrastructure.

- 12.3 In addition to the proposed acquisition being consistent with the objectives of planning documents, the Municipal Manager need to consider other issues when undertaking the assessment, such as:
- (a) the reason why the preferred site or area best meets the Municipality's requirements;
 - (b) the Municipality's strategic land management plan;
 - (c) source of funding and value for money;
 - (d) alternative service delivery options;
 - (e) sharing of government resources;
 - (f) method of acquisition;
 - (g) valuation of property;
 - (h) consultation with stakeholders;
 - (i) availability of surplus government property;
 - (j) risks associated with proposed transaction; and
 - (k) site constraints e.g. cultural and heritage issues and servitudes.

17. 13. SITE SELECTION

- 13.1 Evaluation criteria are to be developed to allow assessment of the site for suitability for the intended purpose. Criteria could include requirements for public transport, potential to meet future service demand, local support services, physical site requirements, size of site in proportion to service delivery strategies, financial benefits, municipal priorities and other future service requirements in proximity to the site and potential to collate or share facilities and services. A report should be prepared by the Service Department outlining the reasons for selecting the site as this will form the basis of the mandatory consultation process.
- 13.2 The Municipality's Municipal Land Audit (MLA) will contains essential, surplus and under utilised properties. The Municipal Manager is required to review/consult the MLA to determine if suitable properties are available prior to any decision being made on seeking property on the open market.

18. 14. VALUATIONS

- 14.1. Valuations are required in support of an acquisition decision and must be at current market valuation as determined by a qualified valuer(s).

19. 15. METHODS OF ACQUIRING IMMOVABLE PROPERTY

The Municipality may acquire land by:

- 15.1 Open market (selection in a particular area/location of a suitable site)
The Municipality usually acquire land through the open marketplace by either public auction or private sale.
- 15.2 Private treaty agreement (for site specific acquisition)
Private treaty contracts are suitable where the property has clear title or where clear title is reasonably achievable and the owner is willing to negotiate on reasonable terms.
- 15.3 Acquisition by expropriation
This method should not be used unless acquisition by agreement has been rejected as being unsuitable or has been unsuccessful in gaining agreement and it can be shown that the property need is site specific and essential.

20. 16. MANDATORY CONSULTATION

- 16.1 Council shall not acquire land unless it has -
- (a) advertised its intention to acquire such immovable property; and

- (b) considered the objections (if any) lodged in accordance with the advertisement contemplated in subsection (a).

16.2 When advertising its intention as contemplated above, all material information relevant to the proposed transaction must be included in the advertisement, including, but not limited to the following:-

- (a) the description of the property, including the title description, street address if applicable and extent;
- (b) the contracting parties;
- (c) reason(s) for proposed acquisition;
- (d) the purchase price or lease amount of the property;
- (e) market value of property;
- (f) how the acquisition is to be financed;
- (g) whether the transaction is reflected in the current budget; and
- (h) whether other alternatives have been considered.

16.3 If it is reasonable and justifiable in the circumstances, the Municipal Manager may depart from the above requirements. In determining whether such departure is reasonable and justifiable, the Municipal Manager must take into account all relevant factors, including-

- (a) the objects of the proposed transactions;
- (b) the nature and purpose of, and the need to take the decision;
- (c) the likely affect of the action;
- (d) the urgency of taking the action or the urgency of the matter; and
- (e) the need to promote an efficient administration and good governance.

21. 17. APPROVAL PROCESS

17.1 Following the advertisement contemplated above, the Property Administration Department shall compile an agenda item, motivating the acquisition of the property(s) or rights in property(s). The report should indicate which methods of acquisition was/will be used and why this specific method has been decided on.

17.2 The report must be considered by the person/committee who has the delegated authority to consider such application.

CHAPTER 5:

DISPOSAL OF IMMOVABLE PROPERTY AND RIGHTS IN IMMOVABLE PROPERTY

22. 18. AUTHORITY TO DISPOSE OF IMMOVABLE PROPERTY

18.1 Council may in terms of Section 14 of the MFMA, read with the MATR, dispose of immovable property or rights in immovable property by way of sale, letting or registration of a servitude once it is satisfied that such property or rights is not required to provide the minimum level of basic municipal services and once it has considered the fair market value thereof as well as the economic and community value to be received in exchange for such property or right.

23. 19. DISPOSAL MANAGEMENT PRINCIPLES

24.

1. 19.1 Core Principles

In terms of section 14(5) of the MFMA, a Disposal of Property by the Municipality must be fair, equitable, transparent, competitive, and consistent with the Municipality's SCM Policy ("the Core

Principles”).

2. 19.2 General Principles pertaining to the disposal of immovable property and rights in immovable property.

- 19.2.1 Unless otherwise provided for in this policy, the disposal of viable immovable property shall be affected -
 - (a) by means of a process of public competition; and
 - (b) at market value except when the public interest or the plight of the poor demands otherwise.
- 19.2.2 All transactions for the disposal of immovable property must be considered in accordance with this policy and other applicable legislation.
- 19.2.3 Before alienating immovable property or rights in immovable property Council shall be satisfied that alienation is the appropriate action, and that reasonable economic and social return cannot be derived whilst ownership of the immovable property or rights is retained by Council.
- 19.2.4 Council reserves the right to entertain unsolicited bids for the development of viable immovable property for development purposes, with the provision that it abides by Council’s strategic objectives and more specifically that it favours the promotion of entrepreneurship and community upliftment.
- 19.2.5 Council may grant occupation of its immovable property prior to the transfer thereof on condition that a suitable sale has been entered into, that the purchase price is paid in full or alternatively that an acceptable financial guarantee is provided to secure the purchase price, that occupational interest is payable at a rate specified by Council and further that Council is indemnified against any and all claims that may arise out of the occupation of the immovable property by the purchaser.
- 19.2.6 Viable immovable property purchased from Council by a first time homeowner shall not, without Council’s written consent, be resold within a period of 5 years of the date of transfer.
- 19.2.7 Political Office bearers and officials in the employ of the Municipality shall not have the right to make an offer for acquisition of immovable assets being disposed of by the Municipality unless those assets have been made available during an open process and the relevant official was not involved with the processes and appropriately declared their interest as per paragraph 19.2.8. below.
- 19.2.8 A political office-bearer or an official in the employ of the Municipality who, in his / her personal capacity, has a direct or indirect interest in an immovable asset proposed for disposal, shall declare such interest.

3. 19.3 General principles and guidelines pertaining to the letting by council of immovable property.

- 19.3.1 Where possible, Council’s immovable property should be managed as a sustainable resource by leveraging environmental, social and economic returns on such immovable property while Council retains ownership thereof.
- 19.3.2 Immovable properties that have been let shall be inspected at reasonable time periods to ensure compliance with the terms and conditions of the agreement of lease.

25. 20. MOST APPROPRIATE USE ASSESSMENT

- 20.1 Before a property is declared as surplus, and earmarked for disposal, it must first be assessed for its most appropriate use.
- 20.2 The most appropriate use for a surplus property is one which achieves an optimum balance between the following three key elements of sustainable development:
 - (a) the protection of ecological processes and natural systems;
 - (b) the optimum financial return to and economic development of the municipal area; and
 - (c) the enhancement of the cultural, economic, physical and social wellbeing of people and communities.
- 20.3 The three elements of sustainability will apply to all surplus properties, however their significance and the relationships between them will vary for individual properties.

20.4 In determining the most appropriate use of surplus properties, regard should be given to:

- (a) Spatial development framework(s);
- (b) Regional plans;
- (c) Sectoral studies/plans;
- (d) Government policies;
- (e) Relevant legislation; and
- (f) the views of interested and affected parties.

20.5 Where appropriate, opportunities should be provided for community involvement in the assessment process.

26. 21. METHODS OF DISPOSAL

Subsequent to determining the most appropriate use of a property and then having decided that the property should be disposed of, the method of disposal should be determined.

Council may use any of the following methods of disposal, depending on the circumstances pertaining the specific property:

A. Competitive Processes - Formal Tender

1. 21.1 Public Auction

21.1.1 Disposal by public auction may be appropriate where there is no obvious potential purchaser and where the best price can be obtained by auction.

21.1.2 The decision to dispose of immovable property by way of public auction must be recorded in writing and must include-

- a) the reasons justifying a disposal by public auction;
- b) the reserve price, if any, for the auction;
- c) the authority for a staff member to attend the auction and to act on behalf of the Council on the disposal.

21.1.3 The contract for sale or lease must be ready for exchange at the auction.

21.1.4 The binding contract will be made on the acceptance of the highest bid providing it has reached the reserve price. Contracts for the sale or lease will immediately be signed and exchanged.

21.1.5 The terms and conditions of each auction shall be determined on a project-by-project basis, appropriate to the specific characteristics and attributes of the Immovable Property, and to the Municipality's strategic objectives.

- a) Where the services of an auctioneer are utilised, the auctioneer's commission shall be payable by the successful bidder and shall not form part of the financial offer to the Municipality.

2. 21.2 Closed Tender

21.2.1 If a non-viable property has more than one adjacent owner and if such a Property is capable of being consolidated with more than one of the properties owned by such adjacent owners, then a closed bid will be called for from all the registered owners of all the adjacent properties with which the Property can be consolidated.

21.3 Unsolicited proposals

21.3.1 It is important that the municipality is in a position to entertain unsolicited proposals in exceptional circumstances. Such proposals may *inter alia* include property development proposals, land sales and leases. In this regard the following principles will apply:

- a) Proposals received will be analysed and evaluated by the municipality;
- b) Realistic propositions will be advertised in the media to elicit competitive proposals or objections from the public;
- c) Should the advertisement elicit a response from the market, then a competitive proposal call will be initiated by means of an invitation to bid;
- d) The final lease or sale transaction will be submitted to the council for approval;

B. Non-Competitive Processes: Private Treaty Agreements

1. 21.4 Non-Viable Property

In respect of Non-Viable Property which can only be utilised by one adjacent land owner, a Property Transaction(s) may be approved without any competitive process having been followed, including in response to an unsolicited application, on the basis that no purpose would be served by a competitive process.

2. Viable Property: Deviation from a Competitive process

21.4.1 The Municipal Manager may dispense with the competitive processes established in this policy, and may enter into a Private Treaty Agreement through any convenient process, which may include direct negotiations, including in response to an unsolicited application, but only in the following circumstances:

-
- a) In an **emergency**; or
 - b) due to **specific circumstances** peculiar to the property under consideration, it can only be utilized by the one person/organization wishing to enter into the Property Transaction; or
 - c) the person wishing to enter into the Property Transaction is the **sole provider** of the service or product in respect of which the property will be used and the use of the Property is inextricably linked to the provision of that service or product;
 - d) the Municipal Manager is satisfied that the Property Transaction will be **exceptionally beneficial** to, or have exceptional cost advantages for the Municipality which would not be realised if a competitive process were to be followed by the Municipality; or will be exceptionally beneficial to the community or the natural environment;
 - e) in **exceptional cases** where the Municipal Manager is of the opinion the public competition would not serve a useful purpose or that it is in the interest of the community and the council, and where none of the conditions as set out in the policy provides for such exception, is permitted, and where they are not in conflict with any provision of the policy. In such cases the Municipal Manager must record full reasons for preferring such out-of hand sale or lease to those by public competition.
 - f) where it is **impractical or impossible** to follow one or more of the Competitive Processes referred to above. In such an event the following factors must be considered –
 - i) pursuant to the Property Transaction, whether the Property will be used for a public purpose by the Municipality's local community; and/or
 - ii) whether the Municipality is satisfied that the Property Transaction will be exceptionally beneficial to, or have exceptional cost advantages for, the Municipality;
 - g) where unsolicited applications/proposals are received from **telecommunication companies** to construct or put-up communication infrastructure on Council owned Property, such as masts, dishes, ect.

- h) where **encroachment** applications are received from adjoining owners;
- i) where sale by **public competition has failed** to attract a purchaser and it can be established that further efforts to dispose of the property by public competition are likely to fail;
- j) where the **applicant** is an **organization receiving funding support from a government department-** which makes a substantial contribution towards the outputs of such a government department; or whose contribution to such government departments outputs would depend upon or be substantially enhanced by gaining priority to a particular property;
- k) **lease contracts with existing tenants** of immovable properties may be renegotiated where Council is of the opinion that public competition would not serve a useful purpose or that renewal is aligned with Council's strategic objectives and in the interest of the Community, subject to such renewal being advertised calling for public comment. The existing tenant shall give notice of the intention to renegotiate the lease at least six months before the date of termination.
- l) an **owner** of fixed immovable property who leases Council immovable property, may be **substituted by a successor-in-title** as deemed necessary on the same terms and conditions and/ or additional terms and conditions.
- m) immovable property may be let by Private Treaty to **social care** users. Rentals shall be determined in terms of the tariff rentals as approved by Council from time to time and in such cases, the Lessee shall accept responsibility for the maintenance of the immovable property and any improvements thereon.

21.4.2 The Municipal Manager must record the reasons for any such deviation and report them to Council and include them as a note to the Annual Financial Statements.

3. 21.5 Key principles and guidelines pertaining to the disposal and letting of immovable property for social care uses

21.5.1 Social care is defined as services provided by registered welfare, charitable, non-profit cultural and religious organisations and includes, but is not limited to, the following types of uses :

- (a) Place of Worship.
- (b) Childcare facility insofar as it contributes to the functioning of a multi-use childcare facility and is operated on a non-profit basis.
- (c) Schools or centres – utilised as homes for the handicapped and disabled persons.
- (e) Non-profit rehabilitation centres.
- (f) Homes/centres for indigent, battered or destitute persons.
- (g) Organisations for the homeless and elderly.
- (h) Youth activity centres.
- (i) Facilities for the accommodation and care of animals.

21.5.2 Council reserves the right to entertain unsolicited bids for the purchase or lease of viable immovable property for social care uses with the provision that it abides by Council's IDP objectives.

21.5.3 The following factors shall be considered relevant in the selection and allocation of immovable property to places of worship:

- (a) The size of the congregation / membership.
- (b) Availability of finance to acquire the site and develop same within two years plus possible extension.
- (c) Whether or not such a denomination is already represented in the area.
- (d) Whether or not welfare type facilities / activities will be provided in addition to religious facilities.
- (e) Whether or not the congregation / membership is drawn from the area in which a site is being applied for.

27. 22. DECISION-MAKING PROCESS

1. 22.1 Disposals

- 22.1.1 **Properties that cannot be disposed of** - the Municipality may not Dispose of a Property needed to provide the minimum level of basic municipal services, save where the Disposal is to another Organ of State, as provided for in section 14(6) of the MFMA read with Chapter 3 of the MATR.
- 22.1.2 **Exempted Disposals to Organs of State** - In the circumstances prescribed in Chapter 3 of the MATR, Disposals of Property to other Organs of State are exempted from the requirements of sections 14(1) to (5) of the MFMA. Broadly speaking, such Disposals are so exempted where the Disposal is for a public purpose, as opposed to a Disposal in the course of an ordinary commercial transaction between the Municipality and the Organ of State (in which case the Disposal does not qualify as an exempted Disposal).
- 22.1.3 Where the requirements stipulated in Chapter 3 of the MATR are met, then notwithstanding the fact that a Disposal may be in respect of a Property which is required to provide the minimum level of basic municipal services, such a Disposal does not have to comply with this policy, does not have to be at market value and does not require the public participation process prescribed in the MATR in respect of non-exempted Disposals.
- 22.1.4 **Section 14 (Non-Exempted) Disposals** - In respect of Disposals which are subject to sections 14(1) to (5) of the MFMA, the Municipality may Dispose of such Property only after the following requirements are met –
- a) the Council, in a meeting open to the public, must have decided on reasonable grounds that the Property is not needed to provide the minimum level of basic municipal services;
 - b) the Council must have considered the fair market value of the Property and the economic and community value to be received in exchange for the Property;
 - c) any such Disposal must be in accordance with the principles of fairness, equitability, transparency, competitiveness and cost effectiveness.
- 22.1.5 In respect of section 14 (non-exempted) Disposals, the provisions of Chapter 2 of the MATR, which provides the framework for the implementation of these aspects of section 14 of the MFMA, must also be complied with.
- 22.1.6 Part 1 of Chapter 2 of the MATR specifies a process for decision-making by a municipality.
- 22.1.7 The first phase in the process of decision-making is public participation. In terms of the MATR, this phase applies only to a High Value Property and includes:
- a) a request to Council, accompanied by an Information Statement, to authorise the Municipality Manager to conduct a public participation process;
 - b) the Municipality Manager conducting a public participation process as prescribed in the MATR.
- 22.1.8 Once the public participation phase of the decision-making process has been completed, Council is required to take decisions in respect of the Disposal.
- 22.1.9 The first decisions which the Council has to make are determinations in terms of section 14 of the MFMA -
- a) on reasonable grounds, that the Property is not needed to provide the minimum level of basic municipal services; and
 - b) consideration of the fair market value of the Property and the economic and community value to be received in exchange for the Property, (“the Section 14 Determinations”).
- 22.1.10 The second decision that Council has to make, as a consequence of the Section 14 Determinations, is in respect of whether or not to approve in principle that the Property may be Disposed of (“an In Principle Approval”).
- 22.1.11 The MATR prescribes factors that the Council must consider when making the Section 14 Determinations and when considering whether to grant an In Principle Approval.
- 22.1.12 The Council may give an In Principle Approval subject to any conditions, including but not limited to,

those specified in the MATR. If an In Principle Approval is granted subject to conditions, and one of the conditions is not met, the In Principle Approval for the Disposal automatically falls away.

22.1.1.13 The MATR do not specify any further decision-making steps to be taken by Council once Council has made the Section 14 Determinations and granted an In Principle Approval, subject to compliance with further MATR processes.

22.1.14 The MATR do, however, specify that a municipality may Dispose of a Property only if such Disposal is in accordance with the Disposal Management System and that it may only commence with disposal management processes once an In Principle Approval has been granted by Council.

CHAPTER 6: CONTRACTUAL OBLIGATIONS

28. 23. TERMS AND CONDITIONS OF SALE

- 23.1 Regulations 17 and 30 of the MATR sets out the minimum terms and conditions that needs to form part of Sales Agreements. The terms and conditions listed below is supplementary to the above.
- 23.2 All costs pertaining to a transaction, such as survey-, re-zoning-, sub-division-, consolidation-, advertisement- and relocation or provision of services cost shall be borne by the applicant.
- 23.3 Where applicable, existing services shall be secured by means of the registration of a servitude in favour of Council.
- 23.4 When immovable property is sold, development must commence where, applicable, within 1 (one) year or such longer period as may be agreed to from the date of transfer or possession or in accordance with the provisions of the deed of sale or the development programme submitted by the purchaser and be completed in accordance with the provisions of the deed of sale or the development programme. Council furthermore reserves the right to impose such conditions as deemed necessary, including a reversionary or penalty clause in the event that the development has not progressed as per the agreement.
- 23.5 Save the prior approval, the immovable property may only be used for the purpose as approved by Council and purpose regularized by Town Planning Schemes.
- 23.6 A suspense condition clause shall be applicable to all transactions which are subject to the approval of a re-zoning, sub-division, consolidation etc.

29. 24. CONDITIONS OF LEASE

- 24.1 Regulation 45 of the MATR sets out the minimum terms and conditions that needs to form part of Lease Agreements. The terms and conditions listed below is supplementary to the above.
- 24.2 All cost pertaining to a transaction such as legal-, survey-, re-zoning-, sub-division-, consolidations-, advertisement-, relocation or provision of services cost shall be borne by the applicant.
- 24.3 The following deposits shall apply to leases where the rental is based on market value-
 - (a) a deposit equal to 2 months rental for commercial transactions;
 - (b) a deposit equal to 1 month's rental for residential transactions.
 - (c) a deposit equal to 1 year's rental for social services transactions;
- 24.4 An owner of fixed immovable property who leases an adjoining municipal immovable property may be substituted by his successor in title for the duration of the remainder of the lease term on the same terms and conditions or additional terms and conditions as deemed necessary.
- 24.5 Lessees shall be liable for payment of rates, unless otherwise approved by Council.
- 24.6 Lessees shall indemnify Council against any possible claims arising from the lease or use of the immovable property.

- 24.7 No lessee of immovable property shall without the prior consent in writing of the Council, sublet such property or any portion thereof or assign any right acquired by him in respect hereof and any such subletting or assignment without such consent shall be null and void.
- 24.8 Save with prior approval the property may only be used for the purpose for which it was let and purposes regularized by town planning schemes.
- 24.9 Officials from Council shall at all reasonable times be entitled to enter/inspect the immovable property, having regards for the right to privacy as contemplated in Chapter 2 of the Constitution.
- 24.10 All agreements shall contain a clause which requires that improvements provided by the lessee and which Council wishes to retain shall revert, free of charge, to Council once the lease period has terminated and/or in the event the agreement, due to breach of conditions by the lessee, has been cancelled. Provision must also be made on how to deal with such improvements should Council terminate the contract prior to the lapse of the lease period, where the lessee has not been in default.
- 24.11. Lease of municipal commonage land for small scale farming purposes:**
- 24.11.1. The council may lease land to small scale farmers at a rate below market value in order to:
- a. To open opportunities for small scale farming to previously disadvantaged individuals residing within the Cape Agulhas Municipal areas; and
 - b. To enhance the principles of poverty alleviation and black economic empowerment
- 24.11.2. As and when land becomes available, council will:
- a. decided to invite applicants by public advertisement; and/or
 - b. allocate available land by the fair division thereof amongst applicants to ensure equity; and
 - c. in order to promote sustainability, take into account the extent of the farming activities of individual small scale farmers applying for land
- 24.11.3. The proses will be fair, transparent and competitive and therefore applications will be advertised for public comment and Council will consider inputs.
- 24.12 Term of lease not exceeding one year:**
- 24.12.1. The letting of vacant immovable property for periods not EXCEEDING TWELVE (12 0 MONTHS without an option to renew, may by approved by the MUNICIPAL MANAGER subject to the following conditions:
- 1) Where applicable the general lease conditions as above, shall apply.
 - 2) Immovable property let for short term events, i.ee. 14 days for circuses, etc, shall be subject to at least the following:”
 - Where applicable, applicant to provide or arrange with council at the applicant’s cost for services, i.ee. refuse, water, electricity, ablution facilities, ect:
 - Applicants shall return land in its original condition
 - Rental as per tariff as approved by council
 - Applicant shall indemnify council against any claims against council as a result of lease; and
 - All safety precautions will be in place and approve by the safety officers of the Municipality as well as the District Municipality
 - Applicant shall undertake in writing to compensate council for ant damages cause to councils property which may arise any circumstances whatsoever.
- 24.13. Extension of lease contracts:**
Lease contracts with exiting tenants of immoveable properties may be renewed without calling for tender only if:
- 24.13.1. the lease has an option in terms of existing contract, to extend the lease; or
 - 24.13.2. if council is of the opinion that it will not be in Council’s interest to call for tenders or that renewal is aligned to council’s strategic objectives and in the interest of the whole community. The reasons for such decision must be recorded in the minutes of such meeting.
- 24.14. Sale of immovable property to churches:**
The sale of immovable property to churches shall be dealt with in terms of this policy:

Additional Factors to be taken into account for the allocation of immovable property to place of worship are the following:

- 24.14.1. Proof of membership of minimum of 200 persons residing in the municipal area who has been a member of the relevant church.
- 24.14.2. confirmation of financial position to develop the church within two years must be provided . If not, the land falls back to council.
- 24.14.3. whether the denomination has previously received land
- 24.14.4. whether alternative institutional land exists
- 24.14.5. whether or not welfare type facilities/activities will be provided in addition to religious facilities; and
- 24.14.6 whether or not the congregation/membership is drawn from the area in which a site is being applied for.
- 24.14.7 Conditions for allocation:
 - a. Only one property per town is allocated to a specific congregation of a church/ religious institution.
 - b. The property allocated must be developed within 24 (twenty four) months of transfer of the property in the name of the religious association. A building plan for the development of the property must be submitted to the municipality for approval within 3(three) month and be completed for use within the period of 36 (thirty six) months permitted and be calculated from the date of transfer of the property.
 - c. The property is allocated for the sole purpose of constructing a place of worship as primary use. Secondary uses for non-profit community projects are permissible from the premises concerned with prior approval of council
 - d. Transfer of property allocated must be transfer within three (3) months of notice of allocation, failing which the offer will lapse.
- 24.15. Tender documents for the sale of land to churches shall include a prescribed application form which shall require applicants to supply inter alia the following details: -
 - List of members
 - a constitution
 - details of the proposed use and development program as well as a letter of support from the local community
 - information as required in terms of the above.

CHAPTER 7: FAIR MARKET VALUE / RENTAL

30. 25. CRITERIA FOR DETERMINING COMPENSATION AND FAIR MARKET VALUES

- 25.1 Property may be Disposed of only at market-related prices, except when the plight of the poor or other public interest factors which impact on the economic and community value to be received by the Municipality demand otherwise.
- 25.2 If the Municipality, on account of the public interest, particularly in relation to the plight of the poor, intends to Dispose of a Non-Exempted Property for less than market value it must consider the following factors:
 - (a) the interests of the State and the local community;
 - (b) the strategic and economic interests of the municipality, including the long-term effect of the decision on the municipality;
 - (c) the constitutional rights and legal interests of all affected parties;
 - (d) whether the interests of the parties to the transfer should carry more weight than the interest of the local community, and how the individual interest is weighed against the collective interest; and
 - (e) whether the local community would be better served if the capital asset is transferred at a less than its fair market value, as opposed to a transfer of the asset at fair market value.
- 25.3 Subject to Council's Section 14 Determinations and an In Principle Approval in respect of a specific Disposal, the Municipality shall Dispose of social care properties at a purchase price of between 10% and 25% of fair market value subject to a suitable reversionary clause being registered against the title deed of the

Property. In the event of the subject property ceasing to be used for the purpose originally intended, reversionary rights are triggered and the Municipality reserves the right to demand compensation equal to the difference between the actual purchase price and the current fair market value of the property, or that the property be transferred into the ownership of the Municipal at no cost to the Municipality.

- 25.4 If the Municipality appoints a private sector party or Organ of State through a competitive bidding process as the service provider of a Commercial Service, the compensation payable to the Municipality in respect of the Disposal of Property as an integral component of the performance of that Commercial Service to that service provider, shall reflect fair market value.
- 25.5 Fair market value of properties will be calculated as the average of the valuations sourced from two service providers, unless determined otherwise by the Municipal Manager, taking into account the value of the property *and* the cost of obtaining such valuations.

31. 26. CRITERIA FOR DETERMINING OF FAIR MARKET RENTALS

- 26.1 Property may only be let at market-related rates, except when the plight of the poor or other public interest factors which impact on the economic and community value to be received by the Municipality demand otherwise.
- 26.2 In respect of certain categories of Property, the Municipality shall be entitled to adopt below market-related tariffs in respect of Property Rights, including but not limited to leased to non-Profit Organisations, NGOs, Sporting Bodies, *bona fine* small farmers, ect.
- 26.3 Market rentals of individual properties will be calculated as the average of the valuations sourced from two service providers, unless determined otherwise by the Municipal Manager, taking into account the estimated rental(s) *and* the cost of obtaining such valuations.

CHAPTER 8: MISCELLANEOUS

32. 27. MUNICIPAL LAND REGISTER (MLR)

- 27.1 The MLR is a excel database that contains details of all municipal-owned property.
- 27.2 The MLR must indicate for every Municipal owned property:
- 27.2.1 The erf number of the property
 - 27.2.2 The use of every erf
 - 27.2.3 The zoning of every property
 - 27.2.4 An description of the buildings on the relevant erf
 - 27.2.5 The current carrying value of each erf. (General valuation value)

The properties as listed in the Municipal Land Register must be insured.

33. 28. STRATEGIC IMMOVABLE PROPERTY MANAGEMENT PLAN

- 28.1 As soon as possible after the approval of this policy Council must, as part of its strategic planning process, develop and adopt a Strategic Immovable Property Management Plan.

- 28.2 Such a Strategic Immovable Property Management Plan must consist of at least-
- 28.2.1 A strategic analysis of Council-owned immovable property portfolio (Land Audit).
 - 28.2.2 Categorisation of such land-holdings, to include, but not limited to :-
 - a) land of strategic importance for, *inter alia*:-
 - i housing purposes;
 - ii municipal infrastructure; and
 - iii public transport, -parking and related used properties.
 - b) Land that should be retained for future generations;
 - c) Surplus land, capable of being developed.
 - d) Land that should be acquired for strategic purpose.
 - 28.2.3 Land that should be exchanged for strategic purposes.
 - 28.2.3 A management plan for each category of immovable property.
 - 28.2.4 A performance assessment of each category of immovable property.
 - 28.2.5 The maintenance activities required for each category of immovable property.
- 28.3 The Strategic Immovable Property Management Plan must be developed within the context of approved spatial development frameworks, sectoral plans, planning related policies, regional plans and the property maintenance plan.
- 28.4 When developing the Strategic Immovable Property Management Plan, the public should be given ample opportunity to make inputs.
- 28.5 Council must annually revise its strategic immovable property management plan and must incorporate the revised plan into its IDP.

CAPE AGULHAS

Munisipaliteit / Municipality



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

Draft policy relating to the Management of Infrastructure

Goedgekeur / Approved :

30 March 2023

Raadsbesluit / Council Decision:

Item

Contents

1.1. Overview	76
1.2. Purpose	76
1.3. Objective	76
1.4. Business Process Framework	77
1.4.1 Legislative Framework	77
1.4.2 Accounting Framework	77
1.5. Recommendations	77
2. Processes	77
2.1 Regulatory Context	77
2.2 Roleplayers	78
2.2.1 Capital Budget Office in the Finance Department	78
2.2.2 Directorates and Departments	78
2.2.3 Chief Financial Officer	78
2.2.4 Municipal Council	78
2.3 Deriving a Capital budget	79
2.4 Funding a Capital Budget	79
2.5 Sources of Funding	79
2.5.1 Surplus / accumulated own resources	79
2.5.2 External Funding –	79
2.5.3 Capital Replacement Reserve (CRR)	79
2.5.4 Grant Funding	80
– for SA Government grants (whether national through the Division of Revenue Act – DORA – or provincially motivated should be absorbed into the municipal capital budget programme;	80
2.5.5 Other sources of funding:	80
3. Procedures	80
3.1 Regulatory Procedures	80
3.2 Implementation	81
3.3 Reconciling and Monitoring	81
3.4 Amendment and Review of the policy	81

1. Policy

34. 1.1. Overview

Cape Agulhas Municipality has developed its capital project and infrastructure investment policy to include activities at all departments at which municipality business is conducted. This in recognising its:

- i. community orientation; and
- ii. the need for good governance.

The capital project and infrastructure investment policy is a transparent and codified internal control system aimed at promoting its core Cape Agulhas Objectives to ensure that the limited resources at the disposal of Cape Agulhas Municipality will be focussed towards serving the various stakeholders in the pursuit of their interactions with Cape Agulhas Municipality both efficiently and congruent to approved budgets and broader financial policies of Cape Agulhas Municipality, whilst minimising the temptation of misuse of municipality funds.

35. 1.2. Purpose

The capital project and infrastructure investment policy seeks to institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

- i. A guideline for all stakeholders as to the what is required for the formulation of capital projects and infrastructure investment;
- ii. An internal dynamic document detailing the processes required for the efficient discharge of duties relative to financial controls necessary to ensure the efficient administration of the Cape Agulhas Municipality budgets.
- iii. A guideline for business units to plan and promote capital projects.

36. 1.3. Objective

To ensure procedures and internal controls are in place to drive capital projects and infrastructure developments by:

- i. Infusing business processes into internal control which complies with all legislation and statutory requirements;
- ii. Safeguarding cash resources and optimising cash flow via effective, efficient and economical use of the Cape Agulhas Municipality cash resources;
- iii. Driving a culture of accountability over Cape Agulhas Municipality by skilling staff and stakeholders alike;
- iv. Ensuring the budgetary process is not compromised;
- v. Ensure that staff assigned to capital projects should be appropriately trained and be aware of relevant policies and procedures.

- vi. Communicate to all staff that any monetary loss as a result of noncompliance with this policy is deemed to be gross negligence and could be cause for disciplinary action.

37. 1.4. Business Process Framework

38. 1.4.1 Legislative Framework

The *Municipal Systems Act (No. 32 of 2000) (MSA), Municipal*

Finance Management Act (MFMA) (No. 56 of 2003), the King II Code on Corporate Governance in South Africa (2002) and other applicable legislation informs and seeks to regulate the functioning of cash handling so as to lead to the early detection of irregular and unauthorised, activity, and allow for reporting thereof in terms of the Code of conduct for Councillors and Municipal Staff Members.

In particular, Regulation 7 of the Municipal Budget and Reporting Regulations (**MBRR**) governs this policy.

39. 1.4.2 Accounting Framework

The responsibility of capital projects and infrastructure development lies with the Accounting Officer and Chief Financial Officer, or delegated official, who has to ensure that reasonable controls exist to support the implementation of policies. In delegating this function to subordinates, it does not alleviate the responsibility of the Chief Financial Officer. The HOD has to ensure all policies and procedures are communicated to and implemented by the responsible individual(s).

40. 1.5. Recommendations

- i. This policy, processes and procedures document supersedes all previously issued references to capital projects and infrastructure development;
- ii. This policy, processes and procedures document be recognised as providing the framework of operation and internal control mechanisms for all staff members of the municipality charged with capital projects and infrastructure development in a particular vote;
- iii. This policy document be adopted by the Executive Management and the broader Council of Cape Agulhas Municipality as the framework for Capital Projects and Infrastructure Development.

2. Processes

41. 2.1 Regulatory Context

The Municipal council is compelled to annually approve a budget before the commencement of that particular year – Chapter 4 of the **MFMA**. The budgetary process comprises monetary allocations per vote categorised in operating budgets and capital budgets. The former seeks to provide the framework for operational dictates whilst the latter seeks to plan and sustain longer term visioning of the municipality. Subsection 19 of the **MFMA** holds that:

- 1) A municipality may spend money on a capital project only if:

- a. The money for the project, excluding the feasibility study conducted by or on behalf of the municipality, has been appropriated in the capital budget;
 - b. The project, inclusive of land cost has been approved by council;
 - c. Section 33 has been complied with to the extent it refers to the capital project;
 - d. The sources of funding has been considered, are available and have been committed for the purposes
- 2) Before approving a capital project as per subsection (1)(b), the council needs to consider:
- a. The total project cost covering all financial years until the project is operational;
 - b. The future operational costs and revenue on the project, including municipal tax and tariffs implications.
- 3) A municipal council may in terms of subsection (1)(b) approve capital projects below a prescribed value either individually or as part of a consolidated capital programme

42. 2.2 Roleplayers

The following non exhaustive lists are of the various stakeholders who participate in the process:

1. 2.2.1 Capital Budget Office in the Finance Department

- i. Charged with the administrative and technical oversight to the compilation of a capital budget;
- ii. Review policies, strategies, legislations and strategic imperatives to satisfy compliance and good governance;
- iii. Play the financial oversight role on the project through constant interaction with the designated project leader or project finance official.

2. 2.2.2 Directorates and Departments

- i. Originate and place the capital project in the budgetary process;
- ii. Post approval, through the mandated reporting line – both political and administrative – inform the budget office of the approved budget;
- iii. Provide information on any amendments to the adopted budget, as and when they arise.

3. 2.2.3 Chief Financial Officer

- i. Draft the intended capital project into the broader budgets;
- ii. Have an oversight role in all capital projects via monthly reporting mechanisms.

4. 2.2.4 Municipal Council

The Municipal Council is responsible for the approval of the Capital Budget.

43.

2.3 Deriving a Capital budget

- 2.3.1 The zero based method is used to initiate new capital projects – except if there is a contractual obligation in excess of one financial year;
- 2.3.2 Realistic revenue streams are to serve as the funding source for capital projects;
- 2.3.3 The full spectrum of charges ancillary to the project are to be tabled inclusive but not limited to, finance charges, depreciation, maintenance and all other charges;
- 2.3.4 The net effect – realistic revenue expectation as opposed to fees attracted needs to be examined for impact on future property rates and service tariffs;
- 2.3.5 The fair value of the asset may be determined by examining possible future economic benefits derived;
- 2.3.6 Care has to be taken as to whether the capital expense is to be for replacement assets or new capital expenditure;
- 2.3.7 Capital expenditure is only permissible post capital budget appropriation;
- 2.3.8 Funding sources for the capital project needs to be clearly identified and ring fenced for that specific project

1.

2.4 Funding a Capital Budget

MFMA National treasury Circular 42 holds that the budget process is to ensure that the budget is appropriately funded from:

- 2.4.1 Realistic and collectable revenue; or
- 2.4.2 Cash backed accumulated funds; or
- 2.4.3 Borrowed Funds at affordable rates.

44.

45. 2.5 Sources of Funding

1. 2.5.1 Surplus / accumulated own resources

– there needs to be sufficient revenue for the implementation of the entire project;

2. 2.5.2 External Funding –

- i. normally linked to the useful life of the asset;
- ii. Secured by the asset;
- iii. Interest payable is costed into the operating budget;
- iv. Finance charges are to be costed into the operating budget.

3. 2.5.3 Capital Replacement Reserve (CRR)

- i. The municipality will establish a CRR for the purposes of financing capital projects and replacing capital goods. The CRR will be established by:
 - a. Unappropriated cash surpluses which are not required for operational purposes;
 - b. Interest on Investments of the CRR;
 - c. Additional amounts appropriated as contributions at the annual adjustment budget.
- ii. The reserve needs to be able to fund the proposed capital project in cash i.e. the commitment needs to be covered;

- iii. Should there not be sufficient cash available to cover the proposal then the limit of the fund needs to be adjusted to equal the available cash.

4. 2.5.4 Grant Funding

- 5. – for SA Government grants (whether national through the Division of Revenue Act – DORA – or provincially motivated should be absorbed into the municipal capital budget programme;

- i. Interest earned on investments of conditional grant funding shall be capitalised if it is a condition of funding;
- ii. If not conditional then it may be allocated to the revenue account;
- iii. The grant fund spending should be linked to a service level agreement which directs the spending.

6. 2.5.5 Other sources of funding:

- 2.5.5.1 Donated Assets – subject to acceptance by council, based on a report by the relevant business unit. The asset needs to be attributed a fair market value and capitalised on the asset register. Council acceptance is relative to the operating costs;
- 2.5.5.2 Donations – whether foreign or local it needs to be applied for the purpose donated;
- 2.5.5.3 Public / Private Partnerships – capital costs can be borne by participating entities;

3. Procedures

46. 3.1 Regulatory Procedures

Regulation 13 of the **MBRR** holds that -

- (1) Within 10 days of the municipal council giving individual approval for a capital project in terms of section 19(1)(b) of the **MFMA**, the municipal manager must as per section 21A of the **MSA** publish:
 - a. The municipal council resolution approving the capital project;
 - b. Details of the nature, location and total project cost of the approved capital project.
- (2) Council may approve capital projects of which the total projected costs are below R ...m for the municipality – based on the current annual budget of Rm
- (3) Sub regulation (1) above does not apply if the total project costs are within the confines of sub regulation (2). Conversely projects above the limits of sub regulation (2) need to be individually approved by council;
- (4) Expenditure needed for capital projects which are below the limits of sub regulation (2) may be included in the annual budget prior to final approval in terms of section 19(3) of the **MFMA**.

47. 3.2 Implementation

Business units based on annual plans need to in consultation with both their political heads and heads of department prepare:

3.2.1 Revised capital budget reflecting revised estimates for the current financial year;

3.2.2 A draft Capital Budget for the ensuing year with a Capital programme for the next four financial years based on:

- i. Year two of the capital Budget becoming Year 1 of the new years budget and Year 3 becoming Year 2;
- ii. New projects will enter in Year 3;
- iii. Exceptions thereto are at the discretion of the Budget Steering Committee;
- iv. Total project costing and the operational impact for all financial years cited, inclusive of cash flow impact;
- v. Carryovers from the previous year will be accommodated if they fall within the limits of the existing levels of the capital budget. Such carryovers are to be identified at the midyear review for the adjustment budget;
- vi. New or additional projects not previously approved by Council, need to be endorsed by both the Mayoral Committee member and the relevant head of department, and also not prejudice existing projects;
- vii. The draft capital budget and capital programme need to be aligned and consistent with the IDP.

4. 3.3 Reconciling and Monitoring

3.3.1 Consistent monitoring will ensure early detection of constraints and blockages and such need to be addressed;

5. 3.4 Amendment and Review of the policy

The Capital Projects and Infrastructure Development Policy shall be reviewed at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise.