

# **CITY OF MATLOSANA**

## **BUDGET POLICIES 2020/2021**

**FIND HEREWITHIN THE FOLLOWING REVISED BUDGET  
POLICIES:**

- ❖ **SUPPLY CHAIN MANAGEMENT POLICYRATES POLICY**
- ❖ **ASSET MANAGEMENT POLICY**
- ❖ **IRRECOVERABLE BAD DEBT POLICY**
- ❖ **PROVISION FOR DEBT IMPAIREMENT POLICY**
- ❖ **INDIGENT RELIEF POLICY**
- ❖ **FUNDING & RESERVE POLICY**
- ❖ **VIREMENT POLICY**
- ❖ **MUNICIPAL PROPERTY RATES POLICY**
- ❖ **EXPENDITURE MANAGEMENT POLICY**
- ❖ **CUSTOMER CARE, CREDIT CONTROL & DEBT  
COLLECTION POLICY**

**THE FOLLOWING BUDGET POLICIES WERE UNCHANGED AND  
WILL STAY INTACT FROM PRIOR YEARS AND ARE AVAILABLE  
ON THE WEBSITE [www.matlosana.gov.za](http://www.matlosana.gov.za)**

- ❖ **BUDGET POLICY**
- ❖ **BORROWINGS POLICY**
- ❖ **INVESTMENT & CASH MANAGEMENT POLICY**
- ❖ **UNAURTORISED, FRUITLESS AND WASTEFUL**
- ❖ **INVENTORY POLICY**
- ❖ **EXPENDITURE MANAGEMENT POLICY**
- ❖ **GRANT POLICY**
- ❖ **COST CONTAINEMENT POLICY**





# **CITY OF MATLOSANA**

## **SUPPLY CHAIN MANAGEMENT POLICY**

**VOLUME 12**

**2020/2021**





## **PREAMBLE**

The Municipal Manager of the City of Matlosana, being responsible for managing the financial administration of the City of Matlosana (hereinafter referred to as "the CoM"), hereby, in terms of the provisions of Section 62(1)(f)(iv), read with section 111 of the Local Government: Municipal Finance Management Act, Act 53 of 2003 (hereinafter referred to as the "MFMA"), and in order to give effect to Section 217(1) of the Constitution of the Republic of South Africa, 1996 (hereinafter referred to as "the Constitution"), establishes the Supply Chain Management Policy of the CoM, the Circulars and Regulations as mentioned in Schedule "D" of this Policy, as approved by its Municipal Council and which came into operation on and is to be implemented as such from the date of acceptance by the Council.

# **THE CITY OF MATLOSANA:**

## **SUPPLY CHAIN MANAGEMENTPOLICY**

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## CHAPTER 1: ESTABLISHMENT AND IMPLEMENTATION OF SCM POLICY

### 1. DEFINITIONS

In this policy, except where the context otherwise indicates or it is expressly stipulated otherwise, the following words, expressions and/or abbreviations shall have the respective meanings assigned to them hereunder and words or expressions to which a meaning has been assigned in terms of the provisions of section 1 of the MFMA will have the corresponding meaning assigned thereto in terms of such section. Some of these words, expressions and/or abbreviations may not occur in the Policy, but are included for the sake of completeness.

NO.	WORD/EXPRESSION	DEFINITION
<b>"A"</b>		
1.1.	<b>"abuse of the supply chain management system"</b>	Means acts and/or omissions, or the underlying acts and/or omissions from an affected person which forms the basis of the intended steps to be taken by the municipal manager in terms of this policy, and includes:  <b>"fronting"</b> i.e., where HDI's are signed up as fictitious shareholders or members in essentially juristic entities where some or none of the shareholding or membership, as the case may be, is held by persons other than HDI's, and which juristic entities bid for contracts in terms of which substantial financial benefits and proceeds generated by virtue of such contracts are channelled to shareholders or members of such juristic entities, as the case may be, or to an alternative juristic entity or entities where some or none of the shareholding or membership, as the case may be, is held by persons other than HDI's



		<p>who otherwise would not have obtained any financial benefits or proceeds but for such fictitious shareholders or members of the entity to whom the contract was awarded;</p> <p><b>“collusive bids”</b> i.e., where bidders conclude an arrangement between themselves to obtain the highest possible points in the evaluation and/or the award of a bid whereby competitive bids are eliminated; and</p> <p><b>“influencing the bid process”</b> i.e., directly, indirectly or tacitly influencing or interfering with the work of relevant officials of the CoM involved in the bid process in order to influence the process so as to <u>inter alia</u>: (a) influence the process and/or outcome of a bid, (b) incite breach of confidentiality and/or the offering of bribes, (c) cause over and under invoicing, (d) influence the choice of procurement method or technical standards, and (e) influence any officials of the CoM in any way which may secure an unfair advantage during or at any stage of the procurement process.</p>
1.2.	<b>“accountability”</b>	Means an account-giving relationship between individuals including the personal responsibility of a person to a senior or a higher authority in terms of that person’s acts or omissions in the execution of his/her assigned duties.
1.3.	<b>“accounting officer”</b>	Means the municipal manager of the CoM and refers to the definition of “accounting officer” as defined in terms of the provisions of section 1 of the MFMA and referred to in section 60 of the MFMA, and includes a person acting as an accounting officer or the person to whom the accounting officer has delegated his/her authority to act.
1.4.	<b>“A-class accountable item”</b>	Means those items that are not consumable or expendable.

1.5.	<b>"Acquisition management"</b>	Means the process of the procurement of goods, works and/or services and includes, but is not limited to, the identification of preferential policy objectives, determination of market strategies, application of depreciation rates, application of total costs of ownership principle, compilation of bid documentation including bid conditions, determination of evaluation criteria, evaluation of bids and tabling of recommendations, compilation and signing of contracts and contract administration.
1.6.	<b>"adjudication points"</b>	Means the points referred to in the Preferential Procurement Policy Framework Act, Act 5 of 2000: Preferential Procurement Regulations, 2011, and the preferential procurement section of this policy, also referred to as "evaluation points" or "preference points".
1.7.	<b>"affected person"</b>	Means a natural person or entity whose/which rights may be materially and/or adversely affected when the municipal manager takes any of the steps contemplated in this policy in order to combat abuse of the supply chain management process.
1.8.	<b>"all applicable taxes"</b>	Includes value added tax, pay as you earn, income tax, unemployment insurance fund contributions and skills development levies.
1.9.	<b>"asset"</b>	Means a tangible or intangible resource capable of ownership.
1.10.	<b>"Auditor-General"</b>	Means the person appointed as Auditor-General in terms of section 193 of the Constitution, and includes a person acting as Auditor-General, acting in terms of a delegation by the Auditor-General or designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General.
1.11.	<b>"authority"</b>	Means a right or power attached to a rank or position permitting the holder thereof to make decisions, to

		execute such decisions or to have such decisions executed, take command or to demand action by others.
<b>"B"</b>		
1.12.	<b>"B-BBEE"</b>	Means broad based black economic empowerment as defined in terms of the provisions of section 1 of the Broad-Based Black Economic Empowerment Act, Act 53 of 2003.
1.13.	<b>"B-BBEE status level of contributor"</b>	Means the B-BBEE status received by a measured entity based on its overall performance using the relevant scorecard contained in the Codes of Good Practice on Black Economic Empowerment, issued in terms of the provisions of section 9(1) of the Broad-Based Black Economic Empowerment Act, Act 53 of 2003.
1.14.	<b>"bid"</b>	Also means tender i.e. quote, expression of interest, proposal, or any other proposition for business with the CoM, whether solicited or not or a written offer in a prescribed or stipulated form in response to an invitation by the CoM for the provisions of goods and services.
1.15.	<b>"bidder"</b>	Means any person or entity submitting a bid or a written or verbal quotation pursuant to an invitation from the CoM to submit such a bid.
<b>"C"</b>		
1.16.	<b>"capital asset"</b>	Means any immovable asset such as land, property or buildings or 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.
1.17.	<b>"chief financial officer"</b>	Means the person appointed by the municipal council and designated by the municipal manager of the CoM to

		manage the financial administration of the CoM and remains directly accountable to the municipal manager as contemplated in terms of the provisions of section 80(2)(a) read with sections 1 and 81 of the MFMA.
1.18.	<b>"City of Matlosana" or "CoM"</b>	Means the CITY OF MATLOSANA a local government and legal entity with full legal capacity as contemplated in section 2 of the MSA, read with the provisions of Chapter 7 of the Constitution of the Republic of South Africa and sections 12 and 14 of the Local Government: Municipal Structures Act, Act 117 of 1998, with its main place of business and the offices of the municipal manager, as envisaged in terms of the provisions of section 115(3) of the MSA, Bram Fisher Street, KLERKSDORP, NORTH WEST PROVINCE, and includes its successor in title; or structural person exercising a delegated power or carrying out an instruction, in the event of any power being delegated as contemplated in terms of the provisions of section 59 of the Systems Act.
1.19.	<b>"CoM's Register of Tender and Contract Defaulters"</b>	Means the list compiled by the CoM for purposes of the combating of abuse of the supply chain management system in terms of which the persons reflected on the list are prohibited from being awarded any contract by the CoM for the specified period reflected on the list.
1.20.	<b>"close family member"</b>	Means includes a spouse, child or parent of a person.
1.21.	<b>"closing time"</b>	Means the time and date specified in bid documentation as that time and date upon which the final acceptance of bids will expire, and after expiry of which no more bids may be submitted and will not be accepted by the CoM.
1.22.	<b>"community based vendor"</b>	Means a supplier of goods and/or services who resides in a target area or community, who/which meets the criteria for community based vendors as determined by the municipal manager from time to time, and who/which

		is registered on the list of the CoM as an accredited prospective provider of goods and/or services.
1.23.	<b>"comparative price"</b>	Means the price after the factors of a non-firm price and all unconditional discounts that can be utilized have been taken into consideration. A "non-firm price" means all prices other than a "firm price" and a "firm price" means the price that is only subject to adjustments in accordance with the actual increase or decrease resulting from the change, imposition, or abolition of customs or excise duty and any other duty, levy, or tax, which, in terms of the law or regulation, is binding on the contractor and demonstrably has an influence on the price of any supplies, or the rendering costs of any service, for the execution of the contract.
1.24.	<b>"competitive bid"</b>	Means a bid in terms of a competitive bidding process.
1.25.	<b>"competitive bidding process"</b>	Means a competitive bidding process contained in section 12G of this policy, and referred to in regulation 12(1) (d) of the SCMR.
1.26.	<b>"consortium or joint venture"</b>	Means an association of persons for the purpose of combining their expertise, property, capital, efforts, skill and knowledge in an activity for the execution of a contract.
1.27.	<b>"construction industry development board" or "CIDB"</b>	Means the Construction Industry Development Board established by section 2 of the Construction Industry Development Board Act, Act 38 of 2000.
1.28.	<b>"Construction Industry Development Board Act"</b>	Means the Construction Industry Development Board Act, Act 38 of 2000.
1.29.	<b>"construction works"</b>	Means the provision of a combination of goods and services arranged for the development, extension, installation, repair, maintenance, renewal, removal, renovation, alteration, dismantling or demolition of a

		fixed asset including building and engineering infrastructure.
1.30.	<b>"consultant"</b>	Means a person or entity providing labour and knowledge based expertise which is applied with reasonable skill, care and diligence.
1.31.	<b>"contract"</b>	Means a written agreement resulting from the acceptance of a bid or quotation from a bidder by the CoM and contemplated in the provisions of section 116 of the MFMA.
1.32.	<b>"contractor"</b>	Means a person or entity whose/which bid or quotation has been accepted by the CoM.
1.33.	<b>"contract participation goal"</b>	Means the amount equal to the sum of the value of work for which the prime contractor contracts to engage specific target groups in the performance of the contract, expressed as a percentage of the bid sum less provisional sums, contingencies and VAT.
1.34.	<b>"corrected bid sum"</b>	Means the bid sum, corrected in terms of the bid documentation, where applicable.
1.35.	<b>"council"</b>	Means the municipal council of the City of Matlosana in which the executive and legislative authority of the CoM is vested and which is the decision making body of the CoM, its legal successors and its delegates.
1.36.	<b>"current asset"</b>	Means an asset on the balance sheet which can either be converted to cash or used to pay current liabilities within 12 (twelve) months from the beginning of the current financial year.
1.37.	<b>"customer service"</b>	Means the process of serving customers in accordance with acceptable, predetermined standards in such a manner that it increases customer satisfaction and minimises time and costs.
<b>"D"</b>		

1.38.	<b>"days"</b>	Means calendar days, unless the context indicates otherwise.
1.39.	<b>"delegated body"</b>	Means in relation to the delegation of a power or duty a person to whom such power or duty has been delegated in writing by the delegating authority.
1.40.	<b>"delegating authority"</b>	Means in relation to a delegation of a power or duty by a municipal council, the municipal council, in relation to a sub-delegation of a power or duty by another political structure, or by a political office bearer, councillor or staff member of the CoM, means that political structure, political office bearer, councillor or staff member.
1.41.	<b>"delegation"</b>	Means the issuing of a written authorisation by a delegating authority to a delegated body to act in his stead, and in relation to a duty, includes an instruction or request to perform or to assist in performing the duty, and "delegate" and "sub-delegate" has a corresponding meaning.
1.42.	<b>"demand management"</b>	Means system which insures that the resources required to support the strategic and operational commitments of the CoM are delivered at the correct time, at the right price, and at the right location, and that the quantity and quality satisfy the needs of the CoM.
1.43.	<b>"depreciation"</b>	Means the decrease in the value of assets from general wear and tear and allocation of the cost of assets to periods in which the assets are used.
1.44.	<b>"designated sector"</b>	Means a sector, sub-sector or industry that has been designated by the Department of Trade and Industry in line with national development and industrial policies for local production, where only locally produced goods and/or services or locally manufactured goods meet the stipulated minimum threshold for local production and content.

1.45.	<b>"disability"</b>	Means in respect of a person a permanent impairment of a physical, intellectual or sensory function, which results in restricted, or lack of, ability to perform an activity in the manner or in the range considered normal for a human being.
1.46.	<b>"disposal"</b>	Means process of preparing, negotiating and concluding a written contract which involves the alienation of a capital asset including a capital asset no longer needed by the CoM or rights in respect thereof, by means of a sale or a donation, and "dispose" has a similar meaning.
1.47.	<b>"disposal management"</b>	Means the system of the CoM for the disposal or letting of assets, including unserviceable, redundant or obsolete assets in a cost-effective, but transparent and responsible manner, and also entails the maintenance of records and documents.
<b>"E"</b>		
1.48.	<b>"empowerment indicator"</b>	Means measure of an enterprise's or businesses' contribution towards achieving the goals of the governments reconstruction and development program, this indicator will relate only to certain specific goals for the purposes of this policy.
1.49.	<b>"engineering and construction works"</b>	Means the provision of a combination of goods and services, arranged for the development and provision of an asset including construction works and engineering infrastructure or for the refurbishment of an existing asset.
1.50.	<b>"entity"</b>	Means juristic person.
1.51.	<b>"equipment"</b>	Means-class accountable stores/stock that are issued and accounted for on an inventory.
1.52.	<b>"equity ownership"</b>	Means the percentage of an enterprise or business owned by individuals or, in respect of a private company,



		the percentage of a company's shares that are owned by individuals, who are actively involved in the management of the enterprise or business and exercise control over the enterprise or business, commensurate with the degree of ownership at the closing date of the bid.
1.53.	<b>"evaluation points"</b>	Means "adjudication points" and/or "preference points".
1.54.	<b>"exempted capital asset"</b>	Means municipal capital asset which is exempted by section 14(6) of the MFMA from the other provisions of that section.
<b>"F"</b>		
1.55.	<b>"final award"</b>	Means in relation to bids or quotations submitted for a contract, the final decision on which bid or quote to accept.
1.56.	<b>"firm price"</b>	Means the price that is only subject to adjustments in accordance with the actual increase or decrease resulting from the change in position, or abolition of customs or excise duty and any other duty, levy, or tax, which, in terms of a law or regulation, is binding on the contractor and demonstrably has an influence on the price of any supplies, or the rendering costs of any service, for the execution of a contract.
1.57.	<b>"formal written price quotation"</b>	Means quotations referred to in section 12F of this policy and regulation 12(1)(c) of SCMR and includes an electronic offer to the CoM in response to an invitation to submit such a quotation.
1.58.	<b>"functionality"</b>	Means the measurement according to predetermined norms and/or criteria, as set out in the bid documents, of a service or commodity that is designed to be practical and useful, working or operating, taking into account, among other factors, the quality, reliability, viability and durability of a service and the technical capacity and ability of a bidder..

<b>"G"</b>		
1.59.	<b>"general conditions of contract"</b>	Means the general conditions of contract as set out in the bid documentation applicable to the said bid and not limited to the General Conditions of Contract for Construction Contracts, 2010 of the South African Institute of Civil Engineers.
1.60.	<b>"goods"</b>	Means those raw materials or commodities which are available for general sale.
1.61.	<b>"goods and/or services"</b>	Includes works, construction and consultant works
1.62.	<b>"granting of rights"</b>	Means the granting by the CoM of the right to utilize, control or manage capital assets in circumstances where section 14 of the MFMA and chapters 2 and 3 of the MATR do not apply.
1.63.	<b>"green procurement"</b>	Means the taking into account environmental criteria for goods and services to be purchased in order to ensure that the related environmental impact is minimized.
<b>"H"</b>		
1.64.	<b>"historically disadvantaged individual" or "HDI"</b>	Means South African citizen who, due to the apartheid policy that had been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No 110 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act No 200 of 1993) ("the Interim Constitution"); and/or who is a female; and/or who has a disability, provided that a person who obtained South African citizenship on or after the coming to effect of the Interim Constitution, is deemed not to be an HDI.
<b>"I"</b>		

1.65.	<b>“implementing agent”</b>	Means decision maker/manager mandated by the CoM to implement projects and invite bids/quotations of any nature.
1.66.	<b>“improper conduct”</b>	Means conduct which is tantamount to fraud, corruption, favouritism, unfair, irregular and unlawful practices, misrepresentation on information submitted in bid documents for the purposes of procuring a contract with the CoM, misrepresentation regarding the contractor's expertise and capacity to perform in terms of a contract procured via the supply chain management system, breach of a contract procured via the supply chain management system and failure to comply with the supply chain management system.
1.67.	<b>“in the service of the state”</b>	Refers to the definition of “in the service of the state” as defined in terms of the provisions of regulation 1 of the SCMR.
1.68.	<b>“information technology” or “IT”</b>	Means the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.
1.69.	<b>“integrated development plan” or “IDP”</b>	Means the plan envisaged in terms of the provisions of section 25 of the MSA.
1.70.	<b>“item”</b>	Means an individual article or unit.
<b>“J”</b>		
1.71.	<b>“joint venture”</b>	Means an association of persons or entities formed for the purpose of combining the expertise, property, capital, efforts, skill and knowledge in an activity for the execution of a contract or contracts. The joint venture or consortium must be formalised by agreement between the parties thereto.

<b>"L"</b>		
1.72.	<b>"list of accredited prospective providers"</b>	Means the list of accredited prospective providers that a municipality must keep in terms of regulation 14 of the SCMR.
1.73.	<b>"local business"</b>	Means service providers with active offices within the municipal area of the CoM, which shall be interpreted on the basis of whether the offices are utilised for the goods and/or services to be procured, and whether the majority are local or North-West people.
1.74.	<b>"local content"</b>	Means that portion of the bid price which is not included in the imported content, provided that local manufacture does take place. "imported content" means that portion of the bid price presented by the cost of components, parts or materials which have been or are still to be imported (whether by the supplier or its sub-contractors) and which costs are inclusive of the costs abroad, plus freight and other direct importation costs, such as landing costs, dock dues, import duty, sales duty or other similar tax or duty at the South African port of entry.
1.75.	<b>"Local Government: Municipal Finance Management Act" or "MFMA"</b>	Means the Local Government: Municipal Finance Management Act, Act 56 of 2003.
1.76.	<b>"Local Government: Municipal Systems Act" or "MSA"</b>	Means the Local Government: Municipal Systems Act, Act 32 of 2000.
1.77.	<b>"long term contract"</b>	Means contract with a duration period exceeding 1 (one) year.
<b>"M"</b>		

1.78.	<b>“municipal asset transfer regulations” or “MATR”</b>	Means the regulations published in terms of the provisions of section 168 of the MFMA, specifically the Asset Transfer Regulations, 2008, published under GN R878 in GG 31346 of 22 August 2008 (with effect from 1 September 2008).
1.79.	<b>“municipal entity”</b>	Refers to the definition of “municipal entity” as defined in terms of the provisions of section 1 of the MSA.
1.80.	<b>“municipal manager”</b>	Means the municipal manager of the CoM, refer to the definition of “accounting officer”.
1.81.	<b>“municipality”</b>	Means the City of Matlosana.
<b>“N”</b>		
1.82.	<b>“non-exempted capital asset”</b>	Means municipal capital asset which is not exempted in terms of the provisions of section 14(6) of the MFMA from the other provisions of that section.
<b>“O”</b>		
1.83.	<b>“obsolete”</b>	Means no longer in use or out of date, to become obsolete by replacing it with something new.
1.84.	<b>“official”</b>	Refers to the definition of “official” as defined in terms of the provisions of section 1 of the MFMA.
1.85.	<b>“one-off contract”</b>	Means discreet contract where specified goods, services or construction works are supplied for an approved contract sum.
1.86.	<b>“organ of state”</b>	Means an organ of state as defined in terms of the provisions of section 239 of the Constitution.
1.87.	<b>“other applicable legislation”</b>	Means any other legislation applicable to the supply chain management of the CoM, including the Preferential Procurement Policy framework Act, Act 5 of 2000, the Broad-Based Black Economic Empowerment Act, Act 53 of 2003 (BBBEEA), the Construction Industry

		Development Board Act, Act 38 of 2000, and the Consumer Protection Measures Act, Act 68 of 2008.
<b>“p”</b>		
1.88.	<b>“person”</b>	Means natural person.
1.89.	<b>“planned project work”</b>	Means a specific project identified by a need of the CoM therefore, and as opposed to the supply of goods and/or services that is of an ad-hoc or repetitive nature for a predetermined period of time.
1.90.	<b>“policy”</b>	Means this Supply Chain Management Policy of the CoM.
1.91.	<b>“practitioner”</b>	Means person who practices a profession or art.
1.92.	<b>“preference points”</b>	Refer to “adjudication points” and/or “evaluation points”.
1.93.	<b>“Preferential Procurement Policy Framework Act” or “PPPFA”</b>	Means the Preferential Procurement Policy Framework Act, Act 5 of 2000.
1.94.	<b>“Preferential Procurement Regulations” or “PPR”</b>	Means the regulations published in terms of the provisions of section 5 of the PPPFA, specifically the Preferential Procurement Regulations, 2011 published under Government Gazette No. 34350 of 8 June 2011.
1.95.	<b>“Prevention and Combating of Corrupt Activities Act” or “PCCAA”</b>	Means the Prevention and Combating of Corrupt Activities Act, Act 12 of 2004.
1.96.	<b>“prime contractor”</b>	Means the person or entity with whom/which the CoM will contract, as opposed to sub-contractors, suppliers, manufacturers or service providers who/which contract with the prime contractor.
1.97.	<b>“procedures”</b>	Means sequence of actions or operations which have to be executed in the same manner in order to always

		obtain the same result under the same circumstances, and "process" will have a corresponding meaning.
1.98.	<b>"procurement"</b>	Means process of preparing, negotiating and concluding a contract, whether in writing or verbally, which involves the acquiring of goods and/or services, and engineering and construction works, or any combination thereof, or the acquiring of capital assets or any rights in respect of the above, by means of a purchase, lease or donation and "procuring" has a similar meaning.
1.99.	<b>"project management"</b>	Means the planning, directing and controlling of an organisations resources over a short term to ensure that specific objectives are successfully met.
1.100.	<b>"Promotion of Access to Information Act" or "PAIA"</b>	Means the Promotion of Access to Information Act, Act 2 of 2000.
1.101.	<b>"provider"</b>	Means the person or entity who/which provides, supplies services, goods or works to the CoM.
1.102.	<b>"Public-Private Partnership" or "PPP"</b>	Refers to the definition of "public-private partnership" as defined in terms of the provisions of Regulation 1 of the Municipal Public-Private Partnership Regulations, published under GN R309 in GG 27431 of 1 April 2005 in terms of the provisions of Section 168 of the MFMA..
<b>"Q"</b>		
1.103.	<b>"quality"</b>	Means the measure according to predetermined criteria, of the suitability of a proposal, design or product for the use for which it is intended, and may also include the measure of the competency of a supplier.
<b>"R"</b>		

1.104.	<b>“rand value”</b>	Means the total estimated value of a contract in South African currency, calculated at the time of quotation and bid invitations and includes all applicable taxes and excise duties.
1.105.	<b>“redundant”</b>	Means no longer needed or useful, superfluous, unnecessary.
1.106.	<b>“renewal”</b>	Means replace or restore something that is broken or worn-out.
1.107.	<b>“Republic”</b>	Means the Republic of South Africa.
1.108.	<b>“representative”</b>	Means any representative of an affected person in relation to the relevant bid, whether authorized or not, including but not limited to directors, members, employees and agents and include legal representatives.
1.109.	<b>“responsibility”</b>	Means the obligation imposed on an individual to properly exercise the authority vested in him/her, and involves the power to command and to demand action in the proper execution of the relevant duties.
1.110.	<b>“responsible agent”</b>	Means internal project managers being officials of the CoM or external consultants appointed by the CoM pertaining to a project or contract.
1.111.	<b>“Risk management”</b>	Means the identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.
1.112.	<b>“rules”</b>	Means statements that a specific action must or must not be taken in a given situation.
<b>“S”</b>		
1.113.	<b>“service provider”</b>	Means “service provider “as defined in terms of the provisions of Section 1 of the MSA.



1.114.	<b>"services"</b>	Means the provision of labour and work carried out by hand, or with the assistance of plant and equipment, including the input, as necessary, of knowledge based expertise and/or consultants.
1.115.	<b>"small, medium and micro enterprises" or "SMME"</b>	Refers to "small enterprise" as defined in terms of the provisions of Section 1 of the National Small Enterprise Act, Act 102 of 1996.
1.116.	<b>"sourcing"</b>	Means where an item to procure is obtainable.
1.117.	<b>"specification"</b>	Means the terminology generally used to describe the requirement/s for goods.
1.118.	<b>"stipulated minimum threshold"</b>	Means that portion of local production and content as determined by the Department Trade and Industry.
1.119.	<b>"stores" or "stock"</b>	Means all movable state property/assets that are kept in stock for issue purposes.
1.120.	<b>"strategic goals"</b>	Means areas of the organisational performance that are critical to the achievement of the mission and are statements that describe the strategic direction of the organisation.
1.121.	<b>"strategic objectives"</b>	Means objectives which are more concrete and specific than strategic goals and it must give a clear indication of what the CoM intends on doing or producing in order to achieve the strategic goals it has set for itself.
1.122.	<b>"sub-contract"</b>	Means the primary contractor's assigning, leasing, making out work to, or employing, another person to support such primary contractor in the execution of part of a project in terms of the contract.
1.123.	<b>"sub-contractor"</b>	Means any person or entity that is employed, assigned, leased or contracted by the prime contractor to carry out work in support of the prime contractor in the execution of a contract.
1.124.	<b>"supplier/vendor"</b>	Means generic term which may include suppliers of goods and/or services, contractors and/or consultants.

1.125.	<b>“supply chain management” or “SCM”</b>	Means as contemplated in terms of the provisions of Section 217 of the Constitution, Part 1 of Chapter 11 of the MFMA read together with the SCMR.
1.126.	<b>“supply chain management policy”</b>	Means this supply chain management Policy of the CoM.
1.127.	<b>“supply chain management regulations” or “SCMR”</b>	Means the regulations published in terms of the provisions of section 168 of the MFMA, specifically the Municipal Supply Chain Management Regulations, published under Gen N 868 in GG 27636 of 30 May 2005.
1.128.	<b>“supply chain management unit” or “SCMU”</b>	Means the supply chain management unit which functions under the management and control of the municipal manager of the CoM, which unit is responsible for the implementation and management of this policy.
<b>“T”</b>		
1.129.	<b>“tender”</b>	Means bid in the context of procurement.
1.130.	<b>“term bid”</b>	Means rate-based bid for the ad hoc or repetitive supply of goods, services or construction works, where the individual rates are approved for use over a specified period.
1.131.	<b>“terms of reference” or “TOR”</b>	Means the term used to describe the requirement for professional services.
1.132.	<b>“total cost of ownership” or “TCO”</b>	Means the sum of direct spend, related spend, process spend and opportunity cost associated within a specific commodity and service to the owner.
1.133.	<b>“treasury guidelines”</b>	Means any guidelines on supply chain management issued by the Minister in terms of the provisions of Section 168 of the MFMA.
1.134.	<b>“trust”</b>	Means the arrangement through which the property of one person is made over of bequeathed to a trustee to

		administer such property for the benefit of another person.
<b>"U"</b>		
1.135.	<b>"unserviceable"</b>	Means the condition of an item that is no longer suitable for use and cannot be economically repaired.
1.136.	<b>"unsolicited bid"</b>	Means an offer submitted by any person or entity at its own initiative, without having been invited by the CoM to do so and specifically refers to the provisions of Section 113 of the MFMA read together with Regulation 37 of the SCMR
<b>"V"</b>		
1.137.	<b>"value for money"</b>	Means the best available outcome when all relevant costs and benefits over the procurement cycle are considered.
1.138.	<b>"verbal quotation"</b>	Refers to "written or verbal quotations" as defined in terms of the provisions of Regulation 1 of the SCMR.
<b>"W"</b>		
1.139.	<b>"written quotation"</b>	Refers to "written or verbal quotations" as defined in terms of the provisions of Regulation 1 of the SCMR.

## **2. INTRODUCTION**

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- (1) Section 111 of the MFMA requires each municipality to adopt and implement a supply chain management policy which gives effect to the requirements of the MFMA, and section 217(1) of the Constitution, in addition, the PPPFA requires an Organ of State to determine its preferential procurement policy and to implement it within the framework prescribed. These requirements are given effect to herein.**
- (2) The supply chain management system of the CoM, contained in this policy, provides a mechanism to ensure sound, sustainable and accountable supply chain management within the CoM whilst promoting black economic empowerment, which includes general principles for achieving the following socio-economic objectives:**

  - (a) To stimulate and promote local economic development in a targeted and focused manner;**
  - (b) To promote resource efficiency and greening;**
  - (c) To facilitate creation of employment and business opportunities for the people of Matlosana with particular reference to HDI's;**
  - (d) To promote the competitiveness of local businesses;**
  - (e) To increase the small business sector access, in general, to procurement business opportunities created by Council;**
  - (f) To increase participation by small, medium and micro enterprises; and**
  - (g) To promote joint venture partnerships.**

### **3. TITLE AND APPLICATION OF THE POLICY**

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- (1) This policy shall be known as the CoM's Supply Chain Management Policy, and is applicable to the municipal area of the CoM as determined by the Municipal Demarcation Board.
- (2) This policy applies to-

  - (a) The procuring of goods and/or services;
  - (b) The disposal by council of goods no longer needed;
  - (c) The selection of contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the MSA applies; and
  - (d) The selection of external mechanisms referred to in section 80(1)(b) of the MSA for the provisions of municipal services in circumstances contemplated in section 83 of that act.
- (3) Unless specifically stated otherwise, this policy does not apply where the CoM contracts with another organ of state for-

  - (a) The provision of goods and/or services to the CoM; or
  - (b) The provision of a municipal service; or
  - (c) The procurement of goods and services under a contract secured by that organ of state, provided that the relevant supplier has agreed to such procurement and the process is compliant to the provisions of section 12.18 of this policy
  - (d) The Policy must be read and applied with the Supply Chain Management Procedure Manual and the SCM Model Policy for infrastructure procurement and delivery management, where the SCM Policy including the SCM Manual and the Model Policy on infrastructure procurement are in conflict when procuring an

infrastructure project, only the SCM Model Policy on Infrastructure procurement shall take precedence

- (e) A report must nevertheless be submitted to the bid **Evaluation and Adjudication committee** seeking authority to contract with another organ of state; Including, water from the Department of Water Affairs or a public entity, another municipality or municipal entity and electricity from Eskom or another public entity, another municipality or municipal entity.
- (4) The CoM and any private person/s and/or entities must adhere to the principles, provisions, rules and requirements contained in this policy when dealing with any matter connected with and/or contained herein.

#### **4. AIM AND PURPOSE OF THE SUPPLY CHAIN MANAGEMENT SYSTEM**

- (1) The aim and the purpose of the supply chain management system is to have and maintain an efficient, fair, equitable, transparent, competitive and cost-effective supply chain system when sourcing and procuring goods and/or services, as well as the sale and letting of assets, which conform to constitutional and legislative principles and maximizes the benefits from its consolidated buying power in the market place.**
- (2) The CoM must manage its financial and administrative resources in such a manner to meet and sustain its supply chain purpose.**

## **5. OBJECTIVES OF THE POLICY**

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- (1) The objectives of this policy is to implement the legislative provisions relating to the supply chain management of the CoM, that-**

  - (a) Gives effect to-**

    - (i) The provisions of section 217 of the Constitution; and**
    - (ii) Part 1 of Chapter 11 and other applicable provisions of the MFMA;**
  - (b) is fair, equitable, transparent, competitive and cost effective;**
  - (c) Complies with-**

    - (i) The regulatory framework prescribed in Chapter 2 of the SCMR; and**
    - (ii) Any minimum norms and standards that may be prescribed in terms of the provisions of section 168 of the MFMA;**
  - (d) is consistent with other applicable legislation;**
  - (e) Does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres; and**
  - (f) is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.**
- (2) The CoM may not act otherwise than in accordance with this supply chain management policy when-**

  - (a) Procuring goods and/or services;**
  - (b) Disposing of goods no longer needed;**



- (c) **Selecting contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the MSA applies; or**
  - (d) **In the case of the CoM selecting external mechanisms referred to in section 80(1)(b) of the MSA for the provision of municipal services in circumstances contemplated in section 83 of that Act.**
- (3) To assure the creation of an environment where business can be conducted with integrity and in a fair, reasonable and accountable manner, this policy will ensure that the municipal manager and all representatives of the CoM involved in supply chain management activities must act with integrity, accountability, transparency and with the highest ethical standards.**
  - (a) All supply chain management representatives must adhere to the code of ethical standards contained in section 20 of this policy together with the code of conduct for municipal staff contained in schedule 2 of the MSA.**

**6. DELEGATED AUTHORITY OF SUPPLY CHAIN MANAGEMENT POWERS AND DUTIES**

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- (1) The council of the CoM has, in terms of its delegation of powers and functions in terms of the provisions of section 59 of the MSA, delegated such additional powers and duties to the municipal manager so as to enable the municipal manager –

  - (a) To discharge the supply chain management responsibilities conferred on accounting officers in terms of-

    - (i) Chapter 8 of the MFMA; and
    - (ii) This policy;
  - (b) To maximise administrative and operational efficiency in the implementation of the supply chain management system;
  - (c) To enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of the supply chain management system; and
  - (d) To comply with his or her responsibilities in terms of the provisions of section 115 and other applicable provisions of the MFMA.
- (2) Section 79 of the MFMA applies to the sub-delegation of powers and duties delegated to the municipal manager in terms of sub-section (1).
- (3) Neither the council nor the municipal manager of the CoM may delegate or sub-delegate any supply chain management powers or duties-

  - (a) To a person who is not an official of the CoM; or
  - (b) To a committee which is not exclusively composed of officials of the CoM.
- (4) This section may not be read as permitting an official to whom the power to make final awards has been delegated, to make a final award in a competitive

bidding process otherwise than through the committee system provided for in section 12.8.

- (5) No decision-making in terms of any supply chain management powers and duties may be delegated or sub-delegated to an advisor or consultant.
- (6) Delegations and/or sub-delegations of authority-
  - (a) Must be in accordance with pre-established levels of authority to ensure control and division of responsibility;
  - (b) Must be in writing;
  - (c) Must be made to a specific position and not to a named individual;
  - (d) may be confirmed, varied or revoked by the person who made such delegation or sub-delegation, but no such variation or revocation may detract from any right which may have accrued as a result of the delegation or sub-delegation; and
  - (e) Does not divest the municipal manager of the responsibility and/or accountability concerning the exercise of the delegated power or the performance of the delegated duty.
- (7) The municipal manager may confirm, vary or revoke any decision taken in terms of a delegation or sub-delegation, provided that no such variation or revocation may detract from any right which may have accrued as a result of such decision.
- (8) The municipal manager of the CoM must develop a practical and efficient system of delegation and sub-delegation that will both maximize administrative and operational efficiency and provide adequate checks and balances in the financial administration of the CoM.

## **6.1 Sub-Delegations**

- (1) The municipal manager may, in terms of the provisions of section 79 of the MFMA sub-delegate any supply chain management powers and duties, including those delegated to the municipal manager in terms of section 6 (1), but any such sub-delegation must be consistent with section 6 and sub-section (2).
- (2) The power to make a final award-

  - (a) Above R10 million (including VAT) may not be sub-delegated by the municipal manager;
  - (b) Above R2 million (including VAT), but not exceeding R10 million (including VAT), may be sub-delegated but only to-

    - (i) The chief financial officer;
    - (ii) director/senior manager; or
    - (iii) The bid adjudication committee of which the chief financial officer or a director/senior manager is a member; or
  - (c) Not exceeding R2 million (including VAT) may be sub-delegated but only to-

    - (i) The chief financial officer;
    - (ii) director/senior manager;
    - (iii) A manager directly accountable to the chief financial officer or a director/senior manager; or
    - (iv) The bid adjudication committee.
- (3) An official or bid adjudication committee to which the power to make final awards has been sub-delegated in accordance with sub-section (2) must within 5(five) days of the end of each month submit to the official referred to in

**sub-section (4) a written report containing particulars of each final award made by such official or committee during that month, including-**

- (a) The amount of the award;**
- (b) The name of the person to whom the award was made; and**
- (c) The reason why the award was made to that person.**

**(4) A written report referred to in sub-section (3) must be submitted-**

- (a) To the municipal manager, in the case of an award by-**
  - (i) The chief financial officer;**
  - (ii) A director/senior manager; or**
  - (iii) The bid adjudication committee of which the chief financial officer or a director/senior manager is a member; or**
- (b) To the chief financial officer or the director/senior manager responsible for the relevant bid, in the case of an award by-**
  - (i) A director/manager referred to in sub-section (2) (c) (iii); or**
  - (ii) The bid adjudication committee of which the chief financial officer or a director/senior manager is not a member.**

**(5) Sub-sections (3) and (4) do not apply to procurements out of petty cash.**

**(6) This section may not be interpreted as permitting an official to whom the power to make final awards has been sub-delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in section 12.8.**

## **6.2 Oversight role of the CoM**

**(1) The council of the CoM must maintain oversight over the implementation of this policy by the municipal manager.**

**(2) For the purposes of such oversight the municipal manager must-**

- (a)
    - (i) within 30 (thirty) days of the end of each financial year, submit a report on the implementation of this policy of the CoM to the council;
    - (ii) Whenever there are serious and material problems in the implementation of this policy, immediately submit a report to the council of the CoM.
- (3) The municipal manager must, within 10 (ten) days of the end of each quarter, submit a report on the implementation of this policy to the Executive Mayor of the CoM.
- (4) The reports of the CoM must be made public in accordance with the provisions of section 21A of the MSA.
- (5) The Executive Mayor of the CoM must provide general political guidance over the fiscal and financial affairs of the CoM and may monitor and oversee the exercise of responsibilities assigned to the municipal manager and chief financial officer in terms of the MFMA. This role of the Executive Mayor is an oversight role only, and specifically excludes any interference or influence in or over a decision to award procurement contracts.

### **6.3 Supply Chain Management Units**

- (1) The CoM must establish a supply chain management unit to implement this policy.
- (2) The supply chain management unit must, where possible, operate under the direct supervision of the chief financial officer or an official to whom this duty has been delegated in terms of this section.

## **7. COMPETENCY AND TRAINING OF SUPPLY CHAIN MANAGEMENT OFFICIALS**

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- (1) The municipal manager must ensure that all persons involved in the implementation of this policy meet the prescribed competency levels, and where necessary, shall provide relevant training.
- (2) The training of officials involved in implementing this policy must be in accordance with any Treasury guidelines on supply chain management training.

## **8. DUTIES AND RESPONSIBILITIES**

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### **8.1 General Responsibilities of the Officials of the CoM**

- (1) Each official must carry out its activities within his/her area of responsibility.
- (2) Each official must take appropriate steps to prevent any unauthorized, irregular, fruitless and wasteful expenditure in his/her area of responsibility.
- (3) Each official responsible for a task must carry it out in accordance with the various supply chain requirements contained in this policy.
- (4) Any matter not specifically delegated or sub-delegated to an official, must be referred to the municipal manager for proper allocation thereof.
- (5) Each official is responsible for all assets of the CoM within his/her area of responsibility.

### **8.2 Responsibilities of the Municipal Manager**

- (1) The municipal manager must-
  - (a) Ensure strict adherence and compliance with the provisions of this policy and all relevant legislation;
  - (b) Implement this policy;

- (c) Review the targets and this policy annually or cause the targets and policy to be so reviewed;
- (d) Appoint the members of the Bid committees after personally ensuring the competency of such members for the position;
- (e) To ensure that the most favourable service providers are appointed and that any deviations from a proposal by the bid adjudication committee are, at the next available council meeting, reported to the council;
- (f) Establish a supply chain management unit within the financial directorate in order to assist the municipal manager to implement this policy; and
- (g) Comply with the provisions of section 19 of this policy.
- (h) To make sure that the procurement planning of the 2019/2020 financial year start simultaneously with the budget process and is approved with the budget before the 30 June 2019

### **8.3 Responsibilities of the Directors**

Each director of the CoM is responsible and accountable for-

- (a) Exercising the powers, performing the functions and discharging the duties conferred or assigned to him in terms of this policy or any delegation from the municipal manager;
- (b) Implementing this policy and any procedural and/or other prescripts issued in terms of this policy and within his/her area of responsibility;
- (c) Ensure compliance with this policy and any procedural and/or other prescripts issued in terms of this policy and within his/her area of responsibility;



- (d) developing draft specifications, or causing draft specifications to be developed, for the procurements by his/her directorate which procurements exceed an amount of R30.000 (including VAT);
- (e) The management of asset utilization in his/her area of responsibility;
- (f) Compile the procurement plan and, in as far as is possible, accurately estimating the costs for the provision of services, works or goods for which offers are to be solicited and ensures that the plan is submitted to the SCM Unit
  - (1) To make sure that the procurement planning of the 2019/2020 financial year start simultaneously with the budget process and is approved with the budget before the 30 June 2019
- (g) Selecting the appropriate preference point system to be utilized in the evaluation of offers;
- (g) Assuring that objectives and targets are achieved with regard to procurements and/or disposals by the CoM; and
- (h) Proper contract and project management over every contract and/or project undertaken by his/her directorate.
- (I) Ensures that the objective of the provincial VTSD are met on any project advertised by council and compile progress report for council

#### **8.4 Responsibilities of the Chief Financial Officer**

- (1) The Chief Financial Officer is the custodian of this policy responsible for-
  - (a) Reporting on the progress regarding the implementation of this policy;
  - (b) Recommending improvements on the practical implementation of this policy and possible amendments;
  - (c) the conducting of procurement audits of the entire supply chain management system to identify successes and/or failures and/or unauthorized, irregular, fruitless and wasteful expenditure and to

report on any findings which are not in accordance with the provisions of this policy to the municipal manager;

- (d) Management of the quotation and competitive bidding process from the solicitation thereof to processing invoice payment;
- (e) Promoting a corporate approach by encouraging standardization of items purchased within the CoM to realize economies of scale;
- (f) Providing supplier interface on supplier performance issues;
- (g) Ensuring that all procurements and/or disposals are effected by complying with all relevant legislation;
- (h) Managing procurements and/or disposals in order to ensure that the supply chain management system and this policy are complied with;
- (i) Ensuring that the procurement and/or disposal process followed by the CoM adheres to the preference targets without compromising price, quality, service and developmental objectives;
- (j) ensuring that the employees of the CoM who are involved in the supply chain management process receive the necessary training and are properly qualified to support the implementation of this policy;
- (k) Specifying the amount to be paid by prospective service providers as a non-refundable deposit for enquiry documents issued by the CoM;
- (l) The verification of applications from prospective service providers for possible inclusion in the Register; and
- (m) Submitting regular reports to the municipal manager and the finance portfolio committee regarding progress and any matters of importance relating to this policy. developing draft specifications, or causing draft specifications to be developed, for the procurements by his/her directorate which procurements exceed an amount of R30.000 (including VAT);

- (n) The management of asset utilization in his/her area of responsibility;
- (o) compile the procurement plan for and, in as far as is possible, accurately estimating the costs for the provision of services, works or goods for which offers are to be solicited and ensures that the plan is submitted to the SCM Unit
- (p) Ensures that directors are informed in the beginning of the budgeting process to compile their proposed needs on the plan and consider the changes made during the process and update the plan accordingly until the final budget and the procurement plan are finalised

#### **8.5 Responsibilities of the Supply Chain Management Unit**

- (1) The SCMU shall be subject to the management and control of and accountable to the chief financial officer.
- (2) The SCMU must consist of at least the following sections-
  - (a) A demand management section;
  - (b) A procurement section/acquisition management section;
  - (c) A logistics section;
  - (d) A performance and contract management section;
  - (e) A disposal and asset management section; and
  - (f) A risk management section.
- (3) The manager of the SCMU will be responsible and accountable for the day-to-day management of the SCMU.
- (4) The personnel of the SCMU are appointed by the municipal manager in consultation with the chief financial officer.
- (5) The SCMU must issue, receive and finalize all documents for the procurement of goods and/or services by means of verbal, written or formal price quotations of a transaction value of over R2000 (including VAT), up to R200 000

(including VAT), as well as all documents for procurement by means of a competitive bidding process of a transaction value of over R200 000 (including VAT).

- (6) All documents for the disposal of movable and/or immovable capital assets must be issued, received and finalized by the SCMU.
- (7) The SCMU must endeavour to, in as far as is reasonably possible, to inform all unsuccessful bidders that the bid submitted to the CoM has not been accepted and the details of the bid which has been accepted by the CoM.

## **9. GENERAL**

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### **9.1 Amendment and review of this policy.**

- (1) The municipal manager of the CoM must-
  - (a) At least annually review the implementation of the policy; and
  - (b) When the municipal manager deems it necessary, submit proposals for the amendment of the policy to the council.
- (2) When amending this policy, the CoM must take account of the need for uniformity in supply chain practices, procedures and forms between organs of state in all spheres, particularly to promote accessibility of supply chain management systems for small businesses.

### **9.2 Availability of Supply Chain Management Policy**

A copy of this policy and other relevant documentations are available on the website of the CoM.

### **9.3 Communications**

Any and all correspondence with regard to this policy must be addressed to the manager of the SCMU, and copied to the municipal manager.

## **CHAPTER 2: FRAMEWORK OF SCM POLICY**

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### **10 ESTABLISHMENT AND IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT SYSTEM**

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- (1) The supply chain management system of the CoM is an integrated system for the acquiring of goods, works and services on a competitive basis consists of the following systems-
- (a) Demand management system;
  - (b) Acquisition management system;
  - (c) Logistics management system;
  - (d) Disposal management system;
  - (e) Risk management system; and
  - (f) Performance management system.

### **11 DEMAND MANAGEMENT**

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- (1) Demand management provides for an effective system to ensure that the resources required to support the strategic and operational commitments of the CoM are delivered at the correct time, at the right price and at the right location, and that the quantity and quality satisfy the needs of the CoM.
- (2) The CoM's Integrated Development Plan (IDP) is a comprehensive strategy document setting out how the CoM intends to execute its development challenges in a financial year. It is on the basis of the IDP that the resources of the CoM will be allocated and on which the budget is based.
- (3) In order to achieve effective demand management, the manager of the SCMU must continuously ensure:

- (a) That efficient and effective provisioning and procurement systems and practices are implemented to enable the CoM to deliver the required quantity and quality of services to the communities;
  - (b) The establishment of uniformity in policies, procedures, documents and contract options and the implementation of sound systems of control and accountability;
  - (c) the development of a world-class professional supply chain management system which results in continuing improvement in affordability and value for money, based on total cost of ownership and quality of procurement as competition amongst suppliers is enhanced; and
  - (d) In dealing with suppliers and potential suppliers that the CoM shall respond promptly, courteously and efficiently to enquiries, suggestions and complaints.
- (4) Demand management lies at the beginning of the supply chain and the major activities associated with identifying demand are:
  - (a) Establishing requirements;
  - (b) Determining needs; and
  - (c) Deciding on appropriate procurement strategies.
- (5) Demand management accordingly involves the following activities:
  - (a) Understanding the future needs;
  - (b) Identifying critical delivery dates;
  - (c) Identifying the frequency of the need;
  - (d) Linking the requirement to the budget;
  - (e) Conducting expenditure analyses based on past expenditure;
  - (f) Determining requirements,

- (g) Conducting commodity analysis in order to check for alternatives; and
  - (h) Conducting industry analysis.
- (6) Each director of the CoM must, during the preparation of his/her directorate's estimates for the budget year-
  - (a) Determine which functions it must perform;
  - (b) Determine the products and services it must provide in the performance of those functions;
  - (c) Conduct a condition assessment of the assets managed by his directorate;
  - (d) On the basis of its analysis in terms of the above, determine its financial needs during the budget year for:
    - (i) Maintaining existing assets at an acceptable level calculated to ensure the continued productivity of the asset in question and minor repairs;
    - (ii) Repairing existing assets;
    - (iii) Refurbishing or renovating existing assets;
    - (iv) Extensive repairing of existing assets;
    - (v) Replacing existing assets; and
    - (vi) Acquiring new assets.
- (7) The SCMU must, after consultation with each director, compile a schedule of procurements for capital projects in respect of each financial year, which schedule must be attached to the CoM's budget implementation plan.
- (8) During the consultations between the SCMU and the directors of the CoM, all reasonable steps must be taken in order to determine:

- (a) The desired date and time at which a specific contract must be awarded;
- (b) The desired date and time when specific goods must be delivered, services rendered or work executed;
- (c) The place where any goods to be supplied shall be delivered;
- (d) The quantity of any goods to be supplied;
- (e) ensure that the procurement plan of the municipality is consolidated and approved
- (e) And any other relevant matter.

Based on the schedule of procurement submitted by the HOD's, Supply Chain Management Unit shall perform the following:

- (a) Need analysis
- (b) Market analysis
- (c) Commodity analysis
- (d) Price analysis
- (e) Industrial analysis
- (f) Past expenditure trend and procurement method.

- (g) Determine optimum method to satisfy the need.

### **(11.2) Infrastructure Procurement and Delivery Management**

(New infrastructure, rehabilitation, refurbishment and alteration of the existing infrastructure)

Municipality adopted National Treasury Standard for Infrastructure Procurement and Delivery Management which will assist the Municipality with better planning and to obtain necessary value for money when undertaking infrastructure projects.

The following shall be steps to be followed by the departments or delegated officials when planning for infrastructure procurement and delivery management.

#### **0. Project Initiation**

An initiation report which outlines the high – level business case together with the estimated projects cost and proposed schedule for a single project or a group of projects have high level scope.

#### **1. Infrastructure Planning**



An infrastructure plan which identifies and prioritizes projects and packages against forecasted budget over a period of at least five years.

## **2. Strategic Sourcing**

A delivery and /or procurement strategy which, for a portfolio of projects, identifies the delivery strategy in respect of each project or package and where needs are met through own procurement system, a procurement strategy.

## **3. Prefeasibility**

A prefeasibility report which determines whether or not it is worthwhile to proceed to the feasibility stage.

## **4. Preparation and briefing**

A strategic brief which defines project objectives, needs, acceptance criteria and clients' priorities and aspirations, and which set out the basis for the development of the concept report for one or more packages.

## **5. Feasibility**

A feasibility report which presents sufficient information to determine whether or not the project should be implemented.

## **6. Concept and Viability**

A concept report which establishes the detailed brief, scope, scale form and control budget and sets out the integrated concept for one or more packages.

## **7. Design Development**

A design development report which develops in details the approved concept to finalize the design and definition criteria, sets out the integrated integrated developed design, contains the cost plan and schedule for one or more packages.

## **8. Design Development**

Production information which provides the detailing, performance definition, specification, sizing and positioning of all systems and components enabling either construction (where contractor is able to build directly from the information prepared) or the production of manufacturing and installation information for construction.

Manufacture, fabrication and construction information produced by or on behalf of the contractor, based on the production information provided for a package which enables manufacture, fabrication or construction to take place.

A concept report which establishes the detailed brief, scope, scale form and control budget and sets out the integrated concept for one or more packages.

#### **9. Works**

Completed works which are capable of being occupied or used.

#### **10. Handover**

Works which have been taken over by the user or owner complete with record information.

#### **11. Package completion**

Works with notified defects corrected, final account settled and the close out report issued.

### **Gateway reviews for major capital projects above threshold**

The gateway review team shall be appointed comprise with not less than three persons who are not involved in the project associated with the works covered by the end of the stage 4 deliverables. The following shall apply:

- I. such team must be led by a person who has at least six years post graduate experience in planning of infrastructure projects.
- II. such team must be registered either as a professional engineering terms of the engineering profession Act, a professional Quantity surveyor in terms of the Quantity surveying profession Act or a professional architect in terms in terms of Architectural Profession Act.
- III. such team must have expertise in the key technical area, cost estimates, scheduling and implementation of similar projects.
- IV. the relevant treasury shall be notified of a proposed gateway review for a major capital projects, three weeks prior to the conducting of such review.
- V. relevant treasury may at any time institute a gateway review of any of the stage deliverables associated with the control framework, irrespective of the estimated cost of a project.
- VI. the relevant treasury may nominate additional persons to serve on the review team.

### **10.5 Gateway reviews team mandate**

- I. deliverability – the extent to which a project is deemed likely to deliver the expected benefits within the declared costs, time and performance envelop.
- II. affordability - the extent to which the level of expenditure and financial risk involved in a project can be taken up on, given the organization's overall financial position, both singly and in light of its other current and projected commitments.
- III. value for money.

#### 10.6 Thresholds for gateway reviews of major capital

Organ of state	Estimated cost inclusive of vat
National Department	R 100 Million
Provincial Departments and municipalities metropolitan	R 100 million
Municipalities other than a metropolitan Municipality	R 50 million
Major Public entity	R 500 Million
National government business enterprise Provincial government business enterprise	R 250 Million
Other	R 100 Million

## 12 ACQUISITION MANAGEMENT

- (1) The acquisition management system provides the general conditions and procedures which are applicable, as amended from time to time, to all procurements, contracts and orders of the CoM.
- (2) The acquisition management system of the CoM must ensure that-

- (a) Goods and/or services are procured by the CoM in accordance with authorised processes incorporated herein;
  - (b) Expenditure on goods and/or services is incurred in terms of an approved budget;
  - (c) The threshold values for the different procurement procedures are complied with;
  - (d) bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with the requirements of relevant legislation including the PPPFA and any conditions of the CIDBA; and
  - (e) Procurement guidelines issued by the National Treasury are properly taken into account.
- (3) The CoM must make public the details of the nature of goods and/or services together with the name/s of the provider/s where the CoM procures such goods and/or services from another organ of state or a public entity.
- (4) The CoM must make public the fact that it procures goods and/or services otherwise than through its supply chain management system, including-
  - (a) The kind/type of goods and/or services; and
  - (b) The name of the supplier.
- (5) Where appropriate the municipal manager may appoint a neutral and/or independent observer in order to ensure fairness and transparency in the application of the acquisition management system, or to assist and advise the SCMU in the execution of their functions and duties.
- (6) The CoM may not enter into any contract which will impose financial obligations beyond the 3(three) years covered in the annual budget for that financial year unless the requirements of section 33 of the MFMA have been fully complied with or proper provision have been made in such contract to so comply.

- (7) The following applies where the CoM procures public-private partnership agreements-
- (a) Part 2 of chapter 11 of the MFMA; and
  - (b) Section 33 of the same act where such agreement will have multi-year budgetary implications for the CoM within the meaning of that section.
- (8) In respect of any contract relating to the publication of official and/or legal notices and/or advertisements in the press by or on behalf of the CoM, a competitive bidding process need not be followed.
- (9) The manager of the SCMU may request quotations directly from community based vendors in a specific area or from a specific community for the procurement of goods and services for transaction amounts of a value less than R30 000 (including VAT).

#### **12.1 Range of Procurement Processes**

- (1) The procurement of goods and services must be done through the range of procurement processes set out in this section, which are-
- (a) petty cash purchases up to, and including a transaction value of R2000 (including VAT);
  - (b) Written or verbal quotations for procurements of a transaction value exceeding R2000, up to and including a transaction value of R10 000 (including VAT);
  - (c) Formal written price quotations for procurements of a transaction value exceeding R10 000, up to and including a transaction value of R200 000 (including VAT); and
  - (d) A competitive bidding process for-
    - (i) Procurements where the estimated transaction value exceeds R200 000 (including VAT); and

- (ii) The procurement of a long terms contract (exceeding one year in duration).

**(2) The municipal manager of the CoM may-**

- (a) Lower, but not increase, the different threshold values specified in this acquisition management system; or
- (b) Direct that-
  - (i) Written or verbal quotations be obtained for any specific procurement of a transaction value lower than R2000;
  - (ii) Formal written price quotations be obtained for any specific procurement of a transaction value lower than R10 000; or
  - (iii) A competitive bidding process be followed for any specific procurement of a transaction value lower than R200 000.

**(3) Goods and/or services may not be deliberately divided into parts or items of a lesser value merely to avoid complying with the requirements of this policy and when transaction values are determined for procurements consisting of different parts or items it must, in as far as possible, be treated, dealt with and be calculated as a single transaction.**

**(3.1) Purchases below R30 000 must be done once per financial year and per good or service**

**(3.2) any good or service with a consumption of six (6) per annum or financial year and above the R30000 but equals to R200 000 (vat inclusive) threshold shall be procured through a closed quotation advertised for seven days or if the good or service exceed R200 000 (vat inclusive) it shall be procured through the bidding process as indicated in this policy**

- (3.3) notwithstanding the above mentioned provisions, the department shall submit a written request for a grace period of not less than three months to continue with the normal quotation process while preparing the bidding process or seven (7) days close quotation.**

## **12.2 General Preconditions for Consideration of Written Quotations or Bids**

**(1) The CoM may not consider a written quotation or bid unless the provider who submitted the quotation or bid-**

**(a) Has furnished the CoM with that provider's-**

**(i) complete form of the MBD (municipal bid document) -4**

**(b) Has submitted an original and valid tax clearance certificate certifying that the provider's tax matters are in order; or tax pin number**

**(c) has authorised the CoM to obtain a tax clearance from the South African Revenue Services (SARS) that the provider's tax matters are in order, if deemed necessary; and**

**(d) Has indicated-**

**(i) Whether he/she or it is in the service of the state, or has been in the service of the state in the previous 12 (twelve) months;**

**(ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous 12 (twelve) months; or**

**(iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in sub-paragraph (ii) is in the service of the state, or has been in the service of the state in the previous 12 (twelve) months.**



### **12.3 List of Accredited Prospective Providers or central supplier database**

- (1) The municipal manager must –
  - (a) make sure that all service providers and suppliers doing business with the municipality are registered on the central supplier database and municipal supplier database and are in good standing with all the requirement of the CSD and the municipal supplier database.
  - (b) At least once a year through newspapers commonly circulating locally, the website of the CoM and any other appropriate ways, to invite and encourage prospective providers of goods and/or services to be registered on the central supplier database and the municipal supplier database.
  - (d) Refuse to do business with supplier who did not register on the CSD and the municipal supplier database
- (2) The prospective suppliers and service providers must also be made aware to updated their information as and when the need arises
- (3) the municipality reserve the right to request any further information for verification purpose and failure by the service provider or supplier to comply will render the tender or quotation invalid/or non-responsive
- (4) All parties to a Joint Venture must comply with the requirements for registration on the CSD and the municipal supplier database as indicated above.

### **12.4 Petty Cash Purchases**

- (1) Petty cash purchases may be made where goods and/or services which does not exceed a transaction value of R2000 (including VAT) are required and only one (1) written or verbal quotation is required for the transaction in which an amount less than R2000.00 is used without following the petty cash process petty cash, provided that the CoM's procedures and guidelines for petty cash purchases, which are provided in Schedule "A" to this policy, must be strictly adhered to.

- (2) The municipal manager may delegate the petty cash procurement responsibilities to an official reporting to the municipal manager on such terms and conditions as the municipal manager deems fit.
- (3) Each director of the CoM must compile and submit a monthly reconciliation report to the chief financial officer, which report must include the total amount of petty cash purchases for that month accompanied by the receipts and appropriate documents for each purchase.
- (4) Dividing required purchases into lesser transaction values in order to circumvent the written price quotation and/or formal written price quotation processes is not permissible.
- (5) The total number of petty cash purchases per directorate is limited to 10 (ten) per month.

#### **12.5 Written or Verbal Quotations**

- (1) When the CoM intends to procure goods and/or services which has a transaction value of over R2000 (including VAT) up to and including R10 000 (including VAT), written price quotations must be obtained from at least 3 (three) different providers preferably from, but not limited to, providers whose names appear on the central supplier database, provided that if quotations are obtained from providers who are not so listed, such providers must be able to register on the CSD and the approval must be obtained from the Chief Financial Officer or delegated person and on condition that the service is from the sole supplier or it is an emergency.
- (2) The CoM must attempt to promote ongoing competition amongst providers of goods and/or services by inviting such providers to submit written or verbal quotations on a rotational basis.
- (3) To the extent feasible, providers must be requested to submit such quotations in writing.
- (4) If it is not possible to obtain at least 3 (three) written quotations, the reasons must be recorded and approved by the manager of the SCMU who must,

within 3 (three) days before the end of each month, report to the chief financial officer on any approvals given in this regard.

- (5) Where the manager of the SCMU does not approve of the reasons for not complying with this section, no purchases may be made and quotations must be obtained *de novo*.
- (6) The municipal manager must record the names of the potential providers requested to provide quotations, together with their quoted prices.
- (7) If a quotation was submitted verbally, the order may be placed only against written confirmation by the selected provider.
- (8) Dividing required purchases into lesser transaction values in order to circumvent the written price quotation process is not permissible.
- (9) All orders in respect of written or verbal price quotations must be approved and released in writing by the municipal manager,
- (10) The municipal manager must take all reasonable steps to ensure that the procurement of goods and services through written or verbal quotations is not abused.
- (11) The municipal manager and the chief financial officer must, on a monthly basis, be notified in writing of all written or verbal price quotations accepted by an official acting in terms of a sub-delegation.
- (12) Two separate quotations must be obtained by the CoM when specifically dealing with procurements for strip and quote services.

## **12.6 Formal Written Price Quotations**

- (1) When the CoM intends to enter into any contract for the procurement of goods and/or services of a transaction value of over R10 000 (including VAT) up to and including R200 000 (including VAT), a minimum of 3 (three) formal written price quotations must be obtained from providers who are suitably qualified and experienced, who/which consists over the necessary resources and who/which are registered and verified on the central supplier database.

- (2) The CoM must attempt to promote ongoing competition amongst providers of goods and services by inviting such providers to submit formal written price quotations on a rotational basis.
- (3) Requests to submit formal written price quotations which are likely to be in excess of R30 000 (including VAT), must be advertised for at least 7 (seven) days on the official website of the CoM as well as the official notice board of the CoM.
- (5) If it is not possible to obtain at least 3 (three) formal written price quotations, the reasons must be recorded and approved by the chief financial officer who must, within 3 (three) days before the end of each month, report to the municipal manager on any approvals given in this regard.
- (6) Where the chief financial officer does not approve of the reasons for not complying with this section, no purchases may be made and quotations must be obtained *de novo*.
- (7) The municipal manager must record the names of the potential providers requested to provide formal written price quotations, together with their quoted prices.
- (8) Notwithstanding the provisions of this section, if formal written price quotations have been invited on the official website of the CoM, no additional quotes need be obtained where the number of responses thereto are less than 3 (three).
- (9) The municipal manager must take all reasonable steps to ensure that the procurement of goods and services through formal written price quotations are not abused.
- (10) The municipal manager and the chief financial officer must, on a monthly basis, be notified in writing of all formal written price quotations accepted by an official acting in terms of a sub-delegation.

## **12.7 Exemption from obtaining three (3) Quotations.**

**12.7.1** When procuring works, goods and services, supply chain management unit shall be exempted from obtaining three (3) quotations and such shall be limited to R 200 000.00 (vat inclusive).

**12.7.2** Preferably, the preferred service provider must be on the supply chain management accredited list of service providers or meet the listing criteria. Where is impractical to obtain service provider from the accredited list or meeting minimum listing criteria, such Procurement will be approved by the Assistant Director responsible for supply chain management / Chief Financial Officer.

## **12.7 Competitive Bids and Process for Competitive Bids**

- (1)** Competitive bids must be called for any procurement of goods and/or services above a transaction value of R200 000 (including VAT), and/or for any long term contracts.
- (2)** Goods and/or services above an estimated transaction value of R200 000 (VAT included), may not be deliberately divided into parts or items of lesser value merely for the sake of circumventing the competitive bidding process and procuring such goods and/or services otherwise than through a competitive bidding process.
- (3)** Goods and/or services to be procured which consist of different parts or items must, in as far as possible, be treated, dealt with and be calculated as a single transaction.

### **12.7.1 Bid documentation for competitive bids**

- (1)** In addition to section 12.2 of this policy, the compilation of bid documentation by the CoM must-
  - (a)** Take into account and contain, where applicable-
    - (i)** The general conditions of contract of National Treasury (July 2010, or as amended from time to time);
    - (ii)** Any Treasury guidelines on bid documentation;

- (iii) the requirements, including the General Conditions of Contract, of the Construction Industry Development Board, in the case of a bid relating to construction works, upgrading or refurbishment of buildings or infrastructure as contemplated in the CIDBA; and
- (iv) Supply chain management guidelines of the National treasury in respect of goods and/or services;
- (v) The General Conditions & Procedures of the State Tender Board;
- (vi) The General Conditions of Contract for Construction Contracts, 2010 of the South African Institute of Civil Engineers;

in as far as the contents of the above referred to documents are in accordance and amplification of this policy, but in the event of any conflict between the contents of these documents and this policy, the provisions of this policy will prevail.

- (b) Include evaluation and adjudication criteria, including any criteria required by other applicable legislation;
- (c) Compel bidders to declare any conflict of interest they may have in the transaction for which the bid is submitted;
- (d) If the value of the transaction is expected to exceed R10 million (including VAT), require bidders to furnish-
  - (i) Their audited annual financial statements, if the bidder is required by law to prepare annual financial statements for auditing—
    - (aa) for the past 3(three) years; or
    - (bb) since their establishment if established during the past 3 (three) years;

- (ii) a certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 (thirty) days;
    - (iii) Particulars of any contracts awarded to the bidder by an organ of state during the past 5 (five) years, including particulars of any material non-compliance or dispute concerning the execution of such contract; and
    - (iv) a statement indicating whether any portion of the goods and/or services are expected to be sourced from outside the Republic, and, if so, what portion and whether any portion of payment from the CoM is expected to be transferred out of the Republic;
  - (e) Stipulate that disputes must be settled by means of mutual consultation, mediation (with or without legal representation), or, when unsuccessful, in a South African court of law.
  - (f) a clear indication of the terms and conditions of contract, specifications, criteria for evaluation and adjudication procedures to be followed where applicable, and include where, in exceptional circumstances, site inspections are compulsory;
  - (g) An appropriate contract and/or delivery period specification for all contracts;
  - (h) The requirements of the preferential procurement section of this policy (Chapter 5) and be clearly set out in the bid documentation.
- (2) Bid documentation and evaluation criteria may not be aimed at hampering competition, but rather to ensure fair, equitable, transparent, competitive and cost effective bidding, as well as the protection or advancement of persons, or categories of persons, as embodied in the preferential procurement section of this policy.



- (3) Bid documentation must compel a bidder to furnish the following:
- (a) Full name/s;
  - (b) Identification number, company or other registration number;
  - (c) Tax reference number;
  - (d) VAT registration number, if any; and
  - (e) An original tax clearance certificate from SARS stating that the bidder's tax matters are in order or valid tax pin code
- (4) Bid documentation must stipulate that disputes must be settled by means of mutual consultation, mediation (with or without legal representation) or, where unsuccessful, in a South African court of law.
- (5) A provision for the termination/cancellation of the contract in the case of no or under-performance must be included in the bid documentation.
- (6) Unless otherwise indicated in the bid documents, the CoM will not be liable for any expenses incurred in the preparation and/or submission of a bid.
- (7) Bid documentation must state that the CoM is not be obliged to accept the lowest bid, any alternative bid or any bid.
- (8) Bid documentation must compel bidders to declare any conflict/s of interest they may have in the transaction for which the bid is submitted.
- (9) The bid documentation must require bidders to disclose:
- (a) Whether such bidder is in the service of the state, or has been in the service of the state within the previous 12 (twelve) months;
  - (b) if the bidder is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous 12 (twelve) months; or



- (c) Whether a spouse, child or parent of the bidder or of a director, manager, shareholder or stakeholder referred to in (b) above is or has been in the service of the state within the previous 12 (twelve) months.
- (10) Bid documentation for consultant services must require bidders to furnish to the CoM particulars of all consultancy services, and any similar services (to the services being bid for) provided to an organ of state in the last 5 (five) years.
- (11) Bid documentation for consultant services must ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, item, system or process designed or devised by a consultant in terms of an appointment by the CoM, shall vest in the CoM.
- (12) Bid documentation may state that alternative bids can be submitted provided that a bid free of qualifications and strictly in accordance with the bid documents is also submitted.
- (13) An alternative bid must be submitted on a separate complete set of bid documents and must clearly be marked "Alternative Bid", in order to distinguish it from the unqualified bid.
- (14) Bid documentation must state that the CoM will not be bound to consider alternative bids.
- (15) Bid documentation must provide the validity period of the bid.
- (16) Unless the municipal manager directs otherwise, bids are invited within the Republic only.
- (17) The laws of the Republic will apply and govern contracts of the CoM arising from the acceptance of bids.

#### **12.7.2 Public invitation for competitive bids**

- (1) A notice of invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating within the municipal area of the CoM in English, the website of the CoM, the official

notice board of the CoM ,the E-tender on the central supplier database or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin).when advertising a tender, the date must be the same on all medium of communication except if placed on the national newspaper which will be issued on the weekend after the bid advertised on the local newspaper.

(2) The notice of invitation contemplated in sub-section (1) must contain the following advertisement information-

- (a) subject to section 12.16(3), the closure date and time for the submission of bids, which may not be less than 30 (thirty) days in the case of transactions over R10 million (including VAT), or which are of a long term nature, 21 (twenty-one) days for construction works or 14 (fourteen) days in any other case, from the date on which the advertisement is placed in a newspaper, subject to sub-section (3);
- (b) A statement that bids may only be submitted on the bid documentation provided by the CoM;
- (c) The title of the proposed contract and the bid or contract reference number;
- (d) Such particulars of the proposed contract as the CoM deems fit;
- (e) The date, time and location of any site inspection, if applicable;
- (f) The place where the bid documentation is available for collection and the times between which bid documentation may be collected;
- (g) The place where bids must be submitted;
- (h) The required CIDB contractor grading for construction works, if applicable; and
- (i) The validity period of the bid.

- (3) The municipal manager may determine a closure date for the submission of bids which is less than the 30 (thirty) or 14 (fourteen) days requirement provided in sub-section (2), but only if such shorter period can be justified on the grounds of an emergency as contemplated in section 12.22(1)(a)(i) read with section 12.22(3), (4), (5) and (6), urgency or any exceptional case where it is impractical or impossible to follow the official procurement process.
- (4) The bid notice may require payment of a non-refundable tender fee by bidders wanting to collect bid documents, which tender fee will be determined by the chief financial officer in terms of section 8 of this policy.
- (5) Bid documentation will be available for collection on the same day the tender is advertised and until the closing date and time of bids.
- (6) Bids submitted to the CoM must be sealed.
- (7) Where bids are requested in electronic format, such bids must be supplemented by sealed hard copies.

#### **12.7.3 Issuing of Bid Documents**

- (1) Bid documents and any subsequent notices may only be issued by officials designated by the Assistant director: supply chain management, from time to time.
- (2) Details of all prospective bidders who have been issued with bid documents must be recorded by the issuing office but shall remain **confidential** for the duration of the bid period.
- (3) Details of prospective bidders must, wherever possible, include the full name of the person drawing documents, a contact person, a contact telephone and fax number and a postal and email address.

#### **12.7.4 Site Inspections**

- (1) In general and where applicable, site inspections will not be compulsory.

- (2) A site inspection may be made compulsory, manager of the SCMU, provided that the minimum bid periods referred to in this policy are extended by at least 7 (seven) days.
- (3) If site inspections are to be held, full details must be included in the bid notice, including whether or not the site inspection is compulsory.
- (4) Where site inspections are made compulsory, the date for the site inspection must be at least 14 (fourteen) days after the bid has been advertised, and a certificate of attendance signed by the responsible agent must be submitted with the bid.
- (5) If at a site meeting, any additional information is provided or clarification of vague points is given, such additional information or clarification must be conveyed to all bidders in accordance with section 12.7.12 of this policy.

#### **12.7.5 two-stage (Prequalification) Bidding Process**

- (1) In a two-stage (prequalification) bidding process, bidders are, in the first-stage, invited to prequalify in terms of predetermined criteria, without being required to submit detailed technical proposals (where applicable) or a financial offer.
- (2) In the second stage, all bidders that qualify in terms of the predetermined criteria will be shortlisted and invited to submit final technical proposals (where applicable) and/or a financial offer.
- (3) This process may be applied to bids for large complex projects of a specialist or long term nature or where there are legislative, design, technological and/or safety reasons to restrict bidding to firms who have proven their capability and qualification to meet the specific requirements of the bid, including projects where it may be undesirable to prepare complete detailed technical specifications or long term projects with a duration exceeding 3 (three) years.
- (4) The notice inviting bidders to pre-qualify must comply with the provisions of public invitation for competitive bids provided in section 12.7.2.

- (5) Once bidders have pre-qualified for a particular project, they must be given no less than 7 (seven) days to submit a final technical proposal (where applicable) and/or a financial offer.
- (6) Procurement of strip and quote services must be obtained by utilising the two-stage bidding process provided in this section.

#### **12.7.6 Two Envelope System**

- (1) A two envelope system differs from a two-stage (prequalification) bidding process in that a technical proposal and the financial offer are submitted in separate envelopes at the same place and time.
- (2) The financial offers will only be opened once the technical proposals have been evaluated.

#### **12.7.7 Validity Periods**

- (1) The period for which bids are to remain valid and binding must be indicated in the bid documents. If no bidder has been appointed during the validity period, or the extended validity period as referred to below, the bid will lapse.
- (2) The validity period is calculated from the bid closure date and bids shall remain in force and binding until the end of the final day of that period.
- (3) This period of validity may be extended by the chairperson of the bid evaluation committee, provided that:
  - (a) the original validity period of the bid has not expired;
  - (b) all the bidders who have submitted bids have been requested to consent to the extension of the validity period; council shall reserve the right to continue with the normal process
  - (c) if one or more bidders who have submitted bids have agreed in writing to the extension of the validity period of the bid; the municipality continue with the normal bidding process
  - (d) if no bidder responded in writing, the bid shall be cancelled and be re-advertised unless depending on compelling reasons and the

approval of the Municipal Manager, the bid may be taken through the normal bid committee processes and

- (e) The validity period of a bid may only be extended once.
- (4) Bidders who fail to respond to the request referred to in sub-section 3(b) above, or who decline such a request, shall be considered further in the bid evaluation process of the tender they submitted.
- (5) If bidders are requested to extend the validity period of their bids as referred to in sub-section 3 as a result of an objection or complaint being lodged:
  - (a) it must be made clear to bidders that this is the reason for the request for the extension of the validity period; and
  - (b) The responsible official must ensure that all bidders are requested to extend the validity period of their bids where necessary in order to ensure that the bids remain valid throughout the objection or complaint period or until the objection or complaint is finalised.

#### **12.7.8 Contract Price Adjustment**

- (1) For all contract periods equal to or exceeding 1 (one) year, an appropriate contract price adjustment formula must be specified in the bid documents.
- (2) In general, if contract periods do not exceed 1 (one) year, the bid shall be a fixed price bid and not subject to contract price adjustment.
- (3) If, however, as a result of any extension of time granted, the duration of a fixed price contract exceeds 1 (one) year, the contract will automatically be subject to contract price adjustment for that period by which the extended contract period exceeds such 1 (one) year.
- (4) An appropriate contract price adjustment formula must be specified in the bid documents.
- (5) Notwithstanding sub-section (2), if the bid validity period is extended, then contract price adjustment may be applied.

- (6) No contract must be extended by a period exceeding three months, if the need arises for such an extension, the request must be submitted two months before the contract expires shall go through the process in terms of para.12.11,12.12 and 12.13 of this policy

#### **12.7.9 Provisional Sums and Prime Cost Items**

- (1) If monetary allowances in excess of R200 000 for provisional sums or prime cost items have been included in the bid documents, and where the work or items to which the sums relate are to be executed/supplied by subcontractors/suppliers, then a competitive bidding process, as determined by the manager of the SCMU from time to time, shall be followed in respect of these sums/items.
- (2) When monetary allowances of less than R200 000 have been included in the bid documents, and where the work or items to which the sums relate are to be executed/supplied by sub-contractors/suppliers, the contractor must be required to obtain a minimum of 3 (three) written quotations for approval by the responsible agent.



#### **12.7.10 Samples**

- (1) Where samples are called for in the bid documents, samples (marked with the bid and item number as well as the bidder's name and address) must be delivered separate from the bid to the addressee mentioned in the bid documents.
- (2) Bids may not be included in parcels containing samples.
- (3) If samples are not submitted as required in the bid documents or within any further time stipulated by the chairperson of the bid evaluation committee in writing, then the bid concerned may be declared non-responsive.
- (4) Samples must be supplied by a bidder at his/her own expense and risk.
- (5) The CoM will not be obliged to pay for such samples or compensate for the loss thereof, unless otherwise specified in the bid documents, and reserves the right not to return such samples and to dispose of them at its own discretion.
- (6) If a bid is accepted for the supply of goods according to a sample submitted by the bidder, that sample will become the contract sample.
- (7) All goods/materials supplied shall comply in all respects to that contract sample.

#### **12.7.11 Closing of Bids**

- (1) Bids shall close on the date and at the time stipulated in the bid notice.
- (2) The bid closing date of bids for goods and services must be at least 14(fourteen) days after publication of the notice.
- (3) For construction works the bid closing date must be at least 21 (twenty one) days after publication of the notice.
- (4) Notwithstanding the above, if the estimated contract value exceeds R10 million (VAT included), or if the contract is of a long term nature with adjuration



period exceeding one year, then the bid closing date must be at least 30 (thirty) days after publication of the notice.

- (5) For banking services, the bid closing date must be at least 30 (thirty) days after publication of the notice.
- (6) For proposal calls using a two envelope system, the bid closing date must be at least 30 (thirty) days after publication of the notice.
- (7) The bid closing date may be extended prior to the original bid closing date by the manager of the SCMU, if circumstances justify such an extension, provided that the closing date may not be extended unless a notice is published in the press where the bid was originally advertised, which notice must also be posted on the official notice boards designated by the municipal manager.
- (8) The municipal manager may determine a closing date for the submission of bids which is less than any of the periods specified in this section, but only if such shorter period can be justified on the grounds of an emergency, urgency or any exceptional case where it is impractical or impossible to follow the official procurement process.

#### **12.7.12 Communication with bidders before bid closing**

- (1) The chairperson of the bid specification committee may, if necessary, communicate with prospective bidders and/or bidders who have already submitted bids, or indicated the intention to do so, prior to bids closing.
- (2) Such communication shall be in the form of a notice issued to all prospective bidders and/or bidders who have already submitted bids, or indicated the intention to do so by the manager of the SCMU by either e-mail, facsimile, or registered post, as may be appropriate.
- (3) A copy of the notice together with a transmission verification report/proof of posting shall be kept for record purposes.

- (4) Notices should be issued at least 1 (one) week prior to the bid closing date, where possible.
- (5) Notwithstanding a request for acknowledgement of receipt of any notice issued, the prospective bidders and/or bidders who have already submitted bids, or indicated the intention to do so will be deemed to have received such notice if the procedures in sub-sections (2), (3) and (4) have been complied with.

#### **12.7.13 Submission of Bids**

- (1) Bids must be submitted before the closing date and time, at the address and in accordance with the directives in the bid documents.
- (2) Each bid must be in writing using non-erasable ink and must be submitted on the official form of bid/offer issued with the bid documents.
- (3) The bid must be submitted in a separate sealed envelope with the name and address of the bidder, the bid number and title, the bid box number (where applicable), and the closing date indicated on the envelope.
- (4) The envelope may not contain documents relating to any bid other than that shown on the envelope.
- (5) Only sealed bids will be accepted.
- (6) The onus shall be on the bidder to place the sealed envelope in the official, marked and locked bid box provided for this purpose, at the designated venue, not later than the closing date and time specified in the bid notice.
- (7) Postal bids will not be accepted for consideration.
- (8) No bids forwarded by telegram, facsimile or similar apparatus may be considered.
- (9) Photostat copies of bids or facsimiles which are submitted in the prescribed manner will, however, be considered, provided the original forms of bid/offer can be shown to have been posted or couriered prior to the close of bids.

- (10) Electronic bids will not be accepted.
- (11) The bidder shall choose a *domicilium citandi et executandi* within the Republic and unless notice of the change thereof has duly been given in writing, it shall be the address stated in the bid.
- (12) No person may amend or tamper with any bids or quotations after their submission.

#### **12.7.14 Late Bids**

- (1) A bid is late if it is not placed in the relevant bid box by the closing time for such bid.
- (2) A late bid will not be admitted for consideration and where feasible, but without any obligation to do so whatsoever, will be returned unopened to the bidder with the reason for the return thereof endorsed on the envelope.

#### **12.7.15 Opening of Bids**

- (1) At the specified closing time on the closing date, the applicable bid box must be closed in public.
- (2) The bid box must be opened in public as soon as practical after the closing time.
- (3) Immediately after the opening of the bid box, all bids must be opened in public and at the same time and checked for compliance.
- (4) The official opening the bids must in all cases read out the name of the bidder and, where practical, the amount of the bid.
- (5) As soon as a bid or technical proposal has been opened the municipal manager must ensure that:
  - (a) All bids received in time must be recorded in the bid opening record;
  - (b) The bid/proposal must be stamped with the official stamps, and endorsed with the opening official's signature;

- (c) The name of the bidder, and where possible, the bid sum must be recorded in the bid opening record kept for that purpose;
  - (d) The responsible official who opened the bid shall forthwith place his/her signature on the bid opening record;
  - (e) The bid opening record must be made public for inspection; and
  - (f) The entries in the bid opening record and the bid results must be published on the website of the CoM.
- (6) Bids found to be inadvertently placed in the incorrect bid box will be redirected provided that the applicable bids either closed on the same day at the same time, or are still open, in which case the CoM disclaims any responsibility for seeing that the bids are in fact lodged in the correct bid box.
- (7) A record of all bids placed in an incorrect box must be kept.
- (8) Bids received in sealed envelopes in the bid box without a bid number or title on the envelope will be opened at the bid opening and the bid number and title ascertained.
- (a) A bid which was in the correct bid box it will be read out;
  - (b) A bid which is found to be in the incorrect bid box, it will be redirected provided that the applicable bids either closed on the same day at the same time, or are still open; and
  - (c) Where the bid closes at a later date, the bid will be placed in a sealed envelope with the bid number and title endorsed on the outside, prior to being lodged in the applicable box.
- (9) The CoM, however, disclaims any responsibility for seeing that the bid is in fact lodged in the correct box.

**12.7.16 Opening of Bids where a Two-Envelope System (consisting of a technical proposal and a financial proposal) is followed**

- (1) Where a two-envelope system is followed, only the technical proposal will be opened at the bid opening.
- (2) The unopened envelope containing the financial proposal shall be stamped and endorsed with the opening official's signature, and be retained by him/her for safekeeping.
- (3) When required the financial offers/bids corresponding to responsive technical proposals, must be opened by the opening official in accordance with section 12.7.15 (4) and (5).
- (4) All bidders who submitted responsive technical proposals must be invited to attend the opening of the financial offers/bids.
- (5) Envelopes containing financial offers/bids corresponding to non-responsive technical proposals shall be returned unopened along with the notification of the decision of the bid adjudication committee in this regard.
- (6) After being recorded in the bid opening record, the bids/technical proposals must be handed over to the official responsible for the supervision of the processing thereof and that official must acknowledge receipt thereof by signing the bid opening record.

#### **12.7.17 Invalid Bids**

- (1) Bids will be invalid and be endorsed and recorded as such in the bid opening record by the responsible official appointed by the manager of the SCMU to open the bid, in the following instances:
  - (a) Where the bid is not sealed;
  - (b) Where the bid, including the bid price/tendered amount, where applicable is not submitted on the official form of bid/offer;
  - (c) Where the bid is not completed in non-erasable ink;
  - (d) Where the form of bid/offer has not been signed;

- (e) Where the form of bid/offer is signed, but the name of the bidder is not stated, or is indecipherable; or
  - (f) Where in a two-envelope system, the bidder fails to submit both a technical proposal and a separate sealed financial offer/bid.
- (2) When bids are declared invalid at the bid opening, the bid sum of such bids may not be read aloud, however, the name of the bidder and the reason for the bid having been declared invalid must be announced.

#### **12.7.18 Bid Sum**

- (1) A bid will not necessarily be invalidated if the amount in words and the amount in figures do not correspond, in which case the amount in words must be read aloud at the bid opening and this will be the price upon which bid is evaluated.
- (2) All rates, with the exception of rates only bids, and proprietary information are confidential and may not be disclosed.

#### **12.8 Committee System for Competitive Bids**

- (1) The committee system of the CoMfor competitive bids provides for-
  - (a) A bid specification committee;
  - (b) A bid evaluation committee; and
  - (c) A bid adjudication committee.
- (2) The municipal manager of the CoM-
  - (a) Must appoint the members of each committee and, in doing so, must take into account the provisions of section 117 of the MFMA;
  - (b) May, when appropriate, appoint a neutral or independent observer in order to ensure fairness and transparency in the application of this acquisition management system; and
  - (c) May apply the committee system to formal written price quotations.

## **12.9 Bid Specification**

- (1) The bid specification committee or delegated official must compile the specifications for all procurements of goods and/or services by CoM.**
- (2) The specifications-**
  - (a) Must be drafted in an unbiased manner to allow all potential suppliers to offer their goods and/or services;**
  - (b) must take account of any accepted standards such as those issued by Standards South Africa, the International Standards Organisation, or an authority accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply;**
  - (c) Where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design;**
  - (d) may not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labelling of conformity certification;**
  - (e) may not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the words 'equivalent';**
  - (f) Must indicate each specific goal for which points may be awarded; and**
  - (g) the committee must make sure that the provincial VTSD plan is incorporated in the tender and that relevant goals give content to the plan –i.e. either as a tender requirement of points for functionality**



- (h) **Make sure that invited bidders from other province and municipalities including other countries offer not less than 30 percent of joint venture or sub-construction**

**Tenders to be evaluated on functionality**

- (i) **Must be approved by the municipal manager or delegated official prior to publication of the invitation for bids in terms of section 12.7.2.**
- (7) **The municipality must state in the tender documents if the tender will be evaluated on functionality.**
    - (7.1) **The evaluation criteria for measuring functionality must be objective.**
    - (7.2) **The tender documents must specify-**
      - (a) **the evaluation criteria for measuring functionality;**
      - (b) **the points for each criteria and, if any, each sub-criterion; and**
      - (c) **the minimum qualifying score for functionality.**
  - (8) **The minimum qualifying score for functionality for a tender to be considered further-**
    - (a) **must be determined separately for each tender; and**
    - (b) **may not be so-**
      - (i) **low that it may jeopardise the quality of the required goods or services; or**
      - (ii) **high that it is unreasonably restrictive.**
  - (8.1) **Points scored for functionality must be rounded off to the nearest two decimal places.**
  - (8.2) **A tender that fails to obtain the minimum qualifying score for functionality as indicated in the tender documents is not an acceptable tender.**
  - (8.3) **Each tender that obtained the minimum qualifying score for functionality must be evaluated further in terms of price and the preference point system and any objective criteria envisaged in the preferential procurement regulation**
- (5) **Where specifications are based on standard documents available to bidders, a reference to those documents is sufficient.**
  - (6) **The specification must be approved by municipal manager or the delegated official prior to advertisement of the quotations or bid.**

**12.10 Bid Specification Committee**

- (1) **All bid specifications and bid documentation must be compiled by an ad-hoc bid specification committee constituted for each project or procurement activity.**



- (2) The bid specification committee shall be comprised of at least 3 (three) officials of the CoM, an appointed chairperson, a responsible official and at least 1 (one) supply chain management practitioner of the CoM.
- (3) Where appropriate a representative of Internal Audit and/or Legal Services and/or an external specialist advisor may form part of this committee.
- (4) Green procurement must be incorporated as far as reasonable possible, for all specifications of goods and services.
- (5) In the development of bid specifications, innovative mechanisms should be explored to render the service or product more resource and energy efficient.
- (6) The municipal manager, or his delegated authority, must, taking into account the provisions of section 117 of the MFMA, appoint the members of the bid specification committees.
- (7) No person, advisor or corporate entity involved with the bid specification committee, or director of such corporate entity, may bid for any resulting contracts.
- (8) Determine if the project must be done by a single service provider or supplier or multiple service provider and based on the circumstances and the interest of the community, size of the project also determine the number of the suppliers or service provider who may be recommended for the implementation of the service or project
- (9) Bid specification committee meetings must be conducted in accordance with the applicable Rules of Order regulating the conduct of meetings.

#### **12.11 Bid evaluation**

- (1) The CoM shall not be obliged to accept any bid.
- (2) The CoM shall have the right to accept the whole or part of a bid or any item or part of an item of a bid or to accept more than one bid for goods and services.

- (3) The bid evaluation committee must-
- (a) Evaluate bids in accordance with-
    - (i) The specifications for a specific procurement; and
    - (ii) The points system as prescribed by the PPPFA, and pertaining to functionality (if applicable) in accordance with the PPR and National Treasury Circular 53;
  - (b) Evaluate each bidder's ability to execute the contract;
  - (c) Check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears; and
  - (d) Submit to the adjudication committee a report and recommendations regarding the award of the bid or any other related matter.
- (4) The bid evaluation committee must as far as possible be composed of-
- (a) Officials from departments requiring the goods and/or services; and
  - (b) At least one supply chain management practitioner of the CoM.
- (5) The responsible agent and the SCM compliance officer or delegated official(who is not a members of the Evaluation or Adjudication Committee) must carry out a preliminary evaluation of all valid bids received and submit a draft bid evaluation report to the bid evaluation committee for consideration.
- (6) Any evaluation of a bid must consider the bids received and note for inclusion in the evaluation report, a bidder:
- (a) whose/which bid was endorsed as being invalid by the responsible official at the bid opening;
  - (b) whose/which bid do not comply with the provisions for combating abuse of this policy;
  - (c) whose/which bid do not comply with the general conditions applicable to bids and quotations of this policy;

- (d) whose/which bid do not comply with specifications;
  - (e) whose/which bid does not meet the minimum points for functionality, if applicable;
  - (f) whose/which bid is not in compliance with the terms and conditions of the bid documentation;
  - (g) whose/which bid does not comply with any minimum points and goals stipulated in terms of the preferential procurement section of this policy and the PPPFA;
  - (h) who/which is not registered and/or listed on the list of accredited providers of the CoM;
  - (i) who/which, in the case of construction works acquisition, do not comply with the requirements of the CIDBA regarding registration of contractors;
  - (k) who/which has failed to submit an original and valid tax clearance certificate from SARS, certifying that the taxes of the bidder are in order or that suitable arrangements have been made with SARS,
  - (l) who/which fails to comply with any applicable Bargaining Council agreements; and
  - (m) who/which are in arrears with its municipal service charges accounts.
- (7) Bids shall be evaluated according to the following as applicable:
- (a) Bid price and specific goals as per the applicable provisions of the PPPFA (corrected, if applicable and brought to a comparative level where necessary);
  - (b) The unit rates and prices;
  - (c) The bidder's ability to execute the contract;
  - (d) Any qualifications to the bid;

- (e) The bid ranking obtained in respect of preferential procurement as required by this policy;
  - (f) The financial standing of the bidder, including its ability to furnish the required institutional guarantee, where applicable; and
  - (g) Any other criteria specified in the bid documents.
- (8) No bidder may be recommended for an award unless the bidder has demonstrated that it has the resources and skills required to fulfil its obligations in terms of the bid document.
  - (9) The bid evaluation committee must check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears.
  - (10) Additional information or clarification of bids may be called for if required but only in writing.
  - (11) Alternative bids may be considered, provided that a bid free of qualifications and strictly in accordance with the bid documents is also submitted.
  - (12) Where a bidder requests in writing, after the closing of bids, that his/her bid be withdrawn, then such a request may be considered and reported in the bid evaluation report for decision by the bid adjudication committee.
  - (13) The bidder obtaining the highest number of points should be recommended for acceptance unless there are objective criteria in addition to the criteria mentioned in section 2(1)(d) and section 2(1)(e) of the PPPFA justifying the award of the bid to another bidder.
  - (14) Where, after bids have been brought to a comparative level, 2 (two) or more score equal total adjudication points, the recommended bidder shall be the one scoring the highest preference points.
  - (15) Where 2 (two) or more bids are equal in all respects, the bid evaluation committee will draw lots to decide on the recommendation for award, or may,

in the case of goods and services, recommend splitting the award proportionately, where applicable.

- (16) All disclosures of a conflict of interest must be considered by the bid evaluation committee and shall be reported to the bid adjudication committee.
- (17) The bid evaluation committee must, having considered the responsible agent's draft report, submit a report, including recommendations regarding the award of the bid or any other related matter, to the bid adjudication committee for award.

#### **12.12 Bid Evaluation Committee**

- (1) An ad-hoc bid evaluation committee must be constituted for each project or procurement activity to evaluate bids received.
- (2) The bid evaluation committee shall be comprised of at least 3 (three) officials of the CoM, an appointed chairperson, who may be the same person as the chairperson of the bid specification committee, a responsible official and atleast one supply chain management practitioner of the CoM.
- (3) Where appropriate, a representative of Internal Audit and/or Legal Services may form part of this committee, which may also include other internal specialists/experts as necessary.
- (4) External specialists/experts may advise the bid evaluation committee, as required.
- (5) The municipal manager, or his delegated authority, must, taking into account the provisions of section 117 of the MFMA, appoint the members of the bid evaluation committees.
- (6) Bid evaluation committee meetings must be conducted in accordance with the applicable Rules of Order regulating the conduct of meetings.

#### **12.13 Bid adjudication**

- (1) The bid adjudication committee must-

- (a) Consider the report and recommendations of the bid evaluation committee; and
  - (b) Either-
    - (i) Depending on its delegations, make a final award or a recommendation to the municipal manager to make the final award; or
    - (ii) Make another recommendation to the municipal manager on how to proceed with the relevant procurement.
- (2) The bid adjudication committee may make an award to a preferred bidder, subject to the municipal manager negotiating with the preferred bidder.
- (3) The municipal manager may negotiate the final terms of a contract with bidders identified through a competitive bidding process as preferred bidders, provided that such negotiation-
  - (a) Does not allow any preferred bidder a second or unfair opportunity;
  - (b) is not to the detriment of any other bidder;
  - (c) Does not lead to a higher price than the bid as submitted;
  - (d) Minutes of such negotiations must be kept for record purposes; and overall;
  - (e) Does not materially affect the bid in a manner which compromises the integrity of the bidding process.
- (4) If a bid other than the one recommended in the normal course of implementing this policy is approved, then the municipal manager must, within 10 (ten) working days and in writing, notify the Auditor-General, the Provincial Treasury and the National Treasury of the reasons for deviating from such recommendation.

- (5) The municipal manager may, at any stage of a bidding process, refer any recommendation made by the bid evaluation committee or bid adjudication committee back to that committee for reconsideration of the recommendation
- (6) A person aggrieved by a decision or action taken in the execution of this policy may lodge within 14 (fourteen) days of such a decision or action a written objection or complaint to the CoM against the decision or action as set out in section 20.3 of this policy.
- (7) Bid documents must state that any objection or complaint in terms of subsection (6) above must be submitted to the municipal manager at the address stated, and must contain the following:

  - (a) Reasons and/or grounds for the objection or complaint;
  - (b) The way in which the objector or complainant's rights have been affected; and
  - (c) The remedy sought by the objector or complainant.
- (8) No bid may be formally accepted until either the expiry of the 14 (fourteen) day objection or complaint period, confirmation in writing before the expiry of the 14 (fourteen) day objection or complaint period that none of the affected parties intend to object or complain or confirmation of the satisfactory resolution of any objection or complaint.
- (9) If the bid adjudication committee or other delegated official has resolved that bid be accepted, the successful and unsuccessful bidders must be notified in writing of this decision.
- (10) The successful bidder must, in addition, be advised of the 14 (fourteen) day objection or complaint period, and be notified that no rights accrue to him/her until the bid is formally accepted in writing.
- (11) Every notification of decision must be faxed or sent via electronic mail to the address chosen by the bidder, with a copy of proof of transmission kept for record purposes, or shall be delivered by hand, in which case



acknowledgement of receipt must be signed and dated on a copy of such notification which must be kept for record purposes.

- (12) Where it becomes necessary to cancel or re-advertise formal bids, a report to this effect must be submitted to the bid adjudication committee for decision.
- (13) Where bids have been cancelled, all bidders must be notified of such cancellation in writing.
- (14) It is not necessary to notify original bidders when new bids are invited and advertised.
- (15) No bid may be re-advertised before the expiry of the validity period of the original bid or any extended validity period.
- (16) Notwithstanding sub-section (14) and where no valid bids are received or all bidders have indicated in writing that they have no objection to the re-advertisement of the bid, then the bid may forthwith be re-advertised.
- (17) In the case of bids for construction works, and where the bid adjudication committee resolved that there were no responsive bids received, then the bid may forthwith be re-advertised.
- (18) Any increase in the contract period, in respect of term bids, or contract sum, in respect of one-off contracts, that may become necessary as a result of exceptional circumstances or increase in the scope of work, or which are considered to be in the public's interest, may be effected subject to the provisions of section 116 of the MFMA. Such amendments must be effected prior to the contract period expiring or contract sum being exceeded.
- (19) Where community participation has been a part of the contract, the community must be advised of the proposed increase and be invited to provide written comment thereon.
- (20) Any unapproved increases in the contract sum or scope of work or contract period which have become necessary as a result of exceptional circumstances, or which have been considered to be in the public's interest,



must be explained in a report to the bid adjudication committee requesting condonation and approval for such unapproved increase.

(21) Any adjustment as indicated on paragraph 18 and 20 of 12.13 above shall be submitted for approval 60 days before the order is printed or in case of projects before any payment certificate is compile and shall go through the Bid Evaluation and the Adjudication process.it is the responsibility of the department to make sure that the adjustments or increase as indicated on paragraph 18 and 19 of 12,13

(22) the decrease or the increase project funds or adjustment of project name must be approved by council and such changes must be effected on the Budget, the SDBIP, IDP of the municipality

(a) The department must write an item to council to request the approval to effect the change

(b) if approval has been obtained, the department shall write a report to all bid committee of the municipality to consider and minute the changes.

(c) the committee shall recommend the changes to the municipal manager or delegated official

#### **12.14 Bid Adjudication Committee**

(1) The bid adjudication committee must consist of at least four senior managers of the CoM which must include-

(a) The chief financial officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer;

(b) At least one senior supply chain management practitioner who is an official of the CoM; and

(c) a technical expert in the relevant field who is an official of the CoM, if the CoM has such an expert.

- (2) The municipal manager must appoint the chairperson of the committee. When the chairperson is absent from a meeting, the members of the committee who are present must elect one of them to preside at the meeting.
- (3) Neither a member of a bid evaluation committee, nor an advisor or person assisting the evaluation committee, may be a member of a bid adjudication committee.
- (4) Where the bid adjudication committee decides to award a bid other than the one recommended by the bid evaluation committee, the bid adjudication committee must prior to awarding the bid-
  - (a) Check in respect of the preferred bidder whether that bidder's municipal rates and taxes and municipal service charges are not in arrears;
  - (b) Notify the municipal manager, who may-
    - (i) After due consideration of the reasons for the deviation, ratify or reject the decision of the bid adjudication committee; and
    - (ii) If the decision of the bid adjudication committee is rejected, refer the decision of the adjudication committee back to that committee for re-consideration.
- (5) The municipal manager may at any stage of a bidding process, refer any recommendation made by the evaluation committee or the adjudication committee back to that committee for re-consideration of the recommendation.
- (6) The municipal manager must comply with the procedure set out in terms of the provisions of section 114 of the MFMA and within 10 (ten) working days.

#### **12.15 Term Bids**

- (1) Term bids are for the supply of goods and/or services that is of an ad-hoc or repetitive nature for a predetermined period of time.
- (2) The CoM may invite term bids.

- (3) The general acquisition procedure for term bids must comply with procedures contained in the acquisition management system for competitive bids.
- (4) Where applicable bid documentation must state that the acceptance of term bids based on a schedule of rates will not necessarily guarantee the bidder any business with the CoM.
- (5) The practice of using term bids to circumvent the bid process in respect of what should be planned project work is not permissible.
- (6) Material for repairs and maintenance can be purchased on a term bid where circumstances warrant it.
- (7) Additional items included in a term bid by any bidder which are clearly not an alternative to any of the items specified will not be considered.
- (8) The process for considering term bids must be in terms of the evaluation and adjudication procedures for conventional competitive bids.
- (9) Subsequent to an award where different selections of items are required in terms of the same term bid, and where it is not possible or practical to separate orders for different items from different suppliers, service providers or contractors, then and in that instance, a selection process must be carried out in respect of each application by the responsible agent. Individual orders must be placed on the basis of the highest total evaluation points received, per application.
- (10) Where the selected supplier, contractor or service provider, in terms of the selection process specified in the term bid documentation, is unable to provide the required goods, services or construction works at the required time and confirms as such in writing, the bidder with the next highest valuation points must be selected.
- (11) Where, after a contract has been awarded, or an order is placed in terms of a term bid, the supplier, contractor or service provider fails to supply the goods or service required, then the remedies in terms of the contract will apply.

## **12.16 Procurement of banking services**

- (1) A contract for the provision of banking services to the CoM-
  - (a) Must be procured through competitive bids;
  - (b) Must be consistent with the provisions of section 7 of the MFMA; and
  - (c) May not be for a period of more than 3 (three) years at a time.
- (2) The process for procuring a contract for banking services must commence at least 9(nine) months before the end of an existing contract.
- (3) The closure date for the submission of bids may not be less than 60 (sixty) days from the date on which the advertisement is advertised.
- (4) Bids must be restricted to banks registered in terms of the Banks Act, Act 94 of 1990.

## **12.17 Procurement of IT related goods and/or services**

- (1) The municipal manager may request the State Information Technology Agency (SITA) to assist the CoM with the acquisition of IT related goods and/or services through a competitive bidding process.
- (2) The parties must enter into a written agreement to regulate the services rendered by, and the payments to be made to SITA.
- (3) The municipal manager must notify SITA together with a motivation of the IT needs of the CoM where-
  - (a) The transaction value of IT related goods and/or services required by the CoM in any financial year will exceed R50 million (including VAT); or
  - (b) The transaction value of a contract to be procured by the CoM whether for one or more years exceeds R50 million (including VAT).
- (4) If SITA comments on the submission and the CoM disagrees with such comments, the comments and the reasons for rejecting or not following such

comments of SITA must be submitted to the council, the Provincial and National Treasury and the Auditor General prior to awarding the bid.

**12.18 Procurement of Goods and Services under Contracts Secured by Other Organs of State**

- (1) The municipal manager may procure goods and/or services for the CoM under a contract secured by another organ of state, but only if-
  - (a) The contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state;
  - (b) The CoM has no reason to believe that such contract was not validly procured;
  - (c) There are demonstrable discounts or benefits for the CoM to do so; and
  - (d) That other organ of state and the relevant provider have consented to such procurement in writing.
  - (e) The need for procuring goods or service through a contract secured by other state shall be recorded on the demand management plan and on the minutes of the specification
  - (f) When considering any contract secured by other organ of state, reports and supporting documents shall go through the committee system of the municipality
  - (g) Such service shall be sourced from an existing contract, with the same specification, terms and condition, in case of a long term or short term contract, the contract shall lapse the same period as indicated on the contract of the principal organ of state or the organ of state which appointed the service provider or supplier.

#### **12.19 Procurement of Goods Necessitating Special Safety Arrangements**

- (1) Goods, other than water, petrol and/or chlorine, which necessitate special safety arrangements, may not be acquired or stored in bulk and in excess of immediate requirement, including gasses, unless sound justification therefore exists.
- (2) Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership and cost advantages for the CoM and the municipal manager may then authorize the same.

#### **12.20 Proudly SA Campaign**

The CoM supports the Proudly SA Campaign and may identify, as a specific goal the promotion of South African owned enterprises in its procurement processes.

#### **12.21 Appointment of consultants**

- (1) The municipal manager may procure consulting services provided that Treasury and CIDB guidelines in respect of consulting services are taken into account when such procurements are made.
- (2) A contract for the provision of consultancy services to the CoM must be procured through competitive bids where-
  - (a) The value of the contract exceeds R200 000 (including VAT); or
  - (b) The duration period of the contract exceeds 1 (one) year.
- (3) In addition to the requirements prescribed for competitive bids in this policy, bidders must furnish the CoM with particulars of-
  - (a) All consultancy services provided to an organ of state in the last 5 (five) years; and
  - (b) Any similar consultancy services provided to an organ of state in the last 5 (five) years.



- (4) Dividing the transaction values of required consultant appointments into lesser transaction values in order to circumvent the competitive bidding process is not permitted.
- (5) Where the estimated value of consultant fees is less than or equal to R200000 (including VAT) and the duration of the appointment is less than 1 (one) year, the selection of a consultant to provide the required service must follow a written price quotation or a formal written price quotation procedure as provided for in this policy.
- (6) Responsible agents must endeavour to ensure that there is rotation in respect of inviting suitably qualified consultants to submit quotes.
- (7) A price/preference points system, contained in the preferential procurement section of this policy, must be applied to such quotations.
- (8) Where it is in the interests of the CoM to follow an advertised process, a formal competitive bidding process in accordance with the requirements of this policy may be followed.
- (9) The CoM must ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, thing, system or process designed or devised, by a consultant in the course of the consultancy service is vested in the CoM.
- (10) The CoM may only consider single-source selection where it is in line with the exceptional cases provided in National Treasury guidelines the justification for single-source selections examined in the context of the overall interests of the CoM and the project.
- (11) Single-source selection may be appropriate only if it presents a clear advantage over competition:
  - (a) For services that represent a natural continuation of previous work carried out by the consultant, and continuity of downstream work is considered essential;

- (b) **Where rapid selection is essential;**
  - (c) **For very small appointments;**
  - (d) **When only one consultant is qualified, or has experience of exceptional worth for the project.**
- (12) **The reasons for single-source selection must be fully motivated in a report and approved by the bid adjudication committee prior to conclusion of a contract, provided that if the award is for an amount of R200 000 (including VAT) or less, such award must be approved by the manager of the SCMU.**



## **12.22 Deviation from, and Ratification of Minor Breaches of Procurement Processes**

### **(1) The municipal manager may-**

- (a) Dispense with the official procurement processes established by this policy and to procure any required goods and/or services through any convenient process, which may include direct negotiations, but only-**
  - (i) For contracts relating to an emergency where it would not be in the interests of the CoM;**
  - (ii) If such goods and/or services are produced or available from a single provider only;**
  - (iii) Acquisition of animals for zoos and nature reserves;**
  - (iv) The acquisition of special works of art or historical objects where specifications are difficult to compile; and**
  - (v) In any other exceptional case where it is impractical or impossible to follow the official procurement processes, including, but not limited to-**
    - (aa) any purchase on behalf of the CoM at a public auction sale;**
    - (bb) any contract in respect of which compliance therewith would not be in the public interest; and**
    - (cc) ad-hoc repairs to plant and equipment where it is not possible to ascertain the nature or extent of the work required in order to call for bids;**
- (b) Ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature.**

- (2) The municipal manager must record the reasons for any deviations in terms of sub-section (1) (a) and (b) and report them to the next meeting of the council and must be included as a note to the annual financial statements. This sub-section does not apply to the procurement of goods and services contemplated in section 3(3) of this policy.
- (3) The conditions relating to the procurement of contracts relating to an emergency, as referred to in sub-section (1) (a) (i) above should include the existence of one or more of the following:
- (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 CoM as a whole;
  - (e) The possibility of serious damage occurring to the natural environment;
  - (f) The possibility that failure to take necessary action may result in the CoM not being able to render an essential community service; and
  - (g) The possibility that the security of the state could be compromised.
- (4) The prevailing situation, or imminent danger, should be of such a scale and nature that it could not readily be alleviated by interim measures, in order to allow time for the formal procurement process and may never be for an emergency which has been created by and due to the negligence of any official or employee of the CoM.
- (5) Emergency dispensation will not be granted in respect of circumstances other than those contemplated in sub-section (3) above.

- (6) Where possible, in an emergency situation, 3 (three) quotes in accordance with general acquisition management principles should be obtained and a report submitted to the municipal manager for approval. Where, however, time is of the essence, the emergency must be immediately addressed, and the process formalised in a report to the municipal manager as soon as possible thereafter.
- (7) The municipal manager may, upon recommendation of the bid adjudication committee, and only if good cause exists recommend to Council a condone any expenditure incurred in contravention of, or that is not in accordance with, a requirement of this policy, provided that-
- (a) This power may not be sub-delegated by the municipal manager;
  - (b) Such condonation will not preclude the taking of disciplinary steps against the responsible official;
  - (c) the condonation is not a contravention of other ACTs like the MFMA, MSA or SCM Regulation and
  - (d) Municipal Council can approve contravention of the Policy not of an Act or Regulation Only National Treasury can approve such Condonation and
  - (e) The municipal manager records the reasons for the condonation in writing, and reports them to the next meeting of the council and must be included as a note to the annual financial statements.
- (8) In the event where the municipal manager refuses to condone any expenditure referred to in sub-section (11), such expenditure will be deemed to be irregular expenditure as defined in terms of the provisions of section 1 of the MFMA, and must be treated as such by the municipal manager according to the relevant provisions provided therefore in the MFMA.
- (9) Any deviation below R100 000 (vat inclusive) shall be processed through the delegations of power, the department and Supply Chain shall ensure that the deviation comply with the regulation and that valid reason are indicated on the

item before been submitted to the Municipal Manager or his/her delegate and all deviation above R100 000 (vat inclusive) shall go through the committee system of Council

#### **12.23 Unsolicited bids**

- (1) The CoM is not obliged to consider any unsolicited bids received outside a normal bidding process.
- (2) The CoM may only consider an unsolicited bid if-
  - (a) The product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
  - (b) The product or service will be exceptionally beneficial to, or have exceptional cost advantages for the CoM;
  - (c) The person or entity who made the bid is the sole provider of the product or service; and
  - (d) The reasons for not going through the normal bidding processes are found to be sound by the municipal manager;
- (3) Where the municipal manager decides to consider an unsolicited bid that complies with sub-section (2), the CoM must make its decision public in accordance with the provisions of section 21A of the MSA, together with-
  - (a) Its reasons as to why the bid should not be open to other competitors;
  - (b) An explanation of the potential benefits for the CoM were it to accept the unsolicited bid; and
  - (c) An invitation to the public or other potential suppliers to submit their written comments within 30 (thirty) days of the notice.
- (4) Once the CoM has received written comments pursuant to sub-section (3), it must submit such comments, including any responses from the unsolicited bidder, to the National Treasury and the relevant provincial treasury for comment.

- (5) The CoM's adjudication committee must consider the unsolicited bid and may award the bid or make a recommendation to the municipal manager, depending on its delegations.
- (6) A meeting of the adjudication committee to consider an unsolicited bid must be open to the public and notice of such meetings must be made public in terms of the provisions of section 21 of the MSA.
- (7) When considering the matter, the adjudication committee must take into account-
  - (a) Any comments submitted by the public; and
  - (b) Any written comments and recommendations of the National Treasury or the relevant provincial treasury.
- (8) Where any recommendations of the National Treasury or provincial treasury are rejected or not followed, the municipal manager must submit to the Auditor General, the relevant provincial treasury and the National Treasury the reasons for rejecting or not following those recommendations.
- (9) Such submission must be made within 7 (seven) days after the decision on the award of the unsolicited bid is taken, but no contract committing the CoM to the bid may be entered into or signed within 30 (thirty) days of the submission.
- (10) An unsolicited bid shall go through the committee system of council.

### **13 LOGISTICS MANAGEMENT**

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Logistics management provides an effective logistic management system for the setting of inventory levels, placing of orders, receiving and distribution of goods, stores and warehouse management, expediting orders, transport management, vendor performance, maintenance and contract administration, as set out below:

### **13.1 Setting of Inventory Levels**

- (1) Stock items must be systematically replenished using the re-order point planning strategy in conjunction with minimum and maximum levels.
- (2) Open reservations must be taken into account during the replenishment run.

### **13.2 Placing of Orders**

- (1) Purchase orders must be created with reference to requisitions where the supply source is by means of contract or verbal, written or formal quotations.
- (2) All purchase orders which are for imported goods and which are subject to rate and exchange adjustments must specify that the vendor must take out forward exchange contract in order to fix the Rand based price in the purchase order.
- (3) A proper record of all purchase orders must be kept by the manager of the SCMU and a copy thereof must be submitted to the chief financial officer on a monthly basis.
- (4) Standing orders will be utilized in cases where a longer term arrangement, such as after hour services and copier contracts, are required.
- (5) Purchase order approvals must be system based and will involve the procurement department only.
- (6) The assets section (for asset creation) and the insurance section (for claims) must be informed after approval of any purchase orders.

### **13.3 Receiving and Distribution of Goods**

- (1) Goods will be received on the applicable computerized system utilised by the CoM with reference to purchase orders.
- (2) No over-receipt of stock may be allowed. The purchase order must be kept open founder-receipts for the outstanding delivery quantity.
- (3) Goods must be issued from stock with reference to reservations.

- (4) Goods may be issued for consumption against internal orders, cost centres, projects and assets under construction.**



#### **13.4 Stores and Warehouse Management**

- (1) The stores and warehousing function must be decentralised in different areas and will operate under the jurisdiction of the SCMU.
- (2) The SCMU must ensure proper financial and budgetary control, uphold the principle of effective administration, proper stock holding and control, product standardisation, quality of products and a high standard of service levels.

#### **13.5 Expediting Orders**

- (1) The purchasing expeditor is required to monitor and expedite outstanding purchase orders.
- (2) Reminder letters must be faxed automatically to vendors based on the reminder levels prior to the delivery due date which is set in the purchase order.

#### **13.6 Transport Management**

The CoM's Fleet Management Policy must be adhered to at all times.

#### **13.7 Vendor Performance**

- (1) The applicable computerized system of the CoM must enable system-based evaluation based on the vendors' performance with regard to certain pre-determined criteria.
- (2) The information will be available for contract negotiations and regular feedback to the vendors.



### **13.8 Contract Management**

- (1) The municipal manager must take all reasonable steps to ensure that contract management procured through this policy is properly implemented and enforced.
- (2) The contract management provisions in this policy are applicable to contracts for the provision of goods and/or services.
- (3) All contracts must be administered by an official(s) having the necessary competency in order to ensure effective management of the contract concerned. The responsibility of managing a contract falls on the specific directorate to which such a contract relates together with and in co-operation with the SCMU.

### **13.9 Maintenance and Contract Administration**

- (1) Contracts relating to the procurement of goods and services will be captured on the CoM's computerized system in the form of a price schedule.
- (2) Value (where the maximum value of the contract is restricted) and volume (where the maximum units procured are restricted) based contracts must be utilized.
- (3) The use of fixed price and fixed term contracts must be promoted and expenditure will be driven towards such contracts as opposed to once-off purchases.
- (4) Consolidated procurement volumes must be utilized to drive down negotiated contract prices.
- (5) Contract price adjustments may only be processed in accordance with contract terms and conditions.
- (6) Price adjustments must be made on the procurement contract and any current purchase orders must be changed to reflect the new price.

### **13.10 Contract Administration**

- (1) Contract administration is the last stage of the tendering and contract cycle, and includes all administrative duties associated with a contract after it is executed, including contract review.
- (2) The effectiveness of contract administration depend on how thoroughly the earlier steps were completed as changes can be made far more readily early in the tendering cycle than after contract management has commenced.
- (3) Some of the key early stages, which influence the effectiveness of contract administration and which the CoM must properly implement, include:

  - (a) Defining the outputs by writing specifications which identify what the aims and outputs of a contract will be;
  - (b) Assessing risk;
  - (c) researching the market place, including conducting pre-tender briefings;
  - (d) Formulating appropriate terms and conditions of contract;
  - (e) Identifying appropriate performance measures and benchmarks so that all parties know in advance what is expected, and how it will be tested;
  - (f) Actively creating competition, so the best possible suppliers bid for contracts; and
  - (g) Evaluating bids competently, to select the best contractor, with a strong customer focus and good prospects of building a sound relationship.

### **13.11 Levels of Contract Administration**

- (1)** There are three levels of contract administration, being:
  - (a)** The first operational level is for standard contracts for goods and services. Day to day contract administration should become no more than a monitoring, record keeping and price adjustment authorisation role.
  - (b)** The second or intermediate level is for more complex contracts for services. This type of contract requires a more active role for the contract manager in developing the relationship between the CoM and the contractors.
  - (c)** The third level is for strategic contracts involving complex partnerships and outsourcing arrangements. These contracts require more active management of the business relationships between the supplier and the users, for example to manage outputs and not the process.

### **13.12 Appointing a Contract Manager**

- (1)** A contract manager must be appointed by the municipal manager together with the director in charge of the project prior to the execution of the contract.
- (2)** Where it is practical to do so, the contract manager must be involved at the earliest stage of the acquisition, which is the time of writing the specifications for the contract.
- (3)** Contract administration arrangements must be identified and planned including, delegations, reporting requirements and relationships and specific task responsibilities.
- (4)** Departments are responsible for ensuring that contract managers:
  - (a)** Prepare the contract administration plan;
  - (b)** Monitor the performance of the contract;

- (c) Are appointed with appropriate responsibility and accountability;
- (d) Are adequately trained so that they can perform and exercise the responsibility; and
- (e) Act with due care and diligence and observe all accounting and legal requirements.

### **13.13 Duties and Powers of Contract Manager**

- (1) The contract manager's duties and powers are governed by the conditions of contract and the law.
- (2) The contract manager must monitor the performance of the contract on a monthly basis and must report to the municipal manager on the performance of the contractor and the progress of the contract on a monthly basis.
- (3) The contract manager is also required to form opinions and make decisions, and in doing so is expected to be even-handed, prudent and to protect the interests of the CoM.
- (4) The SCMU is responsible for notifying the contract manager 60 (sixty) days prior to the expiry of each contract in order to allow the contract manager sufficient time in order to decide whether to renew a contract or efficiently conclude a contract.
- (5) The contract manager must ensure that the contractor duly performs according to the specifications of the contract in delivering goods and/or services on time, in the correct manner and/or quantity and to the required standard.
- (6) Regular meetings and site inspections must be held by the contract manager and the contractor to inspect the progress, deliverables, foreseeable problems and/or possible amendments during the contract period.

### **13.14 Contract Guidelines**

- (1) A guideline, which provides a description of the roles and responsibilities of a contract manager during the contract administration stage, must be documented.
- (2) The provisions of this section is not an exhaustive description of contract administrative activities, and some tasks may not be carried out in the sequence presented, may be done concurrently with other tasks or may not be necessary in some circumstances.

### **13.15 Delegating to Contract Administrator**

- (1) Where appropriate, a contract manager may delegate some contract administration duties to a contract administrator.
- (2) The contract administrator will be required to perform duties related to processes for record keeping, authorising payment and collecting data on contractor performance.
- (3) The contract manager will however remain ultimately responsible and accountable for the performance of the contract.

### **13.16 Contract Management Process**

- (1) The contract manager must ensure the contractor fulfils its obligations and accepts its liabilities under the contract and must also ensure the contractors are treated fairly and honestly.
- (2) Both parties adhering to the agreed terms will result in:
  - (a) Value for money;
  - (b) Timeliness;
  - (c) Cost effectiveness; and
  - (d) Proper contract performance.

### **13.17 Document Retention**

- (1) The need exists to retain documents on a contract file for information and audit purposes, and in order to comply with the requirements of the records office.
- (2) Proper records regarding all aspects of the contract must accordingly be maintained.

### **13.18 Guidelines on Contract Administration**

- (1) The responsibilities of a contract manager may include the following:
  - (a) Establishing a contract management plan for the project;
  - (b) Reviewing the contract management process (including the plan) on regular basis;
  - (c) Providing liaison between internal managers and users, and suppliers to identify and resolve issues as they arise;
  - (d) Monitoring the contractor's continuing performance against contract obligations;
  - (e) Providing the contractor with advice and information regarding developments within the department, where such developments are likely to affect the products provided;
  - (f) Determining if staged products should continue, and providing procurement process for additional stages which meet the principle of obtaining value for money;
  - (g) Providing accurate and timely reporting to the senior management in charge of the project, highlighting significant performance issues or problems;



- (h) Ensuring that insurance policy terms and conditions provide adequate protection for the CoM and are maintained throughout the contract period;
- (i) Ensuring all products provided are certified as meeting the specifications before the supplier is paid;
- (j) Maintaining adequate records (paper and/or electronic) in sufficient detail on an appropriate contract file to provide an audit trail;
- (k) Managing contract change procedures;
- (l) Resolving disputes as they arise;
- (m) Conducting post contract reviews; and
- (n) Pursuing remedies in the event of contract breach.

#### **13.18.1. Cession Agreement for SMME's**

- (1) A cession is a contract in terms of which one party, cedent agrees to transfer his / her rights and obligation.
- (2) At any given time the contractor or the service provider may enter into the agreement with the third party and cede his / her payments right to the third party.
- (3) Such agreement shall only be considered, if there is a valid cession agreement entered into between the cedent, cessionary and the Municipality.
- (4) The Chief Financial Officer shall only be the authorized representatives of the Municipality.
- (5) The municipality shall not take any responsibility for any cession agreement signed by any unauthorized official(s)
- (6) A cession shall be offered twice to a SMME supplier or service provider per financial year
- (7) The contractor / service provider appointed by the municipality shall remain responsible to deliver goods, works or services as per the contract without compromising quality or quantities.
- (8) Cession agreement must be signed per SMME and per individual owner of the company and shall be subjected to residential verification before can be signed

## **14 DISPOSAL MANAGEMENT**

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- (1) The disposal management system of the CoM provides an effective system for the transfer of ownership, disposal or letting of assets, including unserviceable, redundant or obsolete assets, subject to the provisions of section 14 of the MFMA and the MATR in as far as capital assets are concerned.
- (2) The disposal management system of the CoM is subject to and must comply with the relevant and applicable provisions of the MFMA and MATR in as far as capital assets are concerned.
- (3) The manners in which assets may be disposed of by the CoM include, but is not limited to, the following-

  - (a) Transferring an asset to another organ of state in terms of a provision of the MFMA enabling the transfer of assets;
  - (b) Transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
  - (c) Selling the asset; or
  - (d) Destroying the asset.
- (4) Immovable property may be sold only at market related prices except when the public interest or the plight of the poor demands otherwise.
- (5) Movable assets may be sold either by way of written price quotations, a competitive bidding process, and auction or at market related prices, whichever is the most advantageous to the CoM.
- (6) In the case of the free disposal of computer equipment, the provincial department of education must first be approached to indicate within 30 (thirty) days whether any of the local schools are interested in the equipment.
- (7) In the case of the disposal of firearms, the National Conventional Arms Control Committee must approve any sale or donation of firearms to any person or institution within or outside the Republic.



- (8) Immovable property must be let at market related rates except when the public interest or the plight of the poor demands otherwise.
- (9) All fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property must be annually reviewed.
- (10) Where assets are traded in for other assets, the highest possible trade-in price must be negotiated.
- (11) As far as possible, assets to be disposed of must be subjected to recycling. Disposal to landfill is not allowed unless there are no available recycling options.
- (12) Non-exempted capital assets must be transferred or permanently disposed of strictly in accordance with the provisions of section 14 of the MFMA read with Chapter 2 of the MATR.
- (13) Exempted capital assets must be transferred strictly in accordance with Chapter 3 of the MATR.
- (14) The granting of rights by the CoM to use, control or manage municipal capital assets, where section 14 of the MFMA do not apply, must be executed strictly in accordance with Chapter 4 of the MATR.

## **15 RISK MANAGEMENT**

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- (1) The risk management system of the CoM provides for an effective system to identify, consider and avoid potential risks in the supply chain management system.
- (2) The risks pertaining to supply chain management must at all times comply with the criteria laid down in the risk management policy of the CoM.
- (3) Managing risk must be part of the philosophy, practices and business plans of the CoM and should not be viewed or practiced as a separate activity in isolation from line managers.
- (4) Risk management includes, but is not limited to-

- (a) Early and systematically identification of risks on a case-by-case basis, analysis and assessment of risk, including conflicts of interest and the development of plans for handling the same;
  - (b) The allocation and acceptance of the responsibility of risk to the party best suited and placed to manage such risk;
  - (c) Acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it;
  - (d) The management of risk in a pro-active manner and the provision of adequate cover for residual risk;
  - (e) The assignment of relative risk to the contracting parties through clear and unambiguous contract documentation; and
  - (f) Ensuring that the costs incurred in managing risk are commensurate with the importance of the purchase and the risk to the operations of the CoM.
- (5) The risk management process must be applied to all stages of supply chain management, be it the conceptual stage, project definition, specification preparation, acquisition approval or implementation to completion.
- (6) Risk management is an integral part of good management of acquisition activities and cannot be effectively performed in isolation from other aspects of acquisition management.
- (7) Appropriate risk management conditions must therefore be incorporated in contracts.

## **16 PERFORMANCE MANAGEMENT**

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- (1)** The performance management system of the CoM provides for an effective internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised supply chain management processes are being, or were followed, and whether the desired objectives of this policy are being, or were achieved.
- (2)** The municipal manager must establish and implement the system contemplated in sub-section (1) above.
- (3)** Performance management must contain a monitoring process together with retrospective analysis to determine whether-

  - (a)** Value for money has been attained;
  - (b)** Proper processes have been followed;
  - (c)** Desired objectives have been achieved;
  - (d)** There is an opportunity to improve the process;
  - (e)** Suppliers have been assessed and the results of the assessment; and
  - (f)** There has been deviation from procedures and, if so, what the reasons for such deviation are.
- (4)** The performance management system must accordingly focus on, amongst others, the-

  - (a)** Achievement of goals;
  - (b)** Compliance to norms and standards;
  - (c)** Savings generated;
  - (d)** Cost variances per item;
  - (e)** Non-compliance with contractual conditions and requirements; and

- (f) Cost efficiency of the procurement process itself.

## **CHAPTER 3: OTHER MATTERS**

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### **17 PROHIBITION ON AWARDS TO PERSONS WHOSE/WHICH TAX MATTERS ARE NOT IN ORDER**

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- (1) The CoM may not under any circumstances, irrespective of the procurement process followed, make an award to any person or entity whose/which tax matters have not been declared to be in order by SARS.
- (2) Before making an award to a person or entity, the CoM must first check with SARS whether that person's or entities' tax matters are in order.
- (3) If SARS does not respond within 7 (seven) days such person's or entities' tax matters may for purposes of sub-section (1) be presumed to be in order.

### **18 PROHIBITION ON AWARDS TO PERSONS IN THE SERVICE OF THE STATE**

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The CoM may not under any circumstances, irrespective of the procurement process followed, make an award to a person or entity-

- (a) Who is in the service of the state;
- (b) If that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state; or
- (c) Who is an advisor or consultant contracted with CoM.

## **19 AWARDS TO CLOSE FAMILY MEMBERS OF PERSONS IN THE SERVICE OF THE STATE**

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The municipal manager must ensure that the notes to the annual financial statements of the CoM disclose the particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or who has been in the service of the state in the previous 12 (twelve) months, including-

- (a) The name of that person;
- (b) The capacity in which that person is or was in the service of the state; and
- (c) The amount of the award.

## **20 CODE OF ETHICAL STANDARDS**

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- (1) In addition to this code of ethical standards, the codes of conduct for municipal councillors and staff members as set out in Schedule 1 and Schedule 2 of the MSA shall apply in the implementation of this policy.
- (2) The code of ethical standards for officials and all other role-players in the supply chain management system which is established hereby seeks to promote –
  - (a) Mutual trust and respect; and
  - (b) An environment where business can be conducted with integrity and in a fair and reasonable manner.
- (3) An official and/or other role-player involved in the implementation of this policy-
  - (a) Must treat all providers and potential providers equitably;
  - (b) May not use his or her position for private gain or to improperly benefit another person;

- (c) may not accept any reward, gift, favour, hospitality or other benefit directly or indirectly, including to any close family member, partner or associate of that person;
  - (d) notwithstanding sub-paragraph(c) above, must declare to the municipal manager details of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person;
  - (e) must declare to the municipal manager details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process of, or in any award of a contract by the CoM;
  - (f) Must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of a contract in which that person, or any close family member, partner or associate, has any private or business interest;
  - (g) Must be scrupulous in his or her use of property belonging to the CoM;
  - (h) Must assist the municipal manager in combating fraud, corruption, favouritism, unfair and irregular practices in the supply chain management system; and
  - (i) Must report to the municipal manager any alleged irregular conduct in the supply chain management system which that person may become aware of, including-
    - (i) Any alleged fraud, corruption, favouritism or unfair conduct;
    - (ii) Any alleged contravention of section 20.1; or
    - (iii) Any alleged breach of the code of ethical standards.
- (4) All declarations in terms of sub-section (3) (d) and (e) must be recorded by the municipal manager in a register which the municipal manager must keep for this purpose.



- (5) All declarations by the municipal manager must be made to the executive mayor of the CoM, who must ensure that such declarations are recorded in the register.
- (6) The municipal manager is responsible to ensure that appropriate steps are taken against any official or other role-player who commits a breach of any provision of this code of ethical standards, and council must ensure that the same measures are enforced where a breach has been committed by the municipal manager.
- (a) A breach of the code of ethical standards and any adopted code/s of conduct must be dealt with in accordance with Schedule 1 or Schedule 2 of the MSA, depending upon the circumstances.
- (7) The municipal manager must, in his/her implementation of this policy, take into account the National Treasury's code of conduct for supply chain management practitioners and other role-players involved in supply chain management.
- (8) The CoM has adopted the National Treasury's code of conduct for supply chain management practitioners and other role-players involved in supply chain management.
- (a) This code of conduct is binding on all officials and other role-players involved in the implementation of this policy; and
- (b) A copy of the National Treasury's code of conduct is available on the website [www.treasury.gov.za/mfma](http://www.treasury.gov.za/mfma) located under "legislation".
- (9) Sub-section (3) (c) does not apply to gifts less than R350 in value.

## **20.1 Inducements, Rewards, Gifts and Favours to the CoM, its Officials and/or Other Role-players**

- (1) No person who is a provider or prospective provider of goods and/or services to the CoM, or a recipient or prospective recipient of goods disposed or to be disposed of by the CoM, may either directly or through a representative or intermediary promise, offer or grant-

  - (a) Any inducement or reward to the CoM for or in connection with the award of a contract; or
  - (b) Any reward, gift, favour or hospitality to any official of the CoM or any other role-player involved in the implementation of this policy of the CoM.
- (2) The municipal manager of the CoM must promptly report any alleged contravention of sub-section (1) to the National Treasury for considering whether the offending person, and any representative or intermediary through which such person is alleged to have acted, should be listed in the National Treasury's database of persons prohibited from doing business with the public sector.
- (3) Sub-section (1) does not apply to gifts less than R350 in value.

## **20.2 Sponsorships**

The municipal manager of the CoM must promptly disclose to the National Treasury and the relevant provincial treasury any sponsorship promised, offered or granted to the CoM or any of its officials, whether directly or through a representative or intermediary, by any person who is-

- (a) A provider or prospective provider of goods and/or services to the CoM; or



- (b) A recipient or prospective recipient of goods disposed or to be disposed of by the CoM.

### **20.3 Objections and complaints**

Persons aggrieved by decisions or actions taken by the CoM in the implementation of this policy, may lodge within 14 (fourteen) days of the decision or action, a written objection or complaint against the decision or action.

### **20.4 Resolution of Disputes, Objections, Complaints and Queries**

- (1) The municipal manager must appoint an independent and impartial person not directly involved in the supply chain management processes of the CoM-
  - (a) To assist in the resolution of disputes between the CoM and other persons regarding-
    - (i) Any decisions or actions taken by the CoM in the implementation of its supply chain management system; or
    - (ii) Any matter arising from a contract awarded in the course of its supply chain management system; or
  - (b) To deal with objections, complaints or queries regarding any such decisions or actions or any matters arising from such contract.
- (2) The municipal manager, or another official designated by the municipal manager, is responsible for assisting the appointed person to perform his or her functions effectively.
- (3) The person appointed by the municipal manager in terms of sub-section (1) must-
  - (a) Strive to resolve promptly all disputes, objections, complaints or queries received; and

- (b) Submit monthly reports to the municipal manager on all disputes, objections, complaints or queries received, attended to or resolved.
- (4) A dispute, objection, complaint or query may be referred to the relevant provincial treasury if-
  - (a) The dispute, objection, complaint or query is not resolved within 60 (sixty) days; or
  - (b) No response is received from the CoM within 60 (sixty) days.
- (5) If the provincial treasury does not or cannot resolve the matter, the dispute, objection, complaint or query may be referred to the National Treasury for resolution.
- (6) This section must not be read as affecting a person's rights to approach a court at any time.

## **20.5 Contracts Providing for Compensation Based on Turnover**

Where a service provider acts on behalf of the CoM to provide any service or act as a collector of fees, service charges or taxes, and the compensation payable to the service provider is fixed as an agreed percentage of turnover for the service or the amount collected, the contract between the service provider and the CoM must stipulate-

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

## **CHAPTER 4: COMBATING ABUSE OF THE SUPPLY CHAIN MANAGEMENT SYSTEM**

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### **21 COMBATING OF ABUSE OF THE SUPPLY CHAIN MANAGEMENT SYSTEM**

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- (1) The terms of reference of this section of this policy ensure compliance with Regulation 38 of the SCMR.
- (2) The municipal manager shall take all reasonable steps to prevent abuse of the supply chain management system and to investigate any allegations of improper conduct against the concerned official, councillor, or other role player and when justified may:-

  - (a) Take, or ensure that appropriate steps are taken, against such official, councillor or other role player; and/or
  - (b) Inform the Speaker of any allegations against any councillor involved in contraventions of the supply chain management system; and/or
  - (c) Report any alleged criminal conduct to the South African Police Service and/or other recognised authority.
- (3) The steps referred to in sub-section (2) which the municipal manager may take include registering the affected person in the CoM's Register of Tender and Contract Defaulters as well as:

  - (a) Rejection or withdrawal of recommendations, or invalidation of decisions that were unlawfully or improperly made or influenced, including recommendations or decisions that were made or in any way influenced by:

    - (i) Councillors in contravention of item 5, 6 or 9 of the Code of Conduct for Councillors set out in Schedule 1 of the MSA; or

**(ii) Municipal staff members in contravention of item 4, 5 or 8 of the Code of Conduct for Municipal Staff Members set out in Schedule 2 of the MSA;**

**(iii) The unlawful or improper conduct of a bidder or its representatives in competing for the particular contract;**

**(b) Rejection of the bid of an affected person if that person or any of its representatives:**

**(i) Has failed to pay municipal rates and taxes or municipal service charges and such rates, taxes and charges are in arrears for a period longer than 3 (three) months, as at the date of the submission of the bid;**

**(ii) Has abused the supply chain management system or has committed any improper conduct in relation to the supply chain management system;**

**(iii) Has been convicted of fraud or corruption during the 5 (five) year period immediately preceding the invitation of bid in question;**

**(iv) Is listed:**

**(aa) in the Register for Tender and or Contract Defaulters in terms of the provisions of section 29 of the Prevention and Combating of Corrupt Activities Act, Act 12 of 2004;**

**(bb) on the National Treasury's database as a person prohibited from doing business with the public sector or;**

**(cc) on the CoM's Register of Tender and or Contract Defaulters.**

- (v) who/which, during the last 5 (five) year period immediately preceding the invitation of the bid in question, failed to perform satisfactorily on previous or current contract with the CoM or other organ of state after written notice was given to the affected person that such person's performance was unsatisfactory; and/or
  - (vi) Wilfully neglected and/or breached any government, municipal or other public sector contract during the 5 (five) year period immediately preceding the invitation of the bid in question.
- (c) Cancellation of a contract awarded to a person if that person:-
- (i) committed a fraudulent act during the procurement process or the execution of the contract;
  - (ii) Incite any corrupt or fraudulent act, by an official, councillor or other role-player during the procurement process or in the execution of that contract and the person who committed the corrupt or fraudulent act benefited there from.

### **21.1 CoM's Register of Tender and Contract Defaulters**

- (1) The municipal manager shall, subject to the procedures prescribed in this policy, be entitled to list a person or any of its representatives, where applicable, on the CoM's Register of Tender and Contract Defaulters for a period not exceeding 5 (five) years in any of the circumstances listed in terms of this policy.
- (2) In the circumstances referred to in section 21(3) (c) (i) and (ii) above, the person convicted of the relevant offence shall automatically be listed on the CoM's Register of Tender Contract Defaulters.

- (3) In circumstances where a preference in terms of the PPPFA has been obtained on a fraudulent basis or any specific goals are not attained in the performance of the contract, the affected person may be listed on the CoM's Register of Tender and Contract Defaulters for a period not exceeding 10 (ten) years.
- (4) Any listing in terms of section 21(3) shall, at the discretion of the municipal manager, also be applicable to any other enterprise or any partner, manager, director or other person who wholly or partly exercises or exercised or may exercise control over the enterprise of the first mentioned person, and with which enterprise or person the first-mentioned person, is, or was, in the opinion of the municipal manager, actively associated.
- (5) A person who has been listed on the CoM's Register of Tender and Contract Defaulters shall not be entitled to be awarded any contract by the CoM for the duration of the period reflected on such register.
- (6) The municipal manager may, on good cause shown, remove a person from the CoM's Register of Tender Contract Defaulters or reduce the period for which a person is prohibited from being awarded any contract by the CoM.

## **21.2 Automatic Rejection of Bid**

The municipal manager may, after written verification with a person, automatically reject the bid of such a person if the person:

- (a) Has been convicted of fraud or corruption during the past 5 (five) year period immediately preceding the invitation of the bid in question; and/or
- (b) Is listed on the:
  - (i) Register for Tender Defaulters in terms of the provisions of section 29 of the Prevention and Combating of Corrupt Activities Act, Act 12 of 2004;



- (ii) National Treasury's database as a person prohibited from doing business with the public sector; and/or
- (iii) CoM's Register of Tender and Contract Defaulters.

### **21.3 Adequate Notice of Manner of Abuse of Supply Chain Management System**

- (1) Once the CoM has obtained *prima facie* evidence which it deems to be sufficient to initiate proceedings to take steps against the affected person as contemplated in section 21(2) and (3) of this policy, the CoM must give the affected person adequate written notice of the manner in which it is alleged that the affected person abused the supply chain management system
- (2) In order to constitute adequate notice of the manner in which it is alleged that the affected person abused the supply chain management system the notice must:-
  - (a) Outline the grounds on which it is alleged that the affected person abused the supply chain management system, with sufficient particulars to enable the affected person to respond to the allegations stipulated in the notice;
  - (b) Refer to the applicable provisions of this policy in terms of which steps may be taken in the event where it is proved that the affected person abused the supply chain management system;
  - (c) Stipulate that the affected person must make written representations in response to such allegations of abuse of the supply chain management system within 14(fourteen) calendar days of the date when the notice was served by a duly authorized person, acting on behalf of the CoM, on the affected person;
  - (d) state that written submissions received after the due date for such submissions shall be disregarded, unless good cause is shown by

way of a request for condonation for the late lodgement of the submissions and only when the condonation would not lead to unnecessary delays or otherwise prejudice the public interest;

- (e) State the name, official title, postal address, street address, telephone number and fax number of the official of the CoM to whom written submissions or any correspondence in terms of this policy must be sent.

#### **21.4 Right of Access to Information**

- (1) When furnishing the affected person with the notice referred to in section 21.3 above, the CoM shall furnish the affected person with access to all documents upon which the CoM relies in respect of the allegations against the affected person.
- (2) The affected person shall be furnished by the CoM with any such additional information as the affected person is entitled to in terms of PAIA.
- (3) Where further information is requested, the CoM may, in its sole discretion and up on a written request to do so, appropriately extend the time period contemplated in section 21.3(2)(c) so that the affected person is granted adequate time to consider any information provided pursuant to such request prior to the due date for such submissions.

#### **21.5 Administration of Hearings**

- (1) The municipal manager shall appoint an independent and impartial person, who may be an official of the CoM, to preside and adjudicate on allegations of abuse of the supply chain management system against an affected person.
- (2) The Presiding Officer will adjudicate on the matter based on the written notice and written response and will inform all relevant parties accordingly should the matter, or part thereof be referred for an oral hearing.



## **21.6 Right to be heard**

- (1) An affected person shall, in accordance with and subject to, the procedures in terms of this policy, be granted the right to be heard upon receiving notice as contemplated in terms of section 21.3 and prior to the municipal manager taking any of the steps listed in section 21(2) and (3) of this policy.

## **21.7 Oral Hearings**

- (1) An affected person does not have an automatic right to an oral hearing but may submit an application to the presiding officer to have the matter set down for an oral hearing in instances where the presiding officer decided to entertain the matter without oral evidence being heard, or not to refer the matter for an oral hearing.
- (2) The presiding officer may grant such an opportunity in its discretion where the affected person has provided sufficient grounds to the presiding officer to refer the matter for an oral hearing
- (3) The presiding officer shall take any relevant factor into account when deciding whether or not to grant an application referred to in sub-section (2) by an affected person.
- (4) The presiding officer must ensure that notice of an oral hearing shall be served by a duly authorised person on all relevant parties within 7 (seven) days of receipt of their presentations referred to in section 21.3(2)(c), and must-
  - (a) set the date of the oral hearing;
  - (b) Inform the affected person of their right to legal representation; and
  - (c) Include any other information which the presiding officer may deem relevant or necessary to be included in the notice.

- (5) **The CoM must be appropriately represented at these hearings by a natural person to lead the evidence against the affected person.**

### **21.8 Procedure at Oral Hearing**

- (1) The procedure to be followed at an oral hearing shall be determined by the presiding officer.
- (2) Witnesses must testify under oath.
- (3) Affected person(s) or their representatives shall have the right to present their case and to cross-examine any witnesses who testify at the hearing.
- (4) Witnesses called by the affected person(s) shall be subjected to cross examination by any party who may have an interest at the hearing.

### **21.9 Onus of Proof**

The onus is on the CoM to prove any allegations of abuse of the supply chain management system which proof shall be on a balance of probabilities.

### **21.10 Right to Legal Representation**

An affected person shall have a right to legal representation.

### **21.11 Right to Request Reasons**

An affected person shall be informed of the right to request written reasons in terms of the provisions of section 5 of PAIA in respect of any decision taken by the CoM in terms of this policy.

### **21.12 Criminal Proceedings**

- (1) The municipal manager may institute criminal proceedings where there is *prima facie* proof of abuse of the supply chain management system that constitute a criminal offence of corruption or fraud.

### **21.13 Informing Provincial and National Treasury**

The municipal manager must inform the Provincial and National Treasury of any actions taken in terms of this section.

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## **CHAPTER5: PREFERENTIAL PROCUREMENT**

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### **22 PLANNING AND STIPULATION OF PREFERENCE POINT SYSTEM TO BE UTILIZED**

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- (1) The CoM must, prior to making an invitation for bidders-
  - (a) Properly plan for, and, as far as possible, accurately estimate the costs of the provision of goods and/or services for which an invitation for bids is to be made;
  - (b) Determine and stipulate the appropriate preference point system to be utilized in the evaluation and adjudication of the bids; and
  - (c) Determine whether the goods and/or services for which an invitation for bids is to be made has been designated for local production and content in terms of section 28.

## **23 EVALUATION OF BIDDERS ON FUNCTIONALITY**

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- (1) The CoM must indicate in the invitation to submit a bid if such a bid will be evaluated on functionality.
- (2) The evaluation criteria for measuring functionality must be objective.
- (3) When evaluating bids on functionality, the-
  - (a) Evaluation criteria for measuring functionality;
  - (b) Weight of each criterion;
  - (c) Applicable values; and
  - (d) Minimum qualifying score for functionality,Must be clearly specified in the invitation to submit a bid.
- (4) No bid must be regarded as an acceptable bid if such bid fails to achieve the minimum qualifying score for functionality as indicated in the bid invitation.
- (5) Bids which have achieved the minimum qualification score for functionality must be evaluated further in terms of the preference point system prescribed in sections 24 and 25 below.
- (6) the total points for functionality for all tenders shall be 100,65 point shall be allocated for experience and quality and 35 points shall be allocated for local content and job creation, social responsibility, sub-construction with local suppliers or service providers or any requirement in terms of paragraph 30 herein under

For all tenders the qualifying points shall be 70 points in totality not per evaluation criteria.

## **24 THE 80/20 PREFERENCE POINT SYSTEM FOR THE ACQUISITION OF GOODS AND/OR SERVICES UP TO A RAND VALUE OF R1 MILLION**

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- (1) (a) The following formula must be utilized to calculate the points for price in respect of bids (including price quotations) with a rand value equal

to, or above R30000 and up to a rand value of R50 million (all applicable taxes included):

$$P_s = 80 \left( 1 - \frac{P_t - P_{\min}}{P_{\min}} \right)$$

Where:

$P_s$  = Points scored for comparative price of bid or offer under consideration;

$P_t$  = Comparative price of bid or offer under consideration; and

$P_{\min}$  = Comparative price of lowest acceptable bid of offer.

- (b) The CoM may apply the formula in sub-section (1) for price quotations with a value less than R30 000, where and when appropriate.
- (2) Subject to sub-section (3), points must be awarded to a bidder for attaining the B-BBEE status level of contributor in accordance with the following table:

B-BBEE Status Level of Contributor	Number of Points
1	20
2	18
3	14
4	12
5	8
6	6
7	4
8	2
Non-compliant contributor	0

- (3) A maximum of 20 (twenty) points may be allocated in accordance with sub-section (2).

- (4) The points scored by a bidder in respect of B-BBEE contribution contemplated in sub-section (2) must be added to the points scored for price as calculated in accordance with sub-section (1).**
- (5) Subject to section 26, the prospective contract must be awarded to the bidder who scores the highest total number of points.**



## **THE 90/10 PREFERENCE POINT SYSTEM FOR THE ACQUISITION OF GOODS AND/OR SERVICES WITH A RAND VALUE ABOVE R1 MILLION**

- (1) The following formula must be utilized to calculate the points for price in respect of bids with a rand value above R50 million (all applicable taxes included):

$$P_s = 90 \left( 1 - \frac{P_t - P_{\min}}{P_{\min}} \right)$$

Where:

$P_s$  = Points scored for comparative price of bid or offer under consideration;

$P_t$  = Comparative price of bid or offer under consideration; and

$P_{\min}$  = Comparative price of lowest acceptable bid of offer.

- (2) Subject to sub-section (3), points must be awarded to a bidder for attaining their B-BBEE status level of contributor in accordance with the following table:

B-BBEE Status Level of Contributor	Number of Points
1	10
2	9
3	6
4	5
5	4
6	3
7	2
8	1
Non-compliant contributor	0

- (3) A maximum of 10 (ten) points may be allocated in accordance with sub-section (2).



- (4) The points scored by a bidder in respect of the level of B-BBEE contribution contemplated in sub-section (2) must be added to the points scored for price as calculated in accordance with sub-section (1).
- (5) Subject to section 26, the prospective contract must be awarded to the bidder who scores the highest total number of points.

## **26 AWARD OF CONTRACTS TO BIDDERS NOT SCORING THE HIGHEST NUMBER OF POINTS**

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A contract may be awarded to a bidder who/which did not score the highest total number of points, but only in accordance with the provisions of section 2(1)(f) of the PPPFA.

## **27 CANCELLATION AND RE-INVITATION OF BIDS**

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- (1)
  - (a) When, in the application of the 80/20 preference point system as stipulated in the bid documents, all bids received exceed the estimated rand value of R1 million, the bid invitation must be cancelled.
  - (b) Where 1 (one) or more of the acceptable bids received are within the prescribed threshold of R1 million, all bids received must be evaluated on the 80/20 preference point system.
- (2)
  - (a) When, in the application of the 90/10 preference point system as stipulated in the bid documents, all bids received are equal to, or below R1 million, the bid must be cancelled.
  - (b) Where 1 (one) or more of the acceptable bids received are above the prescribed threshold of R1 million, all bids received must be evaluated on the 90/10 preference point system.
- (3) Where the CoM cancels a bid invitation as contemplated in sub-sections (1) and (2), the CoM must re-invite bidders and must stipulate in the bid documents the correct preference point system to be applied.

- (4) The CoM may, prior to the award of a bid, cancel such a bid when-
- (a) Due to changed circumstances, there is no longer a need for the requested goods and/or services;
  - (b) Funds are no longer available to cover the total envisaged expenditure of the bid; or
  - (c) No acceptable bids are received.
- (5) The decision to cancel a bid in terms of sub-section (4) must be published in the Government Tender Bulletin or the media in which the original bid invitation was advertised.

## **28 LOCAL PRODUCTION AND CONTENT**

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- (1) The CoM must, in the case of designated sectors, where local production and content is of critical importance in the award of bids, advertise such bids with a specific bid condition that only locally produced goods and/or services or locally manufactured goods, with a stipulated minimum threshold for local production and content will be considered.
- (2) The instructions, circulars and guidelines issued by the National Treasury with specific reporting mechanisms to ensure compliance with sub-section (1), must be taken into account by the CoM when applying this section.
- (3) Where there is no designated sector, the CoM may include, as a specific bid condition, that only locally produced goods and/or services or locally manufactured goods with a stipulated minimum threshold for local production and content will be considered, provided that such prescript and threshold(s) are in accordance with the specific directives issued for this purpose by the National Treasury in consultation with the Department Trade and Industry.
- (4) Every bid issued in terms of this section must be measurable and audited.
- (5) Where necessary, for bids referred to in sub-sections (1) and (3), a two-stage bidding process may be followed, where the first stage involves functionality and minimum threshold for local production and content and the second stage

price and B-BBEE with the possibility of price negotiations only with the short-listed bidder(s).

## **29 B-BBEE STATUS LEVEL CERTIFICATE**

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- (1) Bidders with an annual total revenue of R5 million or less qualifies as exempted micro enterprises in terms of the Broad-Based Black Economic Empowerment Act, Act 53 of 2003, and must submit a certificate issued by a registered auditor, accounting officer (as contemplated in section 60(4) of the Close Corporation Act, Act 69 of 1984) or an accredited verification agency.
- (2) Bidders other than exempted micro enterprises must submit their original and valid B-BBEE status level verification certificate or a certified copy thereof, substantiating their B-BBEE rating.
- (3) The submission of such certificates must comply with the requirements of instructions and guidelines issued by the National Treasury and be in accordance with notices published by the Department of Trade and Industry in the Government Gazette.
- (4) The B-BBEE status level attained by the bidder must be utilized to determine the number of points allocated in terms of sections 24(2) and 25(2).

## **30 CONDITIONS**

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- (1) Only bidders who/which have completed and signed the declaration part of the bid documentation may be considered for such bid.
- (2) The CoM must, when calculating comparative prices, take into account any discounts which have been offered unconditionally.
- (3) A discount which has been offered conditionally must, despite not being taken into account for evaluation purposes, be implemented when payment is affected.
- (4) Points scored must be rounded off to the nearest 2 (two) decimal places.

- (5) In the event that 2 (two) or more bids have scored equal total points, the successful bid must be the one scoring the highest number of preference points for B-BBEE.
- (a) When, however, functionality is part of the evaluation process and 2 (two) or more bids have scored equal points including equal preference points for B-BBEE, the successful bidder must be the one scoring the highest score for functionality.
- (b) Where 2 (two) or more bids are equal in all respects, the award will be decided by the drawing of lots.
- (6) A trust, consortium or joint venture will qualify for points for its B-BBEE status level as a legal entity, provided that such entity submits its B-BBEE status level certificate.
- (7) A trust, consortium or joint venture will qualify for points for its B-BBEE status level as an unincorporated entity, provided such entity submit its consolidated B-BBEE scorecard as if the entity is a group structure and that such a consolidated B-BBEE scorecard is prepared for every separate bid.
- (8) A person may not be awarded any points for B-BBEE status level where the bid documents indicates that such a bidder who/which intends to sub-contract more than 25% of the value of the contract to any other enterprise that does not qualify for at least the same amount of points of the bidder, unless the intended sub-contractor is an exempted micro enterprise which has the capacity and ability to execute the sub-contract.
- (9) A person to whom/which a contract has been awarded may not sub-contract more than 25% of the value of the contract to any other enterprise which does not have an equal to or higher B-BBEE status level than the person concerned, unless the contract is sub-contracted to an exempted micro enterprise which has the capacity and ability to execute the sub-contract.
- (10) A person to whom/which a contract has been awarded in relation to a designated sector, may not sub-contract in such a manner that the local

production and content of the overall value of the contract is reduced below the stipulated minimum threshold.

- (11) When the CoM is in need of services which is provided by tertiary institutions only, such services must be procured through a bidding process from the tertiary institutions identified.
- (12) The tertiary institutions referred to in sub-section (11) must be required to submit its B-BBEE status in terms of the specialized scorecard contained in the B-BBEE codes of good practice.
- (13) Where the CoM require services which can only be provided by 1 (one) or more tertiary institutions or public entities and enterprises from the private sector, the appointment of a contractor must be done by means of a bidding process.
- (14) Public entities must be required to submit its B-BBEE status in terms of the specialized scorecard contained in the B-BBEE codes of good practice.
- 15 A tenderer may not be awarded points for B-BBEE status level of contributor if the tender documents indicate that the tenderer intends subcontracting more than 25% of the value of the contract to any other person not qualifying for at least the points that the tenderer qualifies for, unless the intended subcontractor is an EME that has the capability to execute the subcontract.
  - (1) The points scored by a tenderer for B-BBEE contribution in terms of subparagraph (29 and 30) must be added to the points scored for price under sub paragraph 24 above.
  - (2) The points scored must be rounded off to the nearest two decimal places.
  - (3) Subject to sub regulation (9) and regulation 11 of the Supply chain management Regulation, the contract must be awarded to the tenderer scoring the highest points.
  - (4)(a) If the price offered by a tenderer scoring the highest points is not market related, the organ of state may not award the contract to that tenderer.
  - (b) The municipality may-
    - (i) negotiate a market-related price with the tenderer scoring the highest points or cancel the tender;
    - (ii) if the tenderer does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the second highest points or cancel the tender;

(iii) if the tenderer scoring the second highest points does not agree to a market-related

price, negotiate a market-related price with the tenderer scoring the third highest points or cancel the tender.

(c) If a market-related price is not agreed as envisaged in paragraph (b)(iii), the organ of state must cancel the tender.

**(16) Criteria for breaking deadlock in scoring**

(1) If two or more tenderers score an equal total number of points, the contract must be awarded to the tenderer that scored the highest points for B-BBEE.

(2) If functionality is part of the evaluation process and two or more tenderers score equal total points and equal preference points for B-BBEE, the contract must be

awarded to the tenderer that scored the highest points for functionality.

(3) If two or more tenderers score equal total points in all respects, the award must be decided by the drawing of lots.

**(17) Award of contracts to tenderers not scoring highest points**

(1) A contract may be awarded to a tenderer that did not score the highest points only in accordance with section 2(1)(f) of the Act.

(2) If an organ of state intends to apply objective criteria in terms of section 2(1)(f) of the Act, the organ of state must stipulate the objective criteria in the tender documents

**18 SUBCONTRACTING AS A CONDITION OF TENDER**

18.1 If feasible to subcontract for contract above 30 million, the Municipality must apply subcontracting to advance designated groups.

18.2 If the Municipality applies subcontracting as contemplated in paragraph 24.1, the Municipality must advertise the tender with the specific tendering condition that the successful tenderer must subcontract a minimum of 30% the value of the Contract to:

18.2.1 an EME or QSE

18.2.2 an EME or QSE which is at least 51% owned by Black people

18.2.3 an EME or QSE which is at least 51% owned by black people who are youth.

18.2.4 an EME or QSE which is at least 51% owned by black people who are women.

18.2.5 an EME or QSE which is at least 51% owned by black people disabilities.



- 18.2.6 an EME or SQE which is 51% owned by black people living in rural or underdeveloped areas or township.
- 18.2.7 an EME or SQE which is 51% owned by which is at least owned by black people who are military veterans or
- 18.2.8 a cooperative which is at least 51% owned by black people.
- 18.2.9 More than one of the above mentioned categories may be selected.

18.10 The Municipality must make available the list of all suppliers registered on the database approved by the National Treasury to provide the required goods or services in the respect of the applicable designated groups mentioned in paragraph 24.2 from which tenderer must select a supplier.

## 19 SUBCONTRACTING AFTER AWARD OF TENDER

19. A person awarded a contract may only enter into a subcontracting agreement with the approval of the Municipality.

19.2 A person awarded a contract in relation to a designated sector, may not subcontract in such a manner that the local production and content of the overall value of the contract is reduced to below stipulated minimum threshold.

19.3 A person awarded a contract may not subcontract more that 25% of the value of the contract to any other enterprise that does not have an equal or higher B-BBEE status level of contributor that the person concerned, unless the contract is subcontracted to an EME that has the capacity and ability to execute the subcontract.

## 20 Local Beneficiation

20.1 At any given time the Municipality may decide to introduce local beneficiation programme to any project depending on the nature of the project.

20.2 The Municipality desirous to create jobs and business opportunities for all citizens and businesses residing in the City of Matlosana Local Municipality area.

20.3 This proposal highlights certain areas of local beneficiation in the implementation of capital projects on behalf of City of Matlosana Local Municipality.



**20.4** This will cover all construction aspects relating to the processes by which the construction industry develops emerging and established small contractors, professionals and supplier.

**20.5** It also deals with labour enhanced construction by encouraging the engagement and training of labour recruited from local communities.

**21** Participation

A major objective of the City of Matlosana Local Municipality is to extend economic opportunities and entrepreneurial capacity to all localities within its Municipal boundaries by the optimum utilisation of the resources existing in the vicinity of projects, the development of these resources in the execution of the project, and by maximising the amount of project funds retained within the project locality or within the VTSD

**22** Contract Participation Targets

Contract participation is the process by which the City of Matlosana Municipality Implements Government's objectives.

**23.** The Municipality shall set targets for construction by specified entities.

**23.1** The rand value for which is based on the services and work undertaken by the specified entities and measured as a percentage of the total certified Contract value or fee value of work completed (excluding VAT) measured at the date of issue of the Taking-over Certificate.

**23.2** The Contractor or Principal Consultant shall be obliged to commit to or exceed the targets stated in the Appendix to Tender.

**23.3** As far as it is practical, the Contractor shall consider utilising targeted enterprises and targeted suppliers from communities immediately adjacent to the contract before considering from wider areas.

**23.3.4** As far as it is practical, the Principal Consultant shall consider utilising local Targeted Professional, unless the Principal Consultant is Local.

**24** The following shall be targeted goals:

**24.1** Labour

Labour is the Contractor's and Subcontractor's personnel whose monthly earnings are derived from hours worked for a fixed hourly rate which is adjusted from time to time by legislation (as a statutory minimum) and the Contractor's and Subcontractor's employment policies.

## **24.2 Local**

**Local** in this context refers to the municipal boundaries of the City of Matlosana Local Municipality. Proof of local residence shall be a utility account that is older than 6 months from the commencement date of the project.

## **24.3 Target Area**

**Target Area** is a defined area from which the Municipality or Principal Consultant is expected to recruit Targeted Professionals or the Contractor is expected to recruit Targeted Labour and Targeted Suppliers.

## **24.4 Targeted Enterprise**

Is any company engaged by the Contractor as a Subcontractor and which is registered with the Construction Industry Development Board (CIDB) and which also qualifies as Potentially Emerging (PE) for Construction works.

## **24.5 Targeted Professionals**

A targeted Professionals any company engaged by the Employer or the Principal Consultant as a Sub-Consultant and which is from the target group and which is Local.

## **24.6 Targeted Supplier**

A Targeted Supplier is any company engaged by the Contractor as a Supplier / Manufacturer from Targeted Groups and which is registered with the City of Matlosana on its database.

## **24.7 Target Groups**

A Target Group is a specific section of the population who are South African citizens and who are distinguished by gender, age or disability.

## **24.8 Targeted Labour**

Targeted Labour is Labour recruited from the Target Area, who permanently reside in the Target Area or who are recognized as being residents of the Target Area on the basis of identification and association with and recognition by the residents of the Target Area.

## **25 Allocation of work to the appointment of service provider/contractors on the panel**

- 25.1 Upon the appointment, all service providers / contractors shall be placed on the panel and work will be allocated to them on rotational basis through panel system.
- 25.2 The Department shall submit a request to supply chain management unit requesting the service provider / contractor to be allocated work for specific area of execution.
- 25.3 The Assistant Director responsible for supply chain management shall consider the request and make recommendations for the allocation of work to the service providers or contractors and submit to the Chief Financial Officer for approval.
- 25.4 The Chief Financial Officer shall approve or reject the recommendation from the Assistant Director: Supply Chain management.
- 25.5 The Assistant Director: Supply Chain Management shall on monthly basis provide the Chief Financial Officer with the report on the rotation of the service providers / contractors.

**26 PRE-QUALIFICATION FOR PREFERENTIAL PROCUREMENT**

The Municipality may decide to apply pre-qualifying criteria to advance certain designated groups, that municipality must advertise the tender with a specific tendering conditions that only one or more of the following tenderers may respond:

- (1) a tenderer having stipulated minimum B-BEE status level of contributor.
- (2) an EME or QSE.
- (3) a Tenderer subcontracting a minimum of 30% to:
- (4) an EME or QSE which is at least 51% owned by Black people
- (5) an EME or QSE which is at least 51% owned by black people who are youth.
- (6) an EME or QSE which is at least 51% owned by black people who are women.
- (7) an EME or QSE which is at least 51% owned by black people disabilities.
- (8) an EME or SQE which is 51% owned by black people living in rural or underdeveloped areas or township.
- (9) an EME or SQE which is 51% owned by which is at least owned by black people who are military veterans.
- (10) a cooperative which is at least 51% owned by black people.
- (11) A tender that fails to meet any pre-qualifying criteria stipulated in the tender documents is an unacceptable tender.

## **31 DECLARATIONS**

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- (1) A bid must, in the manner stipulated in the bid document, compel a bidder to declare that-**
  - (a) The information provided is true and correct;**
  - (b) The signatory to the bid is duly authorized; and**
  - (c) Documentary proof regarding any bid issue must, when required, be submitted to the satisfaction of the CoM.**

## **32 REMEDIES**

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- (1) The CoM must act against a bidder or a person to whom/which a contract has been awarded, upon detecting that-**
  - (a) The B-BBEE status level of contribution has been claimed or obtained on a fraudulent basis; or**
  - (b) Any of the conditions of the contract have not been fulfilled.**
- (2) The CoM may, in addition to any other remedy it may have against a bidder or person contemplated in sub-section (1)-**
  - (a) Disqualify the bidder or person from the bidding process;**
  - (b) Recover all costs, losses or damages which it has suffered as a result of such bidder or person's conduct;**
  - (c) Cancel and claim any damages which it has suffered as a result of having to make less favourable arrangements due to such cancellation;**

## **SCHEDULE "A"**

### **PROCEDURE FOR PETTY CASH PURCHASES OF THE COM**

- (1) Every official or employee of the CoM who wishes to make a purchase from petty cash must do so by-

  - (a) way of an application to his/her applicable Director;
  - (b) describing the items to be purchased in writing together with a motivation in respect of the requirement of the purchase and the costs thereof; and
  - (c) each and every application in writing must be approved by the applicable and responsible Director of the CoM who administers the Directorate in terms of which the application for the petty cash purchase is made.
- (2) Petty cash purchases may only be made with the written approval of the applicable and responsible Director as contemplated in sub-section (1) above and any official or employee of the CoM who makes any petty cash purchases made other than as provided for in this Schedule, will be personally liable for the costs of such purchase.

## SCHEDULE "B"

PROCUREMENT MECHANISM	TOTAL TRANSACTION VALUE	Number of quotation	process
Petty Cash Purchases	R0, 01 to R 2000 (VAT inclusive)	1	Practice Note
Written Quotations obtained from the LAPS	R2 001 to R30 000 (VAT inclusive).	3	Practice Note
Formal Written Quotations through a seven-day advertisement process	R30 001 to R200 000 (VAT inclusive)	N/A	Advert 7 days
Competitive Process	Above R200 000 (VAT inclusive)	N/A	Advert 14 or more days
Negotiations, sole supplier and unsolicited bids by the Accounting Officer / delegates	Any Value	N/A	Negotiated period

## **SCHEDULE "C"**

### **DELEGATION OF SUPPLY CHAIN MANAGEMENT POWERS AND DUTIES**

The procurement of goods and services, either by way of quotation or through a competitive bidding process, will be within the following threshold values (all amounts include VAT):

- (a) For amounts to a maximum of R2 000.00 : petty cash purchases
- (b) For amounts above R2 001.00 to a maximum of R30 000 : 3 x Written Quotations
- (c) For amounts above R30 001 to a maximum of R200 000 : formal written quotations (7 DAYS ADVERT)
- (d) For amounts above R200 000 : competitive bidding process

The following approval shall apply in respect of procurement of goods, works and services (quotations / bids) in accordance with the prescribed process (all amounts include VAT): the officials on the undermentioned level shall have the power to approve the requisitions

- a. (a) For amounts from R1 to R2000.00 : LEVEL 4 Officials
- b. For amounts from R2000.00 to R30 000 : Level 2 and 3 Officials
- c. For the amount from R30 001 to R200 000 : Level 1 /directors
- d. The Bid Adjudication Committee may award a tender from R200 000 to R1.5 Million
- e. for all amounts above R1.5 Million shall be approved by Municipal Manager after receiving report from Bid Adjudication Committee and also has the power to sign any requisition of any amount

The powers to sign a contract and the resulting requisition and other required documents after the prescribed approval for the procurement or disposal has been given to the Municipal Manager.



## **SCHEDULE "D"**

They following circulars and Regulations as issued by the National Treasury are hereby adopted and approved with the City of Matlosana Supply Chain Management Policy for the Financial year 2020-2021

<b>N0</b>	<b>Circular Number</b>	<b>Description</b>
1	Regulation	Municipal Regulation on Minimum Competency
2	Circular 53	Functionality
3	Circular 60	Minimum Competency
4	Circular 62	SCM Enhancement Compliance and Accountability
5	Circular 62	Procurement Plan
6	Circular 68	UIF and W Expenditure
7	Circular 69	Local Production and Contents
8	Circular 73	System of Delegation
9	Circular 77	Standard Infrastructure Procurement and Delivery Management
10	Circular 78	Financial Misconduct and Procedures
11	Circular 80	MSCOA for SCM
12	Circular 81	Web Based Central Supplier Data-base
13	Circular 82	Cost Containment Measures
14	Circular 83	E-Tender Portal
15	Circular 90	Tax Clearance Certificate
16	Circular 94	Procurement Plans
17	Circular 96	SCM Regulation 32
18	Regulation	Preferential Procurement Regulation (2017)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

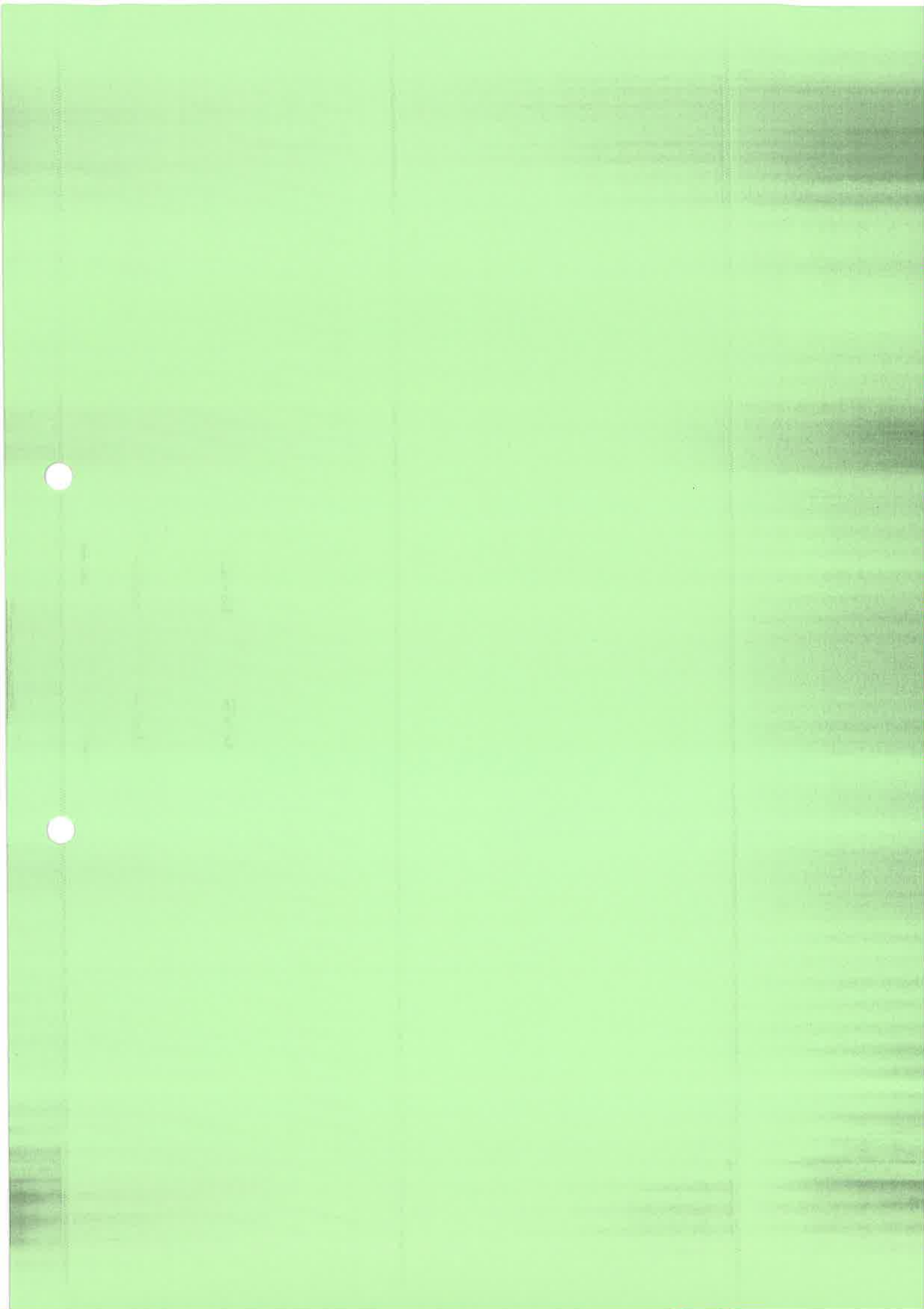
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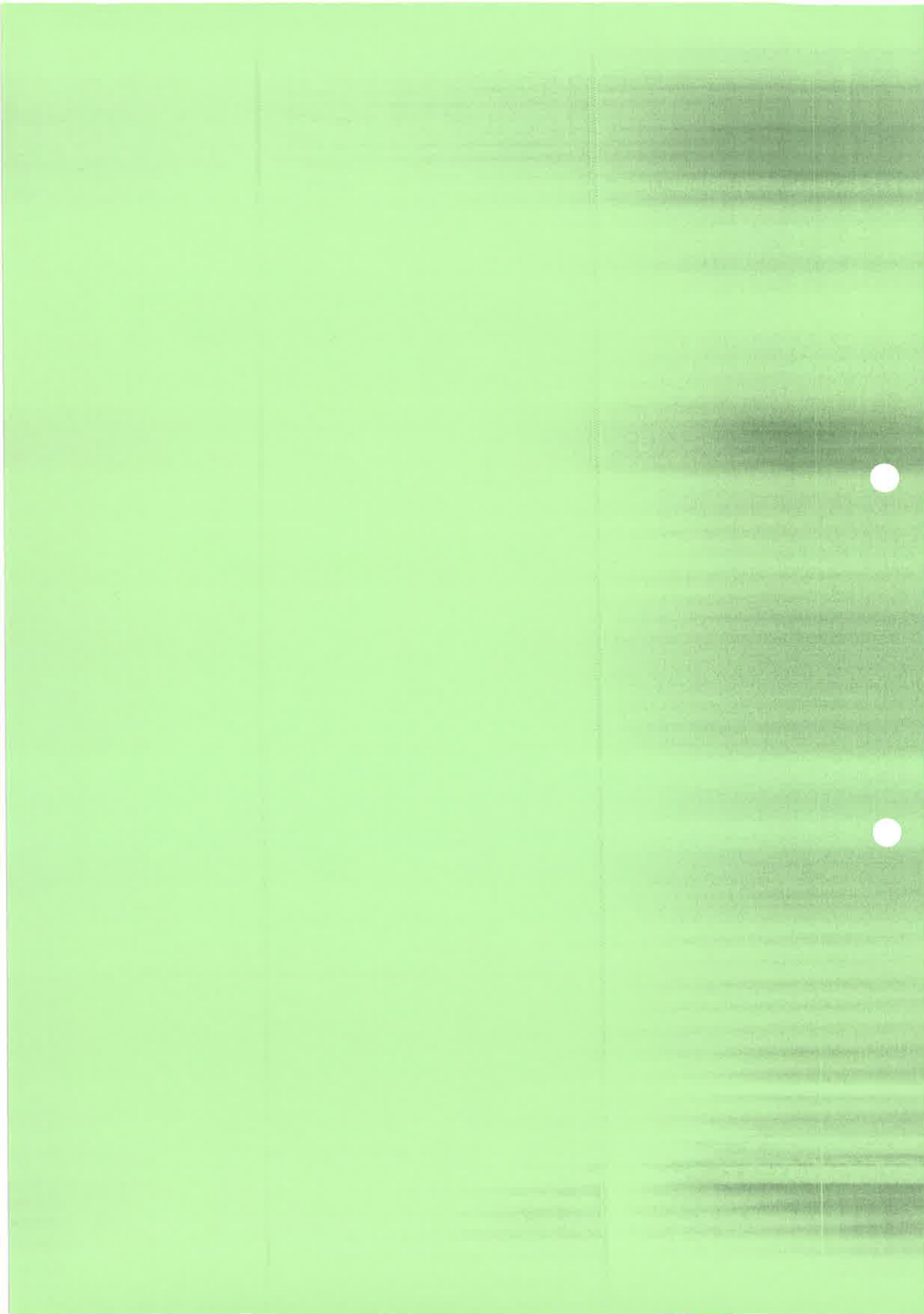
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# **CITY OF MATLOSANA**

## **ASSET MANAGEMENT POLICY**

**2020/2021**



**MATLOSANA LOCAL  
MUNICIPALITY**

**ASSET MANAGEMENT POLICY**

**1 July 2020**





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## **PREAMBLE**

Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued,

- and whereas the Municipal Council of Matlosana Local Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets,

- and whereas the Municipal Manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets,

- and whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes,

- now therefore the Municipal Council of the Matlosana Local Municipality adopts the following asset management policy:

## ABBREVIATIONS AND DEFINITIONS

AM	Asset Management
AMS	Asset Management System
AR	Asset Register
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
GRAP	Standards of Generally Recognised Accounting Practice
IA	Intangible Assets
IAR	Infrastructure Asset Register
IDP	Integrated Development Plan
IIMM	International Infrastructure Management Manual
IP	Investment Property
LM	Local Municipality
MFMA	Municipal Finance Management Act
MSA	Municipal Services Act
NT	National Treasury
OHSA	Occupational Health and Safety Act
PPE	Property, Plant and Equipment
SARS	South African Revenue Service
SDBIP	Service Delivery and Budget Implementation Plan

**Accounting Officer** means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

**Agricultural Produce** is the harvested product of the municipality's biological assets.

**Biological Assets** are defined as living animals or plants.

**Capital Assets (assets)** are items of Biological Assets, Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.

**Carrying Amount** is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

**Chief Financial Officer (CFO)** means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

**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 recognised in accordance with the specific requirements of other Standards of GRAP.

**Depreciable Amount** is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

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

**Fair Value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of items of plant and equipment is usually their market value determined by appraisal, while the fair value of land and buildings is usually determined from market-based evidence by appraisal.

**GRAP** are standards of Generally Recognised Accounting Practice.

**Heritage Assets** are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

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

**Intangible Assets** are defined as identifiable non-monetary assets without physical substance.

**Investment Properties** are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years or vacant stand held for undetermined future use.

**Involuntary Disposals** is the act of accounting for an asset that was lost, stolen, destroyed, or any other form of unplanned alienation, including natural disasters and damage suffered from riot or strike action, without consent, or intention of management or council. There is no intention or decision to generate a profit, discharge a liability or recuperate the value of an asset no longer in use or retired, and there was no exchange of resources.

**Land and Buildings** are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

**MFMA** refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

**Other Assets** are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

**Property, Plant and Equipment (PPE)** are 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 be used during more than one period.

**Recoverable Amount** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

**Recoverable Service Amount** is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

**Residual Value** is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

**Voluntary Disposal** is the act of taking a decision to dispose of an asset to generate a profit, discharge a liability or recuperate the value of an asset no longer in use or retired.

**Useful Life is:**

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

**Write-off** includes the sale, loss, theft, destruction, decommissioning, derecognition or any other form of alienation that is the result of loss of control of the asset in question.



## **1. OBJECTIVE**

The MFMA was introduced with the objective of improving accounting in the municipalities sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, but since the adoption of GRAP, entities are required to prepare financial statements using the accrual basis of accounting per

### **GRAP 1.**

With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

According to the MFMA, the Accounting Officer in the Municipality should ensure:

- a) that the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;
- b) the effective, efficient and economical use of the resources of the municipality;
- c) the management (including safeguarding and maintenance) of the assets of the municipality;
- d) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- e) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- f) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

The objective of this Asset Management Policy is to ensure that the municipality:

- a) consistently applies asset management principles;
- b) applies accrual accounting;
- c) complies with the MFMA, GRAP and other related legislation;
- d) safeguards and controls the assets of the municipality; and
- e) optimises asset usage.

## **2. LEGISLATIVE FRAMEWORK**

### **2.1 LEGAL FRAMEWORK**

A municipality exercises its legislative and executive authority by, among others, developing and adopting policies, plans, strategies and programmes, including setting targets for delivery (section 11(3) of the MSA).

Participation by the local community in the affairs of the municipality must take place through, among others, generally applying the provisions for participation as provided for in the MSA (section 17(1) of the MSA).

A municipality must communicate to its community information concerning, among others, municipal governance, management and development (section 18(1) of the MSA).

As head of administration the Municipal Manager is, subject to the policy directions of the municipal council, responsible and accountable for, among others, the following:

- The management of the provision of services to the local community in a sustainable and equitable manner;
- Advising the political structures and political office bearers of the municipality (section 55(1) of the MSA); and
- Providing guidance and advice on compliance with the MFMA to the political structures, political office-bearers and officials of the municipality (section 60 of the MFMA).

As accounting officer of the municipality, the Municipal Manager is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).

The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 62(1) of the MFMA).

### **2.2 RATIONALE FOR MANAGEMENT OF ASSETS**

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objectives:

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

In terms of the MFMA, the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.

The MFMA further requires the accounting officer to ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- The municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
- The municipality has and maintains a system of internal control of assets and liabilities.

The OHSA requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.

According to the International Infrastructure Management Manual (IIMM), the goal of infrastructure asset management is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

The core principles of infrastructure asset management are:

1. Taking a life-cycle approach;
2. Developing cost-effective management strategies for the long-term;
3. Providing a defined level of service and monitoring performance;
4. Understanding and meeting the impact of growth through demand management and infrastructure investment;
5. Managing risks associated with asset failures;
6. Sustainable use of physical resources; and
7. Continuous improvement in asset management practices.

### **3. POLICY FRAMEWORK:**

#### **3.1 POLICY OBJECTIVE**

The municipality is committed to providing municipal services for which the municipality is responsible, in a transparent, accountable and sustainable manner and in accordance with sound infrastructure management principles.

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

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

The policy approach has been to firstly focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets, and secondly to focus on the management of immovable assets as a fundamental departure point for service delivery.

#### **3.2 POLICY PRINCIPLES**

The following policy principles serve as a framework for the achievement of the policy objective:

### **3.2.1 Effective Governance**

The municipality strives to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected. To this end, the municipality will:

- Adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- Regularly review and update amendments to the above legislation;
- Review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- Effectively apply legislation for the benefit of the community.

### **3.2.2 Sustainable Service Delivery**

The municipality strives to provide to its customers services that are technically, environmentally and financially sustainable. To this end, the municipality will:

- Identify levels and standards of service that conform to statutory requirements and rules for their application based on the long-term affordability to the municipality;
- Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- Identify current and future demand for services, and demand management strategies;
- Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable in line with national targets;
- Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- Prepare and adopt an immovable (infrastructure) asset management strategy and immovable (infrastructure) asset management plans to support the achievement of the required performance;
- Prepare and adopt an immovable (infrastructure) asset maintenance strategy and immovable (infrastructure) asset maintenance plans to execute maintenance timeously;
- Allocate budgets that take cognisance of the full life cycle needs of existing and future assets;
- Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

### **3.2.3 Social and Economic Development**

The municipality strives to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community. To this end, the municipality will:

- Regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- Implement changes to services in response to changing customer needs and expectations where appropriate;
- Foster the appropriate use of services through the provision of clear and appropriate information;
- Ensure services are managed to deliver the agreed levels and standards; and

- Create job opportunities and promote skills development in support of the national EPWP.

#### **3.2.4 Custodianship**

The municipality strives to be a responsible custodian and guardian of the community's assets for current and future generations. To this end, the municipality will:

- Establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- Establish appropriate development control measures including community information;
- Cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- Ensure that heritage resources are identified and protected; and
- Ensure a long-term view and life-cycle costs are taken into account in immovable asset management decisions.

#### **3.2.5 Transparency**

The municipality strives to manage its immovable assets in a manner that is transparent to all its customers, both now and in the future. To this end, the municipality will:

- Develop and maintain a culture of regular consultation with the community with regard to its management of immovable assets in support of service delivery;
- Clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- Avail asset management information on a ward basis; and
- Continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

#### **3.2.6 Cost-effectiveness and Efficiency**

The municipality strives to manage its immovable assets in an efficient and effective manner. To this end, the municipality will:

- Assess life-cycle options for proposed new immovable assets;
- Regularly review the actual extent, nature, utilisation, criticality, performance and condition of immovable assets to optimise planning and implementation works;
- Assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of immovable assets;
- Ensure the proper utilisation and maintenance of existing assets;
- Establish and implement demand management plans;
- Timeously renew immovable assets based on capacity, performance, risk exposure, and cost;
- Timeously dispose of immovable assets that are no longer in use;
- Establish documented processes, systems and data to support effective life-cycle immovable asset management;
- Strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and

- Conduct annual assessments to support continuous improvement of immovable asset management practice.

## **4. ASSET RECOGNITION**

### **4.1. CLASSIFICATION OF CAPITAL ASSETS**

#### **General**

When accounting for Capital Assets, the municipality should follow the various standards of GRAP relating to the capital assets. An item is recognised in the statement of financial position as a Capital Asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Capital Assets are classified into the following categories for financial reporting purposes:

#### **Property, Plant and Equipment (GRAP 17)**

- Land and Buildings (land and buildings not held as investment property)
- Infrastructure Assets (immovable assets that are used to provide basic services)
- Community Assets (resources contributing to the general well-being of the community)
- Other Assets (ordinary operational resources)

#### **Investment Property (GRAP 16)**

- Investment Assets (resources held for capital or operational gain)

#### **Intangible Assets (GRAP 31)**

- Intangible Assets (assets without physical substance held for ordinary operational resources)

#### **Biological Assets (GRAP 27)**

- Biological Assets (livestock and plants held)

#### **Heritage Asset (GRAP 103)**

- Heritage Assets (assets of a cultural, environmental, historical, natural, scientific, technological or artistic significance)

When accounting for Current Assets (that is of capital nature), the municipality should follow the various standards of GRAP relating to these assets. Current Assets (with a capital nature) are classified into the following category for financial reporting purposes.

#### **Land Inventories (GRAP 12)**

- Land Inventories (land or buildings owned or acquired with the intention of selling or distributing such property in the ordinary course of business)

Further asset classification has not been defined in GRAP. The examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks. Current

classifications used for infrastructure are limited and do not represent all asset types. To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified. The recommended classifications are provided in *Annexure A*.

#### **Policy**

The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in *Annexure A* shall be adopted. The CFO shall ensure that the classifications adopted by the municipality are adhered to.

### **4.2. IDENTIFICATION OF ASSETS**

#### **General**

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

#### **Policy**

An asset identification system shall be operated and applied in conjunction with an asset register. As far as practicable, every individual asset shall have a unique identification number. The CFO shall develop and implement an asset identification system, while acting in consultation with the Executive Directors.



### 4.3. ASSET REGISTER

#### General

An asset register is a database of information related to all the assets under the control of the municipality. The asset register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the asset register. The data requirements for the asset register are as follows:

Data	Land	Movable	Infrastructure/ building
<b>Identification</b>			
•Unique identification number or asset mark	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Unique name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Internal Classification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Descriptive data (make, model, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Erf/registration number	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Title deed reference	<input type="checkbox"/>		
<b>Accountability</b>			
•Department	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Performance</b>			
•Age		<input type="checkbox"/>	<input type="checkbox"/>
•Condition		<input type="checkbox"/>	<input type="checkbox"/>
•Remaining useful life		<input type="checkbox"/>	<input type="checkbox"/>
•Expected useful life		<input type="checkbox"/>	<input type="checkbox"/>
<b>Accounting</b>			
•Historic cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Take-on value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Take-on date	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Re-valued amount (where assets were re-valued)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Valuation difference (for purposes of revaluation reserve and depreciation)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Depreciation method		<input type="checkbox"/>	<input type="checkbox"/>

Data	Land	Movable	Infrastructure/ building
•Depreciation portion that should be transferred from revaluation reserve to accumulated depreciation (where assets were re-valued)		<input type="checkbox"/>	<input type="checkbox"/>
•Depreciation charge for the current financial year		<input type="checkbox"/>	<input type="checkbox"/>
•Impairment losses in the current year		<input type="checkbox"/>	<input type="checkbox"/>
•Accumulated depreciation		<input type="checkbox"/>	<input type="checkbox"/>
•Carrying value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Residual value		<input type="checkbox"/>	<input type="checkbox"/>
•Source of financing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Assets remain in the asset register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated, or impaired, is not in itself a reason for derecognising such an asset. The asset register does not include assets that belong to other third parties. These assets may be included as separable entities for control purposes.

#### Policy

An asset register shall be maintained for all assets. In some cases, such as Investment Properties and Intangible Assets, separate asset registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The asset register should be continuously updated and asset records should be reconciled to the general ledger on a quarterly basis, where possible.

#### 4.4. RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT

##### General

A Capital Asset should be recognised as an asset in the financial and asset records when:

- The entity has control of the asset;
- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- The cost or fair value of the item to the municipality can be measured reliably;
- The cost is above the municipal capitalisation threshold (if any); and
- The item is expected to be used during more than one financial year.

Spare parts and servicing equipment are usually carried as inventory in terms of GRAP 12 on Inventories and are recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than one

period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Further guidance for the recognition of assets is provided below:

#### Calculation of initial cost price

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on acquisition of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

- Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Capital Asset
- The cost of site preparation;
- Initial delivery and handling costs;
- Installation costs;
- Professional fees such as for architects and engineers;
- The estimated cost of dismantling and removing the asset and restoring the site;
- Interest costs when incurred on a qualifying asset in terms of GRAP 5.

When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

#### Component approach

The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:

- Significant cost; and
- Considerable difference in useful life

If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset as a whole, it should be recognised as a separately depreciable part (component).

#### Subsequent Expenses

The municipality should not recognise the costs of day-to-day servicing of the item in the carrying amount of an item of capital asset. These costs are recognised as expenditure as and when incurred. Day-to-day costs are primarily the costs of labour and consumables and may include the costs of small parts. The purpose of these expenditures is usually for the 'repair and maintenance' of the capital asset.

Parts of some capital assets may require replacement at regular intervals. For example, a road may need resurfacing every few years. It may be necessary to make less-frequently recurring replacement of parts,

such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle, an entity recognises in the carrying amount of the capital asset the cost of replacing the part of such an item when that cost is incurred if the recognition criteria are met. At the same time the part to be replaced should be derecognised.

#### Rehabilitation/Enhancements/Renewals of capital assets

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if:

- The expenditure satisfies the recognition criteria;
- That expenditure is enhancing the service potential of that capital asset beyond its original expectation and either that expenditure:
  - increases the useful life of that capital asset (beyond its original useful life);
  - increases the capital asset capacity (beyond its original capacity);
  - increases the performance of the capital asset (beyond the original performance);
  - increases the functionality of that capital asset;
  - reduces the future ownership costs of that capital asset significantly; or
  - increases the size of the asset or changes its shape.

The expenditure to restore the functionality of the capital asset to its original level is a maintenance or refurbishment expense and will not be capitalised to the carrying value of the capital asset. The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or renewed, the amount incurred will be added to the carrying value of the asset.

#### Leased Assets

A lease is an agreement whereby the lesser conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases:

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as a Capital asset.
- Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

#### **Policy**

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. All assets will be capitalised, except those listed as examples in *Annexure B*, but the application thereof will be determined annually by the municipality.

However, the municipality (Municipal Manager or to whom the right is delegated) can determine with an internal memorandum which assets, as mentioned in *Annexure B*, may not be classified as capital assets.

The Council shall specify which kinds of leases the municipality may enter into. A lease register shall be maintained with all the information that is necessary for reporting purposes.

#### **4.5. SUBSEQUENT MEASUREMENT OF CAPITAL ASSETS**

##### **General**

After initial recognition of Property, plant and Equipment, the municipality values its assets using the cost model, unless a specific decision has been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation model. When an item of PPE is revalued, the entire class of property to which that asset belongs, should be re-valued.

When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

#### **4.6. RECOGNITION OF INVENTORY ITEMS (NON-CAPITAL ITEMS)**

##### **General**

Inventories encompass finished goods purchased or produced, or work in progress being produced by the municipality. They also include materials and supplies awaiting use in the production process and goods purchased or produced by the municipality, which are for distribution to other parties for no charge or for a nominal charge. GRAP 12.7 defines Inventories as assets:

- In the form of materials or supplies to be consumed in the production process;
- In the form of materials or supplies to be consumed or distributed in the rendering of services;
- Held for sale or distribution in the ordinary course of operations; or
- In the process of production for sale or distribution.

Examples of Inventories may include the following:

- Ammunition
- Consumable stores;
- Maintenance materials;
- Spare parts for plant and equipment other than those dealt with under PPE;
- Strategic stockpiles (e.g. Water reserves);
- Work in progress; and
- Land / Property held for sale or development (and where plans have been approved)

Cost of inventories shall comprise of all costs of purchase (i.e. purchase price, import duties, other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and

supplies), costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Trade discounts, rebates and other similarities are deducted. Taxes recoverable by the entity from the SARS may not be included.

Costs of development for housing or similar developments which are acquired or developed for resale will include costs directly related to the development – e.g. purchase price of land acquired for such developments, surveying, conveyance costs and the provision of certain infrastructure. Infrastructure costs relating to extending the capacity of existing infrastructure are excluded. The costs of inventories of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads are included.

#### **Policy**

Assets acquired or owned by the municipality for the purpose of selling or developing such assets with the intention to sell it or utilising the asset in the production process or in the rendering of services shall be accounted for in the municipality's financial statements as inventory items and not as property, plant and equipment.

Inventories are recorded in a dedicated section of the Inventory Register and it is maintained for this purpose. The amount of cost of inventories is recognised and carried forward until related revenues are recognised.

Inventories are measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for nominal charge, or for consumption in the production process of goods to be distributed at no charge or for a nominal charge.

In cases where the above does not apply, inventories are measured at lower of cost and net realisable value.

#### **4.7. RECOGNITION AND DERECOGNITION OF LAND (iGRAP 18)**

##### **General**

iGRAP 18 was early adopted and will subsequently be used in the recognition and derecognition of land. iGRAP 18 can be applied to clarify the treatment of land where the building is owned by another party including, but not limited to:

- Formal RDP houses
- Informal RDP houses (without council permission)
- Schools, clinics, churches and similar
- Private properties on municipal land

It will also assist in confirming the treatment of the following assets regardless of ownership of the land:

- Infrastructure assets
- Community assets
- Vacant stands registered at the title deeds office
- Vacant stands not registered at the title deeds office

##### **Policy**

The control of land is evidenced by the following criteria:

- (a) legal ownership; and/or
- (b) the right to direct access to land, and to restrict or deny the access of others to land.

In assessing the control criteria, any binding arrangements over properties will be considered. Binding agreements can be in written form, a verbal agreement, or the result of past practice.

The loss of control will result in the derecognition of the property, despite legal title, while assets over which the entity does not hold the legal title may be recognized as an asset if control over the property has been established.



## **5. ASSET TYPES**

### **5.1 PROPERTY, PLANT AND EQUIPMENT: LAND AND BUILDINGS (GRAP 17)**

#### **General**

Land and Buildings comprise any land and buildings held (by the owner or by the lessee under a finance lease) by the municipality to be used in the production or supply of goods or for administrative purposes. Land held for a currently undetermined future use, should not be included in PPE: Land and Buildings, but should be included in Investment Properties. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

The municipality has chosen the cost model as its accounting policy and shall apply this policy to an entire class of property, plant and equipment.

After recognition as an asset, Land and Buildings shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. The remaining useful life and residual value applied to Building assets shall be reviewed on an indication bases as per the guidance of GRAP 17.

Land is not depreciated as it is deemed to have an indefinite useful life.

### **5.2 PROPERTY, PLANT AND EQUIPMENT: INFRASTRUCTURE ASSETS (GRAP 17)**

#### **General**

Infrastructure Assets comprise assets used for the delivery of infrastructure-based services. These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Most infrastructure assets form part of a greater facility e.g. a pump in a pump station.

#### Level of detail of componentisation

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

- Level 1: Service level (e.g. Prieska Water Supply)
- Level 2: Network level (e.g. Prieska Pump Stations)
- Level 3: Facility level (e.g. Prieska Pump Station)
- Level 4: Maintenance item level (e.g. Pump 1 in Prieska Pump Station)
- Level 5: Component level (e.g. Bearing of Pump 1 in Prieska Pump Station)

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

The compilation of a detailed infrastructure asset register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing asset registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increase their knowledge in the assets they own. The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high-risk assets, such as pump stations, treatment works, etc.

### **Policy**

The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. Infrastructure assets are valued at cost (or, if acquired through a non-exchange transaction, the cost of the asset at recognition is measured as the fair value of the asset) less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value applied to Infrastructure assets shall be reviewed on an indication base as per the guidance of GRAP 17.

Infrastructure Assets shall be recorded under the main categories listed in *Annexure A*;

## **5.3 PROPERTY, PLANT AND EQUIPMENT: OTHER ASSETS**

### **General**

Other Assets include a variety of assets that are of indirect benefit to the communities they serve. These assets include equipment, furniture and fittings, bins and containers, emergency equipment, motor vehicles, specialised vehicles, computer equipment and office equipment.

### **Policy**

Other assets are carried at cost (or, if acquired through a non-exchange transaction, the cost of the asset at recognition is measured as the fair value of the asset) less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not re-valued. The remaining useful life and residual value of applied to other assets shall be reviewed on an indication bases as per the guidance of GRAP 17.

Other Assets (general assets) shall be recorded under the main categories listed in *Annexure A*.

## **5.4 HERITAGE ASSETS (GRAP 103)**

### **General**

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

- Archaeological sites;
- Conservation areas;
- Historical buildings or other historical structures (such as war memorials);
- Historical sites (for example a historical battle site or site of a historical settlement);
- Museum exhibits;
- Public statues; and
- Works of art (which will include paintings and sculptures).

### **Policy**

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

## **5.5 INTANGIBLE ASSETS (GRAP 31)**

### **General**

Intangible Assets can be purchased, or can be internally developed, by the municipality and includes, but are not limited to, computer software, website development cost, servitudes and mining rights.

### **Servitudes**

#### **Creation of servitudes through the exercise of legislation**

In terms of legislation, municipalities are granted certain rights regarding the creation of servitudes. For example, in proclaiming townships, a municipality may declare that servitudes are to be registered over certain parts of the land falling within the boundaries of the proclaimed township so that it is able to install infrastructure to provide basic services.

A key feature of servitudes created using rights granted in legislation is that no compensation is paid to the landowner for the acquisition of these rights. Costs may however be incurred to register the servitude with the Deeds Office.

Servitudes granted under these conditions do not meet the 'identifiably' criteria above for the following reasons:

- They cannot be sold, transferred, rented or exchanged freely and are not separable from the entity.
- They arise from rights granted to the entity in statute and are specifically excluded from GRAP 31 as they are "internally generated rights".

### **Creation of servitudes through acquisition (including by way of expropriation or agreement)**

An entity may need to acquire the rights associated with a specific piece of land, e.g. to span power cables related to an electricity distribution network. When an entity acquires rights associated with land, and registers a servitude, the landowner is usually compensated. Servitudes granted under these conditions are distinguished from those that are created through the exercise of legislation. These servitudes meet the definition of an “identifiable” intangible asset because they arise from contractual or other legal rights that are acquired through a specific arrangement, rather than through rights conferred on an entity in statute. In these instances, an entity would recognise the servitude as an intangible asset at cost. The cost of these servitudes on initial recognition is usually the transaction price, i.e. the compensation paid to the landowner and any other costs that can be capitalised to the cost of the asset in terms of GRAP 31.

### **Policy**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 31 has been met.

## **5.6 INVESTMENT PROPERTY (GRAP 16)**

### **General**

Investment Property comprise of 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 property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties);
- Shopping centres (developed along similar lines);
- Housing developments (developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit).

### **Policy**

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality’s Statement of Financial Position. Investment Property is initially measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition. If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

**RECOGNITION:** Investment property recognised at cost, if acquired through a non-exchange transaction, the cost is measured as the fair value of the asset.

**COST:** After initial recognition, all investment property shall be measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the asset. Land has an indefinite useful life thus it is acceptable practice that no depreciation is calculated on land parcels.

A gain or loss arising from a change in the fair value of investment property shall be included in surplus or deficit for the period in which it arises.

Investment assets are recorded in an Investment Property register.

The following classes of Municipal Property will be classified as Investment Property:

- a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which council intends to sell at a beneficial time in the future.
- b) Land held for a currently undetermined future use.
- c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis.
- d) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
- e) Property that is being constructed or developed for future use as investment property.

The following classes of Municipal Property will not be classified as Investment Property:

- a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.
- b) Property being constructed or developed on behalf of the Provincial Government: Housing Department.
- c) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.
- d) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner-occupied property.
- e) Property that is leased to another entity under a finance lease.
- f) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation. The decision should be documented and approved through a resolution.
- g) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.

## **5.7 BIOLOGICAL ASSETS (GRAP 27)**

### **General**

Biological Assets are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. Managed agricultural activity such as raising livestock, forestry, annual or perennial

cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the municipality from its ownership or control of the asset.

Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to the market. Where the municipality is unable to measure the fair value of biological assets reliably, a biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

**Policy**

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

## **5.8 INVENTORY PROPERTY (GRAP 12)**

**General**

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

**Policy**

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's asset register or Statement of Financial Position. Inventory property shall be valued annually at reporting date at the lower of carrying value or net realisable value, except where they are held for:

- a) distribution at no charge or for a nominal charge, or
- b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge, then they shall be measured at the lower of cost and current replacement cost.

Inventory properties shall be recorded in the Inventory register.

## **6. ASSET ACQUISITION**

### **6.1. ACQUISITION OF ASSETS**

#### **General**

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing. The date of acquisition of assets is deemed to be the time when control passes to the municipality.

#### **Policy**

Should the municipality decide to acquire a capital asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset meets the definition of a Capital Asset (as defined in GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place; and
- The most suitable and appropriate type, brand, model, etc. has been selected.

### **6.2. CREATION OF NEW INFRASTRUCTURE ASSETS**

#### **General**

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

#### **Policy**

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.

Work in progress shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management. Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.



### **6.3. SELF-CONSTRUCTED ASSETS**

#### **General**

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

#### **Policy**

All assets that can be classified as assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management.

### **6.4. DONATED ASSETS**

#### **General**

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

#### **Policy**

Donated assets shall be valued at fair value, reflected in the asset register, and depreciated as normal assets. All donated assets shall be approved by the Municipal Manager and ratified by Council as part of acceptance.

## **7. ASSET MAINTENANCE**

### **7.1. USEFUL LIFE OF ASSETS**

#### **General**

Useful Life of assets is defined in “ABBREVIATIONS AND DEFINITIONS” of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

Although National Treasury (NT) guidelines exist that includes directives for useful lives of assets, municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for particular classes of assets. The calculation of useful life is based on a particular level of planned maintenance.

#### **Policy**

The remaining useful life of assets shall be reviewed on indication bases as per the guidance of GRAP. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3. During annual physical verification of movable assets, an assessment of condition and use shall determine the appropriateness of the remaining useful lives, while for infrastructure assets, the useful lives shall be deemed to be appropriate unless an event has occurred or conditions of use have changed, which may have an effect on the remaining useful lives of these assets. Please refer to *Annexure A*.

### **7.2. RESIDUAL VALUE OF ASSETS**

#### **General**

The Residual Value of an asset is the estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual values of most assets are however considered to be insignificant and therefore immaterial in the calculation of the depreciable amount. The reason is that the majority of assets are hardly ever recovered through sale, but rather through use of the asset until the end of its useful life, after which insignificant amounts, if any, are expected to be obtained, as these assets will most probably be replaced in its entirety.

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

#### **Policy**

Residual values shall be determined upon initial recognition of assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. The basis of the residual value estimates shall be determined by the results of past sales of vehicles at auctions when it reaches the end of its useful lives. The residual value of assets shall be reviewed on an indication

base as per the guidance of GRAP. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

### **7.3. DEPRECIATION OF ASSETS**

#### **General**

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value. The depreciation method used must reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

- a. Straight-line;
- b. Diminishing Balance; and
- c. Sum of the Units.

#### **Policy**

All PPE assets except land shall be depreciated over their reasonable useful lives. The residual value and the useful life of an asset shall be reviewed on an indication basis. The depreciation method applied shall be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality, or expected to be so controlled or used during the ensuing financial year.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed. Depreciation of an asset shall begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production. In the case of intangible assets being included as assets, the procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

### **7.4. IMPAIRMENT LOSSES**

#### **General**

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. The following serve as examples of impairment indicators:

- Carrying amount of an asset far exceeds the recoverable amount or market value;
- During routine physical inspection of the asset there was evidence of physical damage (or obsolescence);
- The asset is not being used, or access to the asset is restricted, due to structural damage.

- The asset is not able to perform at the planned or required level and as a result is not meeting service delivery targets.
- During routine physical inspection of the asset it was identified that the asset deteriorated faster than expected, or was subject to damage, which will result in replacement or significant maintenance earlier than expected.

The entity will designate its assets as either non-cash generating or cash generating in accordance with GRAP 21.

Designation is based on the entities objective of using the asset at initial recognition for:

- Delivery of service (service assets) or
- Generating commercial return (profit assets)

It is expected that some assets may have a dual-purpose.

A dual-purpose asset is only classified as cash-generating (profit assets) if the purpose to create a profit clearly stands out and the service delivery aspect is incidental. If the purpose is not clear, the assets are presumed to be non-cash-generating (service assets)

The designation has to be done on an asset or cash-generating unit.

In the designation process assets are first designated using a group of assets and any remaining assets are then designated on an individual asset basis. The designation is applied to individual assets.

An asset could comprise a group of assets that are part of a system or network, that is, infrastructure assets.

Examples of a cash-generating unit (group of assets):

- Administrative / owner-occupied assets
- Infrastructure – Roads
- Infrastructure – Water
- Infrastructure – Electricity
- Infrastructure – Sewer
- Infrastructure – Waste Management
- Community Assets – Swimming Pool
- Community Assets – Community Hall

For non-cash generating assets GRAP 21 will be applied.

For cash generating assets GRAP 26 will be applied.

The impairment amount is calculated as the difference between the carrying value and the recoverable value.

#### Non-cash generating assets

The recoverable value is the higher of the asset's value in use or its fair value less cost to sell.

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

#### Cash generating assets

The recoverable value is the higher of the asset's value in use or its fair value less cost to sell.

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

Where the recoverable amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at re-valued amount.

If the asset is carried at a re-valued amount the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

#### **Policy**

Assets shall be reviewed annually for all assets with impairment indicators. Impairment of assets shall be recognised as an expense, unless it reverses a previous revaluation in which case it should be charged to the Revaluation Surplus. The reversal of previous impairment losses recognised as an expense is recognised as income.

### **7.5. MAINTENANCE OF ASSETS AND THE ASSET REGISTER**

#### **General**

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excludes rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes, cables and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

#### **Policy**

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are identified in the asset register.

### **7.6. RENEWAL OF ASSETS**

#### **General**

Asset renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service potential from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However, if the service is no longer required, the asset should not be renewed. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

#### **Policy**

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

### **7.7. REPLACEMENT OF ASSETS**

#### **General**

This paragraph deals with the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

#### **Policy**

Assets that are replaced shall be derecognised at their carrying value. The replacement asset shall be accounted for as a separate new asset.

Costs incurred to replace the asset shall be split between costs to dispose of the old asset, which shall be expensed as part of the derecognition, and costs to install the new asset, which shall be capitalised against the new asset.

## **8. ASSET DISPOSAL**

### **8.1 TRANSFER OF ASSETS**

#### **General**

The processes and rules for the transfer of a capital asset to another municipality, municipal entity or national/provincial organ of state are governed by an MFMA regulation namely “the Local Government: Municipal Asset Transfer Regulations”.

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the asset register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building to another; and
- One entity to another.

#### **Policy**

The transfer of assets shall be controlled by a transfer process and the asset register shall be updated.

### **8.2 EXCHANGE OF ASSETS**

#### **General**

According to GRAP 17.29 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

- the exchange transaction lacks commercial substance; or
- the fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

#### **Policy**

The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.



### 8.3 ALIENATION / DISPOSAL OF ASSETS

#### General

**Alienation / Disposal** is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality, or no owner in the case of destruction of the asset. This includes voluntary and involuntary disposals.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the voluntary disposal of capital assets.

Specifically:

- A municipality may not ...” permanently dispose of a capital asset needed to provide the minimum level of basic municipal services”
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality’s supply chain management policy.

In addition, the MFMA section 75 (1)(h) requires that the accounting officer of a municipality places on the municipality’s website an information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during the previous quarter.

#### Policy

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.

Different disposal methods will be necessary for different types of assets. Before deciding on a particular disposal method, the following shall be considered:

- The nature of the asset
- The potential market value
- Other intrinsic value of the asset
- Its location
- Its volume
- Its trade-in price
- Its ability to support wider Government programmes;
- Environmental considerations
- Market conditions
- The asset’s life

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution

- **Sale to another institution**
- **Letting to another institution under finance lease**
- **Trade-in**
- **Controlled dumping (for items that have low value or are unhygienic)**

Other means of alienation include:

- **Donations:** Donations may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager for approval.
- **Destruction:** Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- **Scrapping:** Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager.
- **The letting of immovable property, excluding municipal housing for officials and political office bearers, must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.**

All involuntary disposals should be reported to the Chief Financial Officer on a regular basis. This report should include the investigation into the reason for the involuntary disposal per asset and advise if any remediation or recovery could be made. The involuntary disposal of assets, together with the supporting investigations should be presented to council to determine if the involuntary disposal was due to negligence, and if so, to instruct recoveries where possible. Where the involuntary was not due to negligence, council shall determine if there is a correcting or mitigating control that may be put in place to ensure future losses are limited.

Once the fixed assets are disposed, the asset shall be removed from the accounting records and the asset register. All gains and losses realised on the disposal of assets shall be accounted for as revenue or expense in the Statement of Financial Performance.

## **8.4 SELLING OF ASSETS**

### **General**

Selling of assets refers to the public sale of municipal assets approved for alienation.

### **Policy**

All assets earmarked for sale must be sold by public auction or tender and the following steps shall be followed:

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
- The municipality shall appoint an independent appraiser to fix a minimum selling price;
- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.
- The municipality will obtain council approval for all disposals.

Sold assets shall be derecognised in the asset register once control and all rights and obligations of the asset has been transferred.

## **8.5 WRITING-OFF OF ASSETS**

### **General**

The write-off of assets is the process to permanently remove the assets from the asset register. Assets can be written-off after approval of the Municipal Manager of a report indicating that:

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is out-dated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The entity has lost control of the asset
- The asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.

### **Policy**

Reasons for writing off assets, other than the sale of such assets during the process of alienation, shall be the loss, theft, destruction, or decommissioning of the asset in question.

## **9. PHYSICAL CONTROL (MOVABLE ASSETS)**

### **9.1. PHYSICAL CONTROL / VERIFICATION**

#### **General**

Movable assets require physical control and verification of existence.

Assets that cannot be physically verified, may indicate loss of control of the asset and as such, should be treated in line with paragraph 8.5 of this policy for the disposal of assets.

#### **Policy**

All movable assets shall be actively controlled, including an annual verification process. Annual physical inspections of assets shall be performed to identify items which are missing, damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, impaired, written off or disposed of.

Registers shall be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control. These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.

### **9.2. INSURANCE OF ASSETS**

#### **General**

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

#### **Policy**

Assets that are material in value and substance shall be insured at least against destruction, fire and theft. All municipal buildings shall be insured at least against fire and allied perils.

### **9.3. SAFEKEEPING OF ASSETS**

#### **General**

Asset safekeeping is the protection of assets from damage, theft, and safety risks.

#### **Policy**

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken.

## **10. ASSET FINANCIAL CONTROL**

### **10.1. BORROWING COSTS (GRAP 5)**

#### **General**

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs. The capitalisation of borrowing costs should take place when borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. During extended periods in which development of an asset is interrupted, the borrowing costs incurred over that time period should be recognised as an expense when incurred. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

It is inappropriate to capitalise borrowing costs when there is clear evidence that it is difficult to link a borrowing requirement directly to the nature of the expenditure to be funded, i.e. Capital or Current.

#### **Policy**

Borrowing costs shall be capitalised, if directly attributable to the acquisition construction or production of an asset over a significant period, except when it is inappropriate to do so.

### **10.2. FUNDING SOURCES**

#### **General**

The Municipal Finance Management Act (MFMA) provides guidelines on how to utilize funds in financing assets (Section 19 of MFMA). The municipality shall utilise any of the following sources to acquire and / or purchase assets:

- Grants, Subsidies and Public Contributions;
- Revenue Contributions;
- Capital Replacement Reserve;
- Cash Surplus; and / or
- External / Donor Funds.

#### **Policy**

The annual capital budget must be funded and the sources of finance must be disclosed as part of the Council's budget.

### **10.3. DISASTER**

#### **General**

In terms of the Disaster Management Act, 2002, Disaster means a progressive or sudden, widespread or localised, natural or human – caused occurrence which causes or threatens to cause:

- death, injury or disease;
- damage to property, infrastructure or the environment; or
- disruption of life of community; and
- is of a magnitude that exceeds the ability of those affected by the disaster to cope with its effects using only their own resources.

In terms Section 56 (b) of the Disaster Management Act, 2002 the cost of repairing or replacing public sector infrastructure should be borne by the organ of state responsible for the maintenance of such infrastructure. The National, Provincial and Local organs of state may contribute financially to response efforts and post – disaster recovery and rehabilitation.

#### **Policy**

The Municipality will correspond with the Provincial organs to gain funds for repairing assets damaged in disaster events. The municipality must adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster.

## ANNEXURE A: ASSET CATEGORY AND USEFUL LIFE

Buildings	Buildings	Buildings	25 – 50 years
Heritage assets	Heritage assets	Heritage assets	Not depreciated
Infrastructure	Civil structures	Civil structures	15 – 50 years
Infrastructure	Electricity	Distribution and cables	40 – 50 years
Infrastructure	Electricity	Equipment	15 – 45 years
Infrastructure	Electricity	Public lighting	30 – 40 years
Infrastructure	Mechanical equipment	Mechanical equipment	10 – 20 years
Infrastructure	Other	External facilities	7 – 30 years
Infrastructure	Roads	Bridges	30 – 80 years
Infrastructure	Roads	Furniture	8 – 80 years
Infrastructure	Roads	Structure	10 – 50 years
Infrastructure	Roads	Traffic management	10 – 15 years
Infrastructure	Sewerage	Pipelines	40 – 50 years
Infrastructure	Sewerage	Pump stations	10 – 55 years
Infrastructure	Solid waste	Bins and disposal	10 – 20 years
Infrastructure	Sports- and playgrounds	Sports- and playgrounds	10 – 40 years
Infrastructure	Stormwater	Drainage constructed	50 – 70 years
Infrastructure	Stormwater	Drainage unlined	10 – 15 years
Infrastructure	Water	Dams and reservoirs	50 – 80 years
Infrastructure	Water	Other	15 – 20 years
Infrastructure	Water	Pipes and grids	50 – 90 years
Infrastructure	Water	Pumps and tanks	15 – 20 years
Intangible assets	Intangible assets	Computer software	3 – 5 years
Intangible assets	Intangible assets	Rights	Not depreciated

Intangible assets	Intangible assets	Systems (annual license)	Not capitalised
Investment property	Investment property	Investment property	Not depreciated
Land	Land	Land	Not depreciated
Land	Quarry	Quarry	Per expert report
Other assets	Emergency equipment	Emergency equipment	5 – 10 years
Other assets	Furniture and fittings	Furniture and fittings	5 – 7 years
Other assets	Motor vehicles	Motor vehicles	5 – 15 years
Other assets	Office furniture	Office furniture	4 – 15 years
Other assets	Plant and equipment	Plant and equipment	4 – 15 years



## **ANNEXURE B: ASSET TYPES NOT CAPITALISED DUE TO BEING UTILISED LESS THAN 12 MONTHS**

- Kitchenware, e.g. Kettles, toasters, two-plate stove, etc.
- Stationery equipment, e.g. Punches (not heavy duty), staplers (not heavy duty), etc.
- Garden equipment, e.g. Brooms, rakes, spade, etc.
- Machines (not heavy duty), e.g. Spanners, screw drivers, etc.
- Electrical equipment, e.g. Extension lead, multi plug, etc.
- Mattresses
- Cutlery & crockery
- Other, as may be determined by management



