Xhariep District Municipality

Draft Travelling and Subsistence Policy

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1. OBJECTIVE

It is essential that representatives of the municipality from time to time travel to other cities and towns in order to establish and maintain links and relationships with other municipalities, government bodies, and other parties, institutions and organisations operating in the sphere of local government. It is important for representatives to broaden their knowledge and understanding of and compare local experiences in local government transformation, innovation and change in the rest of the country, and this can effectively be done only through the medium of personal contact with a wide range of local government stakeholders.

This policy sets out the basis for the payment of a subsistence and travel allowance for the purposes of such official travelling.

2. RESPONSIBILITIES OF REPRESENTATIVES WHO TRAVEL ON BUSINESS OF THE MUNICIPALITY

- Every representative who travels on the business of the municipality must comply with this policy in letter and in spirit.

- Representatives who travel on the business of the municipality must appreciate, at all times, that they are ambassadors for the municipality, that their actions, conduct and statements must be in the best interests of the municipality, and that they must comply with any specific mandates they have been given.

Consistent with the municipality's performance monitoring and evaluation objectives, the municipal manager will ensure that a database of all representatives and official travelling is kept.

3. SUBSISTENCE AND TRAVEL ALLOWANCE

A subsistence and travel allowance is an amount of money paid by the municipality to a representative to cover the following expenses:

- meals (including reasonable gratuities);
- incidentals such as refreshments, snacks, drinks and newspapers; and
- all business-related travel.

A subsistence allowance does not cover any personal recreation, such as visits to a cinema, theatre or nightclubs, or sightseeing.

4. ENTITLEMENT TO A SUBSISTENCE AND TRAVEL ALLOWANCE

- A representative may claim a daily subsistence allowance as provided in this policy with the understanding that all authorised personal expenses are covered by the subsistence allowance. No further expenses, with the exception of certain business expenses (see below), may be claimed.

- The subsistence allowance may be claimed without the representative having to furnish proof of expenses.

- Entertainment of external business associates or contacts or clients or potential investors or potential clients falls outside the scope of the subsistence allowance and will be separately reimbursed (subject to prior approval where applicable). If a representative of the municipality has an entertainment allowance, this entertainment of external business associates or contacts or other parties must be claimed against the entertainment allowance.

- A representative of the municipality must claim his or her subsistence allowance, as provided in this policy, before embarking on any official trip. The subsistence allowance must, in order to facilitate its timeous payment, be claimed at least three working days before the planned trip.

- No subsistence allowance will be paid, and no representative will be entitled to a subsistence allowance, if the trip or travel is not related to the official business of the municipality. All travel on business of the municipality must be approved as such before a representative is entitled to a subsistence allowance.

- For the purposes of a subsistence allowance, a representative shall mean:

  - mayor or executive mayor, as the case may be
  - deputy-mayor
  - speaker
  - members of the executive committee or mayoral committee, as the case may be
  - other councillors specifically authorised to represent the municipality on a particular occasion
  - municipal manager
  - heads of departments
  - any other official specifically authorised to represent the municipality on a particular occasion
  - any official who is a member of a recognised professional institution and is granted permission to attend meetings and conferences of such institution.

5. ACCOMMODATION COSTS AND SUBSISTENCE ALLOWANCE

- Representatives who travel on the business of the municipality, where the business unavoidably entails one or more nights to be spent away from home, may stay in an hotel, motel, guesthouse or bed and breakfast establishment.

- The actual cost of accommodation will be borne by the municipality. Where such accommodation is available, the rate for a single room will be payable.

- A fixed daily allowance determined in the South African Revenue Service guide for employees in respect of employee's tax will be paid in respect of meals and incidental expenditure. The date of departure from residence or office up until the date of arrival back at residence or office shall be used for purposes of calculating the length of absence.

- When travelling to a point outside the boundaries of the town of residence of the relevant Councilor and employee in circumstances not requiring the night to be spent away (absence of less than 24 hours) a day allowance determined in the South African Revenue Service (SARS) guide for employees shall be paid to the Councilor or employee concerned. The day allowance is subject to employee's tax on assessment by SARS and therefore the relevant receipts, Invoices and any other acceptable confirmation of expenditure should be kept by the relevant Councilors and employees for tax purposes

- In the case of both domestic and international travel, the day of departure and the day of return each qualify for a subsistence allowance.

- For purposes of this policy, domestic travel shall mean travel within South Africa, and international travel shall mean travel to any country other than South Africa.

6. SUBSISTENCE ALLOWANCE IF TRAVEL IS FOR A DAY OR PART OF A DAY WITH NO OVERNIGHT STAY

If a representative travels on the business of the municipality for a day or part of a day, a subsistence allowance of R85 per day or part of a day is payable. No more than R85 shall be payable per day, irrespective of the number of trips undertaken. The rate is reviewable annually with reference to the SARS prescribed rates.

7. MISCELLANEOUS EXPENSES

The maximum that must be claimed where the expenditure is incurred within the boundaries of the Republic of South Africa during a period of absence in excess of 24 hours is as follows:

- Laundry (excluding dry cleaning) - An amount as determined by the Municipal Manager from time to time.
- Parking/Bus fares: Subject to proof being provided. When accommodation arrangements are made arrangements should also be made at the accommodation venue.
- Toll fees: Subject to proof being provided.
- Taxi fare: Subject to proof being provided.

8. CAR RENTAL AND OTHER TRAVEL COSTS

- Only “A” or “B” category vehicles may be rented, unless it is more cost-effective to hire a more expensive vehicle (for example, when the number of representatives involved could justify the hire of a micro-bus), however the accounting officer may authorize any other category based on his/her discretion.

- Car rental must be approved as part of the travel package before the trip is embarked on. A representative who rents a vehicle whilst travelling on the business of the municipality without having received prior authorisation will only be reimbursed for the cost of the vehicle rental if proof of expenditure can be produced and the representative can demonstrate that vehicle rental was reasonably but unexpectedly necessitated by the circumstances.

- All flights by representatives of the municipality shall be in economy class, unless another class of travel is specifically authorised by the mayor or accounting officer, as the case may be.

- If a representative has to utilise his or her personal motor vehicle outside the boundaries demarcated for the municipality he or she will be reimbursed at R3.05 per kilometer or any other amount prescribed from time to time by the South African Revenue Service. The distance to which the reimbursement applies, must be the shortest distance between the municipality’s offices and the location where the official business is to be transacted. If the total number of kilometres for which such reimbursement is received exceeds 8 000 in any tax year, reimbursement for the excess kilometres over 8 000 must be taxed for PAYE purposes.

- Where possible representatives must travel together, up to a maximum of four in a vehicle, to minimise travelling expenses.

9. SUBSISTENCE AND TRAVEL ALLOWANCES FOR PERSONS INVITED FOR INTERVIEWS

Subsistence and travelling costs will be paid for candidates who attend an invited interview provided that such rate may not exceed any amount determined by SARS. No travelling cost will be paid to applicants for travelling within the boundaries of the municipality.

10. AUTHORISATION

For purposes of implementing this policy:

- Only the municipal manager may authorise any travel to be undertaken by officials, or payments to be made for persons invited for interviews, but provided the expenses to be incurred are on the approved budget of the relevant department.

- Only the Executive Mayor, as the case may be, may authorize any travel to be undertaken by the speaker, Mayoral Committee members and the municipal manager, but provided the expenses to be incurred are on the approved budget of the municipality.

- The speaker, as the case may be, may authorize any travel to be undertaken by the Executive Mayor and any other councilor who is not a member of the Mayoral Committee, provided that the expenses to be incurred are on the approved budget of the municipality.

An invitation to attend a workshop, meeting or related event is not an automatic authorization to attend such workshop or event. The required authorization must still be obtained from the municipal manager or executive mayor or executive committee, as the case may be.

Council delegates or representatives to any conference, workshop or meeting must ensure that they arrive on time and attend until the conclusion of such event. If any representative fails to do so, the executive mayor or executive committee or the municipal manager, as the case may be, may recover all allowances and disbursements paid to enable such delegate or representative to attend such event, provided that such delegate or representative is afforded the opportunity to submit reasons for not being able to be present from the commencement to conclusion of such event.

11. LEGAL REQUIREMENTS

In terms of Section 66 of the Municipal Finance Management Act No. 56 of 2003 the accounting officer of the municipality must report to the council, in the format and for the periods prescribed, all expenses relating to staff salaries, allowances and benefits, separately disclosing (inter alia) travel, subsistence and accommodation allowances paid.

All the above mentioned amount are subject to change as per prescribed rates from South African Revenue Services.

The Accounting officer may deviate or override provisions of this policy where necessary.

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PART 1 DEFINITION OF A FIXED ASSET

A fixed asset is defined in GRAP 17 as a tangible item of property, plant or equipment held by a municipality for use in the productions or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).

A fixed asset is thus an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

To be recognised as a fixed asset, an asset must also meet the criteria referred to in parts 13, 14 and 15 below.

An asset held under a finance lease, shall be recognised as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

PART 2 ROLE OF MUNICIPAL MANAGER

As accounting officer of the municipality, the municipal manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

PART 3 ROLE OF CHIEF FINANCIAL OFFICER

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

No amendments, deletions or additions to the fixed asset register shall be made other than by the chief financial officer or by an official acting under the written instruction of the chief financial officer.

PART 4 FORMAT OF FIXED ASSET REGISTER

The fixed asset register shall be maintained in the format determined by the chief financial officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset
- the department(s) or vote(s) within which the assets will be used
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- where applicable, the identification number, as determined in compliance with part 11 below
- the original cost, or the revalued amount determined in compliance with part 26 below, or the fair value if no costs are available
- the (last) revaluation date of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- who did the (last) revaluation
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing

- the current insurance arrangements
- whether the asset is required to perform basic municipal services
- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- the date on which the asset is disposed of
- the disposal price
- the date on which the asset is retired from use, if not disposed of.

All heads of department under whose control any fixed asset falls shall promptly provide the chief financial officer in writing with any information required to compile the fixed asset register, and shall promptly advise the chief financial officer in writing of any material change which may occur in respect of such information.

A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, whereafter it shall be appropriately capitalised as a fixed asset.

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

PART 5 CLASSIFICATION OF FIXED ASSETS

In compliance with the requirements of the National Treasury, the chief financial officer shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of departments shall in writing provide the chief financial officer with such information or assistance as is required to compile a proper classification:

PROPERTY, PLANT AND EQUIPMENT

- land (not held as investment assets)
- infrastructure assets (assets which are part of a network of similar assets)
- community assets (resources contributing to the general well-being of the community)
- heritage assets (culturally significant resources)
- other assets (ordinary operational resources)

INVENTORY

- housing (rental stock or housing stock not held for capital gain)

INVESTMENT PROPERTY

- investment assets (resources held for capital or operational gain)

The chief financial officer shall adhere to the classifications indicated in the annexure on fixed asset lives (see part 33 below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

PART 6 INVESTMENT PROPERTY

Investment assets shall be accounted for in terms of IAS 40 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position.

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

Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

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 an ordinary fixed asset until it is ready for its intended use – whereafter it shall be reclassified as an investment asset.

PART 7 FIXED ASSETS TREATED AS INVENTORY

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

Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

PART 8 RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER

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

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

PART 9 RECOGNITION OF DONATED ASSETS

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

PART 10 SAFEKEEPING OF ASSETS

Every head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.

In exercising this responsibility, every head of department shall adhere to any written directives issued by the municipal manager to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality's fixed assets.

PART 11 IDENTIFICATION OF FIXED ASSETS

The municipal manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.

The identification system shall be determined by the municipal manager, acting in consultation with the chief financial officer and other heads of departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the municipality's audit report(s), and shall be decided upon within the context of the municipality's budgetary and human resources.

Every head of department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

PART 12 PROCEDURES IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS

Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

PART 13 CAPITALISATION CRITERIA: MATERIAL VALUE

No item with an initial cost or fair value of less than R2 000 (Two thousand rand) – or such other amount as the council of the municipality may from time to time determine on the recommendation of the municipal manager – shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

Every head of department shall, however, ensure that any item with a value in excess of R250 (two hundred and fifty rand), and with an estimated useful life of more than one year, shall be recorded on a stocksheet. Every head of department shall moreover ensure that the existence of items recorded on such stocksheets is verified from time to time, and at least once in every financial year, and any amendments which are made to such stocksheets pursuant to such stock verifications shall be retained for audit purposes.

PART 14 CAPITALISATION CRITERIA: INTANGIBLE ITEMS

No intangible item shall be recognised as a fixed asset, except that the chief financial officer, acting in strict compliance with the criteria set out in IAS 38 (dealing with research and development expenses) may recommend to the council that specific development costs be recognised as fixed assets.

PART 15 CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES

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

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

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

PART 16 MAINTENANCE PLANS

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

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

The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

PART 17 DEFERRED MAINTENANCE

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 16 above), the chief financial officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the chief financial officer shall redetermine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

PART 18 GENERAL MAINTENANCE OF FIXED ASSETS

Every head of department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in part 16 and part 17 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

PART 19 DEPRECIATION OF FIXED ASSETS

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

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall generally 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.

However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, deprecation charges shall be calculated monthly.

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

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 fixed assets.

PART 20 RATE OF DEPRECIATION

The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality’s fixed asset register. In determining such a useful life the chief financial officer shall adhere to the useful lives set out in the annexure to this document (see part 33 below).

In the case of a fixed asset which is not listed in this annexure, the chief financial officer shall determine a useful operating life, if necessary in consultation with the head of department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

PART 21 METHOD OF DEPRECIATION

Except in those cases specifically identified in part 23 below, the chief financial officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

PART 22 AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS

Only the chief financial officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the chief financial officer shall inform the council of the municipality of such amendment.

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

If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.

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

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

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

PART 23 ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES

The chief financial officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.

The chief financial officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the municipal manager to provide:

- estimates of statistical information required by the chief financial officer to prepare estimates of depreciation expenses for each financial year; and

- actual statistical information, for each financial year.

The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the chief financial officer.

Where the chief financial officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the chief financial officer shall inform the council of the municipality of the decision in question.

PART 24 CARRYING VALUES OF FIXED ASSETS

All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation.

The only exceptions to this rule shall be revalued assets (see part 26 below) and heritage assets in respect of which no value is recorded in the fixed asset register (see part 8 above).

PART 25 REVALUATION OF FIXED ASSETS

All land and buildings recorded in the municipality’s fixed asset register shall be revalued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

The chief financial officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the chief financial officer is satisfied that such value reflects the fair value of the fixed asset concerned.

The chief financial officer shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.

The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revalued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the fixed asset in question.

The chief financial officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary (see part 24 above).

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the chief financial officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.

Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

PART 26 VERIFICATION OF FIXED ASSETS

Every head of department shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

Every head of department shall promptly and fully report in writing to the chief financial officer in the format determined by the chief financial officer, all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the chief financial officer not later than 30 June of the year in question.

PART 27 ALIENATION OF FIXED ASSETS

NOTE: The reference to the asset financing reserve below is based on the assumption that the reserve is allowed.

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Every head of department shall report in writing to the chief financial officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate by public auction or public tender. The chief financial officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

The council shall delegate to the municipal manager the authority to approve the alienation of any fixed asset with a carrying value less than R1 000 (one thousand rand).

The council shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R1 000 (one thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004 (see part 34 below).

Once the fixed assets are alienated, the chief financial officer shall delete the relevant records from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the income statement of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the income statement of the department or vote concerned.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

PART 28 OTHER WRITE-OFFS OF FIXED ASSETS

A fixed asset even though fully depreciated shall be written off only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the council of the municipality.

Every head of department shall report to the chief financial officer on 31 October and 30 April of each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation. The chief financial officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

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

In every instance where a not fully depreciated fixed asset is written off, the chief financial officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also part 22).

PART 29 REPLACEMENT NORMS

The municipal manager, in consultation with the chief financial officer and other heads of departments, shall formulate norms and standards for the replacement of all normal operational fixed assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

PART 30 INSURANCE OF FIXED ASSETS

The municipal manager shall ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

If the municipality operates a self-insurance reserve (assuming such reserve to be allowed), the chief financial officer shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.

The municipal manager shall recommend to the council of the municipality, after consulting with the chief financial officer, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

The chief financial officer shall annually submit a report to the council of the municipality on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

PART 31 BIOLOGICAL ASSETS

Accounting for biological assets shall take place in accordance with the requirements of IAS 41.

The chief financial officer, in consultation with the head(s) of department concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs. Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned. Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the head of department concerned in exactly the same manner as though the asset were an ordinary fixed asset.

Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record altogether and such details shall reflect the information which the chief financial officer, in consultation with the head of department concerned and the internal auditor, deems necessary for accounting and control purposes.

The chief financial officer shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the council of the municipality considers such insurance desirable and affordable.

PART 32 ANNEXURE: FIXED ASSET LIVES

INFRASTRUCTURE ASSETS

The following is the list of infrastructure assets, with the estimated useful life in years indicated in brackets in each case.

*	Electricity	
	Power stations	(30)
	Cooling towers	(30)
	Transformer kiosks	(30)
	Meters	(20)
	Load control equipment	(20)
	Switchgear	(20)
	Supply and reticulation networks	(20)
	Mains	(20)
*	Roads	
	Motorways	(15)
	Other roads	(10)
	Traffic islands	(10)
	Traffic lights	(20)
	Street lights	(25)
	Overhead bridges	(30)
	Stormwater drains	(20)
	Bridges, subways and culverts	(30)

	Car parks	(20)
	Bus terminals	(20)
*	Water	
	Mains	(20)
	Supply and reticulation networks	(20)
	Reservoirs and storage tanks	(20)
	Meters	(15)
	Rights (that is, the right to draw water from a particular source belonging to another party)	(20)
*	Gas	
	Supply and reticulation networks	(20)
	Storage tanks	(20)
	Mains	(20)
	Meters	(20)
*	Sewerage	
	Sewer mains	(20)
	Outfall sewers	(20)
	Sewage purification works	(20)
	Sewerage pumps	(15)
	Sludge machines	(15)
*	Pedestrian malls	
	Footways	(20)
	Kerbing	(20)
	Paving	(20)
*	Airports	
	Runways	(20)
	Aprons	(20)
	Taxiways	(20)

	Airport and radio beacons	(20)
*	Security measures	
	Access control systems	(5)
	Security systems	(5)
	Security fencing	(3)

COMMUNITY ASSETS

The following is a list of community assets, showing again the assigned or estimated useful lives in years in brackets:

*	Buildings and other assets	
	Ambulance stations	(30)
	Aquariums	(30)
	Beach developments	(30)
	Care centres	(30)
	Cemeteries	(30) #
	Civic theatres	(30)
	Clinics and hospitals	(30)
	Community centres	(30)
	Fire stations	(30)
	Game reserves and rest camps	(30)
	Indoor sports	(30)
	Libraries	(30)
	Museums and art galleries	(30)
	Parks	(30)
	Public conveniences and bath houses	(30)
	Recreation centres	(30)
	Sports and related stadiums	(30)
	Zoos	(30)
*	Recreation facilities	
	Bowling greens	(20)

Tennis courts	(20)
Swimming pools	(20)
Golf courses	(20)
Jukskei pitches	(20)
Outdoor sports facilities	(20)
Organs (that is, pipe organs that are fixtures in a municipal hall or other centre)	(20)
Lakes and dams	(20)
Fountains	(20)
Flood lighting	(20)

Sum-of-units method of depreciation may be preferred.

HERITAGE ASSETS

The following is a list of at least some typical heritage assets encountered in the municipal environment (no asset lives are given, of course, as no ordinary depreciation will be charged against such assets):

- Museum exhibits
- Works of art (which will include paintings and sculptures)
- Public statues
- Historical buildings or other historical structures (such as war memorials)
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

INVESTMENT ASSETS

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality. However, the following will be among the most frequently encountered:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties) (30)

- Shopping centres (again developed along similar lines) (30)

- Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit) (30)

OTHER ASSETS

The following is a list of other assets, again showing the estimated useful life in years in brackets:

* Buildings

Abattoirs	(30)
Asphalt plant	(30)
Cable stations	(30)
Caravan parks	(30)
Compacting stations	(30)
Hostels used to accommodate the public or tourists	(30)
Hostels for municipal employees	(30)
Housing schemes	(30)
Kilns	(30)
Laboratories	(30)
Fresh produce and other markets	(30)
Nurseries	(30)
Office buildings	(30)
Old age homes	(30)
Quarries	(30) #

	Tip sites	(30) #
	Training centres	(30)
	Transport facilities	(30)
	Workshops and depots	(30)
*	Office equipment	
	Computer hardware	(3-7)
	Computer software	(3-7)
	Office machines	(3-7)
	Air conditioners	(5-7)
*	Furniture and fittings	
	Chairs	(7-10)
	Tables and desks	(7-10)
	Cabinets and cupboards	(7-10)
*	Bins and containers	
	Household refuse bins	(5-10)
	Bulk refuse containers	(10)
*	Emergency equipment	
	Fire hoses	(5)
	Other fire-fighting equipment	(15)
	Emergency lights	(5)
*	Motor vehicles	
	Ambulances	(5-10)
	Fire engines	(20)
	Buses	(15)
	Trucks and light delivery vehicles	(5-7)
	Ordinary motor vehicles	(5-7)
	Motor cycles	(3)

*	Plant and equipment	
	Graders	(10-15)
	Tractors	(10-15)
	Mechanical horses	(10-15)
	Farm equipment	(5)
	Lawn mowers	(2)
	Compressors	(5)
	Laboratory equipment	(5)
	Radio equipment	(5)
	Firearms	(5)
	Telecommunication equipment	(5)
	Cable cars	(15)
	Irrigation systems	(15)
	Cremators	(15)
	Lathes	(15)
	Filling equipment	(15)
	Conveyors	(15)
	Feeders	(15)
	Tippers	(15)
	Pulverising mills	(15)
*	Other	
	Aircraft	(15)
	Watercraft	(15)

Sum-of-units may be preferred.

PART 33 ANNEXURE: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003

A municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.

A municipality may alienate any other capital asset, but provided

- the council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
- the council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

The Accounting officer may deviate or override provisions of this policy where necessary.

XHARIEP DISTRICT MUNICIPALITY

Detailed Accounting Policies

for the year ended 30 June 2012

DRAFT

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CHAPTER 1: PURPOSE, SCOPE AND RESPONSIBILITY

Purpose of this document

Accounting policies are defined in GRAP 1, Presentation of Financial Statements, as the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. GRAP 1 also requires that an entity shall disclose in the summary of significant accounting policies the measurement basis (or bases) used in preparing the financial statements and the other accounting policies that are relevant to an understanding of the financial statements.

The purpose of this document is to describe the detailed internal accounting policies adopted by Xhariep District Municipality that would ensure proper accounting treatment in accordance with the applicable accounting framework prescribed by National Treasury. The accounting policies disclosed in the annual financial statements are derived from these policies.

The purpose of the detailed accounting policies is to provide detailed description of the accounting treatment adopted in respect of every type of transaction or event and includes the classification, recognition and measurement thereof.

These accounting policies form a sub-set of the financial management policies and should be read in conjunction with the approved GRAP for municipalities.[1]

Framework of statutory and regulatory standards

These policies have been written to ensure compliance with the relevant statutory and regulatory standards as far as they may impact the accounting policies that should be contained in the annual financial statements.

Scope

The accounting policies as set out below would apply to Xhariep District Municipality as the reporting entity and to any municipal entity controlled by the Municipality.

Responsibility and approval

It would be the responsibility of the accounting officer of Xhariep District Municipality to maintain and adopt these accounting policies to ensure that they are updated with the changes in the relevant accounting standards on an annual basis by 30 April.

These accounting policies were approved by the Council and are applicable for the financial year commencing on 1 July 2009.

Where Xhariep District Municipality needs to depart from the accounting policies as set out below, the Accounting Officer *of the Xhariep District Municipality would need to request permission from the Council and motivate the reasons why the selected policy would provide better disclosure. In doing so, the accounting officer would need to consider whether this departure is a departure from GRAP and would need to consider the requirements of GRAP1, paragraphs 21 - 23.*

[1] ASB defines GRAP for municipalities and it is approved by the Minister of Finance for application.

Appendix

The appendix provided does not form part of the accounting policies and may not contain all the definitions included in the applicable accounting frameworks.

CHAPTER 2: APPLICABLE ACCOUNTING FRAMEWORK, BASIS OF ACCOUNTING AND OTHER CONSIDERATIONS

Legislative requirement and accounting framework

Section 122 of the MFMA requires the following in respect of the preparation of financial statements:

Section 122(1)(a): Separate financial statements
"Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year."

Section 122(2): Consolidated financial statements
"A municipality which has sole control of a municipal entity, or which has effective control within the meaning of the Municipal Systems Act of a municipal entity which is a private company, must in addition to complying with section 122(1), prepare consolidated annual financial statements incorporating the annual financial statements of the municipality and of such entity."

Section 122(3): Application of GRAP
"Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice" as set by the Accounting Standards Board (ASB) and prescribed by the Minister of Finance.

Compliance with section 122 of the MFMA is based on a phased implementation strategy in accordance with the different capacity levels of municipalities. The initial implementation dates for compliance with section 122 of the MFMA were legislated in *General Notice 772*, issued in *Government Gazette no. 26510* of 25 June 2004 and *General Notice 773*, issued in *Government Gazette no. 26511* of 1 July 2004.

However, *General Notice 552* of 2007, issued in *Government Gazette* no. 30013 of 29 June 2007, delayed the phased implementation strategy for compliance with section 122, as summarised in table 1 below.

Table 1: Phased implementation strategy for compliance with section 122 of the MFMA

Type of entity	Separate financial statements: MFMA sections 122(1) & 122(3) are applicable in the following financial years:	Consolidated financial statements: MFMA sections 122(2) & 122(3) are applicable in the following financial years:
High capacity municipalities	2008/09	2008/09
Medium capacity municipalities	2008/09	2008/09

Type of entity	Separate financial statements: MFMA sections 122(1) & 122(3) are applicable in the following financial years:	Consolidated financial statements: MFMA sections 122(2) & 122(3) are applicable in the following financial years:
Low capacity municipal entities	2009/10	2009/10
Municipal entities	No exemption	2009/10

Basis of preparation

The annual financial statements and consolidated annual financial statements are prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) as prescribed by the Accounting Standards Board in terms of section 91(1)(b) and approved by the Minister of Finance in terms of General Notice 522 issued in GG 30013 (dated 29 June 2007).

The Reporting Standards applicable to low capacity municipalities with financial years ending 30 June 2010 are summarised in Appendix B of Directive 5 as follows:

Reference	Topic
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effect of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-Cash Generating Units
GRAP 23	Revenue from non-exchange transactions (taxes and transfers
GRAP 24	Presentation of Budgeted Information in the Financial Statements
GRAP 26	Impairment of Cash Generating Units

GRAP 100	Non-Current Assets held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments

Directives issued and effective:

Reference	**Topic**
Directive 5	Determining the GRAP Reporting Framework
Directive 7	The Application of Deemed Cost on the Adoption of Standards of GRAP

Reference	**Topic**
IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue

Reference	**Topic**
GRAP 18	Segment Reporting
GRAP 20	Related Party Disclosures
GRAP 25	Employee Benefits
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities under common control
GRAP 107	Mergers
IFRS 3 (AC 140)	Business Combinations
IFRS 4 (AC 141)	Insurance Contracts
IFRS 6 (AC 143)	Exploration for and Evaluation of Mineral Resources
IFRS 7 (AC 144)	Financial Instruments: Disclosures
IAS 12 (AC 102)	Income Taxes
IAS 19 (AC 116)	Employee Benefits
IAS 32 (AC 125)	Financial Instruments: Presentation
IAS 39 (AC 133)	Financial Instruments: Recognition and Measurement
SIC – 21 (AC 421)	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC – 25 (AC 425)	Income Taxes – Changes in the Tax Status of an Entity or its
Shareholders	
SIC – 29 (AC 429)	Service Concession Arrangements – Disclosures
IFRIC 2 (AC 435)	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4 (AC 437)	Determining whether an Arrangement contains a Lease
IFRIC 9 (AC 442)	Reassessment of Embedded Derivatives
IFRIC 12 (AC 445)	Service Concession Arrangements
IFRIC 13 (AC 446)	Customer Loyalty Programmes
IFRIC 14 (AC 447)	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding
Requirements and their Interaction	
IFRIC 15 (AC 448)	Agreements for the Construction of Real Estate
IFRIC 16 (AC 449)	Hedges in a Net Investment in a Foreign Operation

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards are developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 (See paragraph on *selection of accounting policies* below).

Basis of accounting

The Xhariep District Municipality prepares its financial statements, except for cash flow information, using the accrual basis of accounting.

The annual financial statements are prepared on the historical cost basis, except where the standards specifically requires fair value measurement or amortised costs as indicated in the individual accounting policies as indicated below.

Significant judgments and estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment are inherent in the formation of estimates.

Actual results in the future could differ from these estimates, which may be material to the annual financial statements.

The Xhariep District Municipality shall disclose any significant judgements made in applying their accounting policies in the summary of significant accounting policies disclosed in the annual financial statements.

Examples of significant judgement made in applying the accounting policies, disclosed in the accounting policies section, may include:

- *Impairment of trade receivables and/or loans and receivables*

  The Xhariep District Municipality assesses its trade and/or loans and receivables for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the statement of financial performance, the Municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

  The impairment for trade receivables and/or loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Any key assumptions made concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and/or liabilities within the next financial year shall be disclosed in the respective notes to the financial statements. In respect of these estimations, the notes shall include detail of the nature and the carrying amount of the asset/liability at reporting date.

Examples of estimates includes in the notes to the financial statements:

- Trade and other receivables

Trade and other receivables	100 000.00
Less: Impairment provision	(20 000,00)
Carrying amount	80 000.00

The impairment for trade and other receivables has been calculated based on the following key assumptions:

Risk free rate: 10% p.a. based on the government bond rate
Trade debt portfolios are based on the ageing of debtors.

Current vs. non-current

The Xhariep District Municipality classifies items on the statement of financial position between current and non-current.

An asset or liability is classified as current when it is within the normal operating cycle, when it is expected that the asset or liability will be realised within 12 months, is held for trade or held specifically as cash or cash equivalents.

All other assets and liabilities are classified as non-current.

Offsetting

The Xhariep District Municipality shall not offset revenue and expenses or assets and liabilities unless specifically allowed by a specific standard within the applicable accounting framework.

Trade date accounting

The Xhariep District Municipality uses trade date accounting for recognising assets and liabilities. The trade date is the date that an entity commits itself to purchase or sell an asset.

Structure of accounting policies

The structure of the accounting policies is based on the structure as included in the accounting framework. The accounting policies deal with classification criteria, the initial recognition and measurement, subsequent recognition and measurement and de-recognition as well as significant judgements that has to be made.

Selection of accounting policies

The following shall be considered when selecting accounting policies that is applied to a transaction:

1. Standard(s) of Generally Recognised Accounting Practice (GRAP) that is specifically applied to that transaction.
2. In the absence of a particular Standard of GRAP, the following hierarchy is used in order to select the appropriate accounting policy:

- The requirements and guidance in GRAP dealing with similar and related issues;
- The definitions, recognition criteria and measurement concepts in the Framework for the Preparation and Presentation of Financial Statements (GRAP 1)
- International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants – Public Sector Committee
- Standards and pronouncements by the International Accounting Standards Board, the Accounting practices Board and the South African Institute of Chartered Accountants Practices Committee (IFRS/IAS/SAGAAP).

In accordance with the requirements set out in the standard on accounting policies, changes in account estimates and errors (GRAP 3), accounting policies are consistently applied from year to year and supported by reasonable and prudent judgments and estimates, unless GRAP specifically requires or permits categorisation of items for which different policies is appropriate.

Changes in accounting policies[2]

Xhariep District Municipality shall only amend its accounting policies when it is required by a specific standard or the change would result in more reliable and relevant information about the effects of transaction and events.

When a change in accounting policy is made, Xhariep District Municipality shall disclose such change in a "Changes in accounting policy" note in the annual financial statements.

This note shall disclose:

- The title of the applicable standard;
- When applicable, that the change in accounting policy is made in accordance with its transitional provisions;
- The nature of the change in the accounting policy;
- When applicable, a description of the transitional provisions;
- When applicable, the transitional provisions that may have an effect on future periods;
- For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial line item affected; and
- The amount of the adjustment relating to the period before those presented, to the extent practicable.
- If the retrospective application of the change in accounting policy proved to be impracticable and the impact of the impracticability to apply the change retrospectively cannot be quantified, this fact is disclosed.

Presentation currency

The financial statements are presented in South African Rand.

[2] Refer to the Standard on Accounting Policies, Changes in Estimates and Errors (GRAP3) for specific requirements

Materiality and aggregation

Material omissions or misstatements of items are material if they could, individually or collectively; influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.[3]

Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets and the cash flow statement, or in the notes.

Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.

If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes. This also means that an item that requires specific disclosure in terms of GRAP need not be disclosed as such if the item is not material.

The materiality levels defined on an annual basis for Xhariep District Municipality are as follows:

	Materiality level above which disclosure is compulsory	***Materiality level that cannot be exceeded for aggregated "other or sundry items"***
Assets	R500 000	R2 500 000
Liabilities	R500 000	R2 500 000
Revenue	R500 000	R2 500 000
Expenses	R500 000	R2 500 000

Other or sundry items that are aggregated cannot exceed R2 500 000. Notwithstanding the above, all *aggregated* amounts for similar items less than R500 000 is not considered material for disclosure purposes. (Prior year figures are also taken into account when considering whether or not an item is material.) Items that are material due to their nature will also be disclosed separately.

Items will be rounded off to the nearest hundred for disclosure purposes.

In defining materiality for financial statement disclosure purposes on an annual basis, the accounting officer shall consider the following:

- The nature of the item
- The amount of the item
- The nature of similar items

[3] GRAP 1 definitions

- Any legislative requirements
- Previous year materiality levels and the adequacy of disclosures in the previous years
- Consistency

CHAPTER 3: ASSETS

Definition

Assets are resources controlled by Xhariep District Municipality as a result of past events from which future economic benefits or service potential is expected to flow to the Municipality.[4]

Classification

Assets are classified into the following categories for disclosure purposes on the face of the statement of financial position:

- Cash and cash equivalents
- Trade receivables from exchange transactions
- Other receivables from exchange transactions
- Other receivables from non-exchange transactions
- Long term receivables from non-exchange transactions
- Financial assets (*excluding cash and cash equivalents and trade and other receivables*)
- Prepaid expenses
- Inventories
- Non-current assets held for sale
- Finance lease investments (*see section W below*)
- Intangible assets
- Investment property
- Property, plant and equipment
- Investments

Measurement

Where assets are classified as current, the initial carrying value is assumed to approximate fair value for subsequent measurement and disclosure purposes, unless other factors indicate differently. Other factors include initial discounting of receivables for measurement purposes and indicators of impairment, as discussed under financial assets below.

[4] Source: *GRAP 1*, Definitions

SECTION A: CASH AND CASH EQUIVALENTS

Identification and classification

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term investments with a maturity of less than three months that are readily convertible to a known amount of cash, and are subject to an insignificant risk of changes in value.

Where cash equivalents are not convertible to cash within a three-month period, it shall be classified according to the sub-classes identified for other financial assets (see section D below).

Cash and cash equivalents are sub-classified into:

- Cash at banks
- Cash on hand
- Investments in financial instruments

Where bank balances are in overdraft, the Municipality shall disclose the bank overdraft as a separate line item.

Recognition and measurement

Xhariep District Municipality recognises cash and cash equivalents when it meets the definition of an asset.

All cash receipts shall be recorded and classified as cash and cash equivalents. Where amounts are received, and the recognition criteria of revenue are not met, the amounts received shall be deferred to the statement of financial position as deferred revenue.

Cash and cash equivalents are measured at fair value.

Risk and Impairment

The risk associated with cash and cash equivalents are managed through compliance with the MFMA (Chapter 3), the approved financial policies and the investment policy.

Xhariep District Municipality only banks with registered financial institutions in terms of the Banks Act, 1990 (Act No. 94 of 1990) operating in South Africa.

Where any of the registered financial institutions experience financial difficulty that may result in Xhariep District Municipality not being able to receive the expected amount of cash, an impairment loss shall be considered.

Xhariep District Municipality will identify indicators for impairment by inter alia:

- Announcements by the national press or the specific financial institution
- Difficulty of financial institutions to pay cash on demand, other than through the *normal* waiting period (per agreement or otherwise)
- Differences in confirmation of amounts due or no responses to such confirmations

- Difficulty in locating the institution

SECTION B: TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Identification and classification

Trade and other receivables from exchange transaction are a separately disclosable line item on the face of the statement of financial position in terms of GRAP1.

Trade and other receivables from exchange transactions include financial assets with fixed or determinable payments that are not held for trading purposes (and as a result, are not quoted in an active market) and are a sub-class of loans and receivables (see section D below) and receivables that may not meet the definition of financial assets but result from exchange transactions between the Municipality and third parties.

Exchange transactions are transactions in which the one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange.[5]

Trade and other receivables from exchange transactions are sub-classified for disclosure purposes into:

- Consumer receivables - sub-classified as:
  - RSC Levies
- Other receivables (material balances are shown separately)
- Sundry receivables
- Interest on investments

Recognition, de-recognition and measurement

Trade and other receivables that are financial assets are recognised and measured in accordance with the policy on loans and receivables (see section D below).

Other receivables are recognised in accordance with the general recognition criteria of assets and are initially measured at fair value and subsequently at amortised cost using the effective interest rate method.

The Municipality derecognises trade and other receivables from exchange transactions when and only when:

- the rights to the cash flows expire; or
- it transfers a financial asset and the transfer qualifies for de-recognition.

Impairment

Trade and other receivables from exchange transactions are tested for impairment similar to other financial assets (see section D below).

[5] Source: IPSAS 23 Revenue from non-exchange transactions , Definitions

SECTION C: TRADE, OTHER AND LONG-TERM RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Identification and classification

Trade and other receivables from non-exchange transaction is a separately disclosable line item on the face of the statement of financial position in terms of GRAP1.

Trade and other receivables from non-exchange transactions include receivables that may not meet the definition of financial assets but are receivables resulting from *non-exchange* transactions between the Municipality and other entities.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the Municipality either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.[6]

Trade and other receivables from non-exchange transactions are sub-classified for disclosure purposes into:

- Long-term receivables – sub-classified as:
  - Receivables from related parties
  - Car loans
  - Study loans
  - Municipal Loans
- VAT receivable
- Other receivables (material balances are shown separately)

Recognition, de-recognition and measurement

Trade and other receivables from non-exchange transactions are recognised when the Municipality receives the right to the future cash flows of the non-exchange transaction, either by legislation or otherwise.

Trade and other receivables from non-exchange transactions are initially measured at fair value and subsequently at amortised cost, similar to loans and receivables (see section D below).

The Municipality derecognises trade and other receivables from non-exchange transactions when and only when the rights to the cash flows expire.

Impairment

Trade and other receivables from non-exchange transactions are tested for impairment similar to other financial assets (see section D below).

[6] Source: IPSAS 23 Revenue from non-exchange transactions , Definitions

SECTION D: FINANCIAL ASSETS

Identification and classification

Where the Xhariep District Municipality has any asset that is:

- cash;
- an equity instrument of another entity;
- a contractual right:
    - to receive cash or another financial asset from another entity; or
    - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the municipal entity's own equity instruments and is:
    - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
    - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments,

the asset is classified as a financial asset.

The following shall not be classified as financial assets:

- Contracts where the delivery is not cash or another financial instrument e.g. prepayment where it is expected that services will be delivered and government grants once the payment has been received/made.
- Statutory rights – see non-exchange revenue (see section L).
- Assets as a result of finance leases (see section F).
- Employers' rights under employee benefit plans.
- Rights arising under (i) an insurance contract other than an issuer's rights arising under an insurance contract that meets the definition of a financial guarantee, or (ii) a contract that contains a discretionary participation feature. If an issuer of financial guarantee contracts has previously asserted explicitly that it regards such the contract as insurance contract and has used accounting applicable to insurance contracts, the issuer may elect to apply the accounting of financial instruments or the accounting policies relating to insurance contracts to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.
- Contracts for contingent consideration in a business combination - this exemption applies only to the acquirer.
- Contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date
- Rights to payments to reimburse the Municipality for expenditure it is required to make to settle a liability that it recognises as a provision.

The following categories of financial assets are identified for disclosure purposes:

- Held for trading
- Designated at fair value
- Available-for-sale
- Held-to-maturity
- Loans and receivables

Financial assets held for trading is sub-classified as:

- Cash and cash equivalents (disclosed separately, see above)
- Derivatives
- Other financial assets held for trading (material balances are shown separately)

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised surpluses or deficits reported in surplus or deficit.
Loans and receivables are further classified as:

- Trade and other receivables from exchange transactions (*disclosed separately, see above*)[7]
- Trade and other receivables from non-exchange transactions (*disclosed separately, see above*) [8]
- Loans to group companies
- Loans to related parties
- Other loans (*material loans are disclosed separately*).

Cash and cash equivalents (section A above) and trade and other receivables from exchange transaction or – non-exchange transactions (section B and C above) are excluded from the above classifications as they are separately disclosed on the face of the statement of financial position. Where it is required that the carrying values of financial assets will be disclosed per category, Xhariep District Municipality shall include these. For this purpose, cash and cash equivalents is classified as held for trading and financial assets included in trade and other receivables from exchange transactions are classified as loans and receivables.

The Municipality does not classify any financial asset as held to maturity if the Municipality has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the Municipality has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Municipality's control, is non-recurring and could not have been reasonably anticipated.

[7] In as far as Trade and other receivables from exchange transactions include financial assets
[8] In as far as Trade and other receivables from non-exchange transactions include financial assets

The Municipality does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the Municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

Initial recognition and measurement

Xhariep District Municipality recognises financial assets when the Municipality becomes party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value *plus* transaction costs that are directly attributable to the acquisition or issue of the financial asset, except for financial assets designated at fair value, *less* any trade or settlement discounts. In case financial assets designated at fair value, the transaction costs is immediately expensed.

The fair value of a financial instrument is normally the transaction price, unless there are other indicators indicating that the transaction was not at fair value, for example a loan given at less than market related interest or interest free loan.

In case of the latter, the fair value shall be determined using the following methods in descending order:

1. Comparing the transaction price to the approved pricing structure of the Municipality for similar goods and services taken into account any discounts allowed or similar transactions
2. Reference to the current fair value of another instrument that is substantially the same if available
3. Discounting cash flow analysis (see below).

Subsequent recognition and measurement

1. Loans and receivables

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment losses recognised to reflect irrecoverable amounts.

2. Held for trade and designated at fair value financial assets

Financial assets held for trade or financial assets designated at fair value are subsequent to initial recognition, measured at fair value.

The following criteria need to be satisfied before the Municipality designates the financial asset at fair value:

- if a contract contains one or more embedded derivatives; or
- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about

the group is provided internally on that basis to the Municipality's key management personnel

Changes in the fair values are recognised in surplus or deficit as they arise.

3. Held-to-maturity investments

Held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

4. Available-for-sale

Available-for-sale financial assets are subsequently measured at fair value.

Changes in the fair value of available-for-sale financial assets are recognised in the statement of changes in net assets through a mark-to-market reserve.

Effective interest rate

The Municipality calculates the effective interest rate as the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

The Municipality includes incurred credit losses, transactions costs, premiums and discounts in the estimated cash flows when computing the effective interest rate. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate. If, however, the premium or discount results from a change in the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates, it is amortised over the expected life of the instrument.

The Municipality re-estimates the effective interest rate for floating rate financial assets and floating rate financial liabilities. These changes do not affect the capital amounts of the asset.

If the Municipality revises its estimates of payments or receipts, the carrying amount of the financial asset or financial liability (or group of financial instruments) is adjusted, to reflect actual and revised estimated cash flows. The Municipality recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised as revenue or expenses in surplus or deficit.

Impairment

At reporting date (the end of each financial year), the Municipality determines whether there is any objective evidence that a financial asset or group of financial assets is impaired. This is done as follows:

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss is decreased and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the borrower's credit rating), the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal may not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and is settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in surplus or deficit even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in surplus or deficit is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit.

Impairment losses recognised in surplus or deficit for an investment in an equity instrument classified as available-for-sale are not reversed through surplus or deficit.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in surplus or deficit, the impairment loss must be reversed, with the amount of the reversal recognised in surplus or deficit.

Financial assets, an impairment loss is recognised in surplus and deficit

When there is objective evidence that it is impaired. The impairment is measured as the cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the loans recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the loan at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the arrangements for payment of arrears of borrowers in the group (e.g. an increased number of delayed payments or where arrangements have been negotiated); or
- national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

Discounting cash flow analysis

Discounting future cash flows shall not be considered appropriate for the initial recognition of financial assets where other methods are available indicating that the transaction has been recorded initially at fair value (see above).

Where the period between the expected settlement date and the transaction date is 30 calendar days or less, and no interest is charged, the time value of money is not considered to have a material effect on such a short period that would influence the users understanding of the financial statements unless the Municipality is subject to hyperinflation.

When using discounting cash flow analysis, the Municipality shall use a market rate of interest for a similar instrument with a similar credit rating for a similar period. It is considered to be prime+1%.

Where no such rate exists, the Municipality shall use an estimated discount rate using the risk free interest rate of government bonds (RE 518) as the best indicator of the effect of the time value of money and adjust it for the type of financial asset and the credit risk associated with the instrument:

Class	*Type*	*Adjusted percentile (added to risk free rate)*
Consumer receivables from exchange transaction	1. Debtors with agreements 2. Debtors with late payments 3. Current debtors 4. Government debtors	1. 5% 2. 7% 3. 0% 4. 2%
Other receivables	1. Sundry 2. Interest on investments 3. Accrued	

The period over which the initial transaction is discounted shall be used as a basis for adjusting for the credit risk associated with the initial debtors. For this purpose, the following portfolios of financial instruments have been identified:

Type	*Portfolios*	*Discounting period at initial recognition*
All debtor types	Expected settlement exceeding 1080 days	1080 days
	Expected settlement exceeding 1050 days but not exceeding 1080 days	1050 days
	Expected settlement exceeding 1020 days but not exceeding 1050 days	1020 days
	Expected settlement exceeding 990 days but not exceeding 1020 days	990 days
	Expected settlement exceeding 960 days but not exceeding 990 days	960 days
	Expected settlement exceeding 930 days but not exceeding 960 days	930 days
	Expected settlement exceeding 900 days but not exceeding 930 days	900 days
	Expected settlement exceeding 870 days but not exceeding 900 days	870 days
	Expected settlement exceeding 840 days but not exceeding 870 days	840 days
	Expected settlement exceeding 810 days but not exceeding 840 days	810 days
	Expected settlement exceeding 780 days but not	780 days

	exceeding 810 days	
	Expected settlement exceeding 750 days but not exceeding 780 days	750 days
	Expected settlement exceeding 720 days but not exceeding 750 days	720 days
	Expected settlement exceeding 690 days but not exceeding 720 days	690 days
	Expected settlement exceeding 660 days but not exceeding 690 days	660 days
	Expected settlement exceeding 630 days but not exceeding 660 days	630 days
	Expected settlement exceeding 600 days but not exceeding 630 days	600 days
	Expected settlement exceeding 570 days but not exceeding 600 days	570 days
	Expected settlement exceeding 540 days but not exceeding 570 days	540 days
	Expected settlement exceeding 510 days but not exceeding 540 days	510 days
	Expected settlement exceeding 480 days but not exceeding 510 days	480 days
	Expected settlement exceeding 450 days but not exceeding 480 days	450 days
	Expected settlement exceeding 420 days but not exceeding 450 days	420 days
	Expected settlement exceeding 390 days but not exceeding 420 days	390 days
	Expected settlement exceeding 360 days but not exceeding 390 days	360 days
	Expected settlement exceeding 330 days but not exceeding 360 days	330 days
	Expected settlement exceeding 300 days but not exceeding 330 days	300 days
	Expected settlement exceeding 270 days but not exceeding 300 days	270 days
	Expected settlement	240 days

	exceeding 240 days but not exceeding 270 days	
	Expected settlement exceeding 210 days but not exceeding 240 days	210 days
	Expected settlement exceeding 180 days but not exceeding 210 days	180 days
	Expected settlement exceeding 150 days but not exceeding 180 days	150 days
	Expected settlement exceeding 120 days but not exceeding 150 days	120 days
	Expected settlement exceeding 90 days but not exceeding 120 days	90 days
	Expected settlement exceeding 60 days but not exceeding 90 days	60 days
	Expected settlement exceeding 30 days but not exceeding 60 days	30 days

For impairment purposes, the actual expected settlement period is used for discounting purposes.

Where there is no interest and no repayment terms, the Municipality accounts for the loan given at initial transaction price as it would be impracticable to calculate the present value. Discounting is not considered an appropriate method to determine the present value of such assets. Rather, the Municipality would assess the ability of the entity to pay the loan back at reporting date and impair the loan on that basis.

Hedge accounting[9]

The Municipality shall not apply hedge accounting.

De-recognition

The Municipality derecognises a financial asset when and only when:

- the rights to the cash flows from the financial asset expire; or
- it transfers the financial asset and the transfer qualifies for de-recognition. The Municipality firstly needs to evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The Municipality transfers a financial asset if, and only if, it either:

- transfers the contractual rights to receive the cash flows of the financial asset; or
- retains the contractual rights to receive the cash flows of the financial asset.

[9] See paragraph 85-102 of IAS39 Recognition and Measurement of Financial Instruments

SECTION E: PREPAID EXPENSES

Identification and classification

Prepayments are payments made in advance with expected future delivery of goods and services to the Municipality rather than expected future cash flow expectations and subsequently, are not financial instruments or part of lease transactions.

Xhariep District Municipality shall ensure that deposits paid for the rental of equipment or other operating assets is included in the assessment of the minimum lease payments and are not disclosed separately.

Prepayments are disclosed separately on the face of the financial statements, unless the aggregated amount for both the reporting period and the comparative year is not material. In such a case, prepayments will be disclosed separately in trade and other receivables from exchange transactions.

Recognition, de-recognition and measurement

Prepayments are recognised when the payment is made to the third party requesting the payment and are measured initially at the transaction price. The prepayment is derecognised as the services are delivered.

Where there is an expectation that cash will be received in the future, the initial transaction is discounted using the risk free rate over the expected period of settlement. The initial discounted amount is recognised as part of trade and other receivables from exchange transactions and the difference is included in prepayments when the recognition criteria for assets are satisfied and amortised to the financial asset over the expected period of settlement.

Where the expected period cannot be estimated reliably, the prepayment is measured at cost.

Impairment

The impairment criteria applicable to financial assets shall be considered for prepayments.

SECTION F: INVENTORIES

Identification and classification

Inventories are assets:

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Xhariep District Municipality classifies inventories as follows:

- Consumables stores
- Fuel
- Work in progress

Initial recognition and measurement

The Municipality recognise identified inventories at cost when the item meets the recognition criteria of an asset.

The cost of inventories would include any cash discounts, discounts on deferred settlements and incremental interest.

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

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects are assigned using specific identification of the individual costs.

Fuel is deemed a strategic item and is therefore considered material due to the nature. It will therefore be disclosed separately in the financial statements regardless of it's value.

Subsequent recognition and measurement

Inventories are measured at the lower of cost and net realisable value, except where the paragraph mentioned below applies.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The following cost formulas are applied for every inventory class:

The first-in-first-out measurement basis will be used for all classes of inventory.

When inventories are sold or consumables are used, the carrying amount of those items is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

SECTION G: NON CURRENT ASSETS HELD FOR SALE

Identification and classification

Xhariep District Municipality classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use.

Recognition and measurement

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

This condition is regarded as met only when the sale is highly probable and the assets (or disposable group) are available for immediate sale in its present condition.

The following steps are to be followed before a sale is highly probable:

1. Management shall be committed to a plan to sell the asset (or disposal group) in line with the MFMA requirements.
2. An active programme to locate a buyer and complete the plan should have been initiated.
3. The asset (or disposal group) shall be actively marketed for sale at a price that is reasonable in relation to its current fair value.
4. The sale shall be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups), which are classified as held for sale, are disclosed as current assets and are not depreciated.

An asset, which is to be abandoned, is not classified as held for sale because its carrying amount will be recovered principally through continuing use. An asset, which has temporarily been taken out of use, is not abandoned.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

The Municipality does not classify a non-current asset as available-for-sale if it is not through a sales transaction and does not derecognise items or groups of property, plant and equipment if the asset(s) are only temporarily not in use.

The carrying value of an item of property, plant and equipment is derecognised when the items is disposed off or when no future economic benefits are expected from it, in other words, when the Municipality does no longer use the asset and have no intention to use the asset any further.

Any gain/loss on the measurement of non-current assets classified as held for sale that does not meet the definition of a discontinued operation, is recognised in the surplus or deficit.

SECTION H: INVESTMENT PROPERTY

Identification and classification

Investment property represents property held to earn long-term rental yields and/or capital appreciation. Investment property comprises freehold land and building and leasehold land with buildings, but excludes owner-occupied property.

Owner occupied property includes property used for administrative purposes or in the production of goods and services and including property rented to employees notwithstanding the rental amounts. Owner occupied property is classified with property, plant and equipment.

Initial recognition and measurement

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost.

Subsequent recognition and measurement

The Municipality measures investment property using the fair value model.

The Municipality determines the fair value on an annual basis.

Fair value is defined as the estimated amount for which a property can be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

The Municipality recognises the gain/loss arising from changes in the fair value of investment properties as a surplus or deficit in the statement of financial performance.

Impairment

An impairment test is carried out annually to ensure that the investment property is fairly valued.

Changes in use and de-recognition

The Municipality reclassifies an investment property where there is a change in use, in other words, where the property could be classified as owner-occupied or where it meet the definition of inventories.

The investment property is derecognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the disposal is recognised as surplus or deficit in the statement of financial performance.

SECTION I: BIOLOGICAL ASSETS

Identification and classification

The Xhariep District Municipality classifies living animals or plants as biological assets.

Initial recognition and measurement

The Municipality recognises biological assets at cost when the asset is acquired, including permanent donations. See section A above for the discussion on cost and donated assets or assets acquired at less than cost.

Changes in biological assets through growth, procreation or obtained on a temporary basis through an exchange programme or otherwise are not accounted for, unless the asset is intended for sale. In case of the latter the asset would be accounted for as assets held for sale and the revenue would be recognised in accordance with the revenue recognition criteria. The municipality must disclose the nature of all biological assets that are not measured in the notes to the financial statements.

Subsequent recognition and measurement

Biological assets are measured at fair values at each reporting date less estimated point-of-sale costs where the assets constitute agricultural activities. Where the assets do not constitute agricultural activities, the assets are measured on historical costs.

The fair value is determined based on market prices of animals of similar age, breed, and genetic merit, sold in June of each year. Changes in the fair values from year to year are recognised in surplus or deficit.

Impairment

An impairment test is carried out annually to ensure that the biological assets are fairly valued.

Changes in use and de-recognition

The biological asset is derecognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the disposal is recognised as surplus or deficit in the statement of financial performance.

Once a non-current biological asset meets the criteria to be classified as held for sale, it should be classified as such (see section E below).

SECTION J: INTANGIBLE ASSETS

Identification and classification

Xhariep District Municipality classifies assets that are non-monetary without physical substance as intangible assets.

Intangible assets are classified as:

- Computer software (*excluding operational programmes that would be classified as property, plant and equipment*)
- Licences
- Mortgage servicing rights
- Patents and copyrights
- Other (*material balances are shown separately*)

Initial recognition and measurement

Xhariep District Municipality only recognises an intangible asset if it meets the definition of an asset and it is separately identifiable and the Municipality have control over it. If the Municipality does not have sufficient control over the expected future benefits then the item cannot be classified as an intangible asset.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Municipality; and
- the cost of the asset can be measured reliably.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale,
- there is an intention to complete and use or sell it,
- there is an ability to use or sell it,
- it will generate probable future economic benefits,
- there are available technical, financial and other resources to complete the development and to use or sell the asset, and
- the expenditure attributable to the asset during its development can be measured reliably.

The Municipality recognises intangible assets initially at cost.

The Municipality does not recognise internally generated goodwill or research cost as intangible assets. These costs are recognised as expenses.

When software is not an integral part of the related hardware, computer software is treated as an intangible asset.

Subsequent recognition and measurement

The Municipality uses the cost model for subsequent measurement of intangible assets.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The Municipality accounts for an intangible asset at cost where the intangible asset has an indefinite useful life. This is where there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. For all other intangible assets amortisation is provided on a straight-line basis over their useful lives, taking into account the residual value of the intangible assets.

Profit or losses on the disposal of property, plant and equipment or intangible assets and profit or losses as a result of fair value adjustments are not classified as revenue or expenses, but are classified as separate line items on the statement of financial performance and are included in the surplus/deficit for the period.

Amortisation

The amortisation period and method for intangible assets are reviewed at every reporting date. This is done similar to that of property, plant and equipment (see above).

The amortisation cost is recognised in surplus or deficit in the statement of financial performance unless it forms part of the carrying amount of another asset.

The residual value of an intangible asset is zero unless there is a commitment by a third party to buy the asset or it is probable that an active market will exist at the end of the useful life.

Impairment

At each reporting date, the Municipality reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is identified that the related asset does not generate cash flows that are independent from the other assets, the entities estimates the recoverable amount of the cash generating unit to which the asset belongs.

An intangible asset with an indefinite useful life (e.g. mining rights, and mining licenses) is tested for impairment annually and whenever there is an indication that the asset may be impaired, an impairment loss is recognised in the statement of financial performance. Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired.

An impairment loss is calculated and recognised on a similar basis as for property, plant and equipment (see section A above).

De-recognition and reclassification

The Municipality derecognises an intangible asset on disposal or when no future economic benefits are expected from it. The gain or loss arising from the disposal is recognised as surplus or deficit in the statement of financial performance. Intangible assets that meet the definition of non-current assets held for sale should be classified as such (see section D below).

SECTION K: PROPERTY, PLANT AND EQUIPMENT

Identification and classification

Property, plant and equipment are assets held for use in the production or supply of goods or services or for administrative purposes.

The following classes of property, plant and equipment are identified for disclosure purposes:

Other Assets
- Heritage assets
- Leased assets
- Office equipment
- Other land and buildings
- Security measures
- Motor vehicles
- Plant and equipment

Heritage assets

Heritage assets are assets with cultural, historical or environmental significance e.g. conservation areas and artwork.

Heritage assets with service potential, is recognised and measured on the same basis as other items of property, plant and equipment.

Heritage assets with an indefinite useful life would be carried at cost, where the cost can reliably be measured. Where it is impracticable to determine cost, the Municipality discloses that fact.

Initial recognition and measurement

An item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits associated with the item will flow to the Municipality; and
- the cost of the item can be measured reliably.

Intitial costs

The cost of an item of property, plant and equipment comprises:
- the purchase price
- import duties
- non-refundable purchase taxes
- trade discounts and rebates.
- costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located,

- the obligation incurred either when the item is acquired or as a consequence of having used the item

Directly attributable costs include:

- costs of employee benefits arising directly from the construction or acquisition of the item
- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- professional fees.

Cost is the cash price equivalents at recognition date. Cost excludes interest beyond normal credit terms. Cost includes any direct taxes or other duties that are not recoverable, rebates, discounts and any cost that are directly attributable to bringing the asset to the location and condition for it to be capable of operating in the manner intended by the Municipality.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located are also included in the cost of property, plant and equipment. Abnormal amounts of wasted material, labour and other resources are recognised immediately as an expense in the statement of financial performance.

Donated assets

Donated assets and assets obtained at less than fair value are accounted for at fair value. The difference between the fair value and the cash consideration is accounted for using the accounting policy relating to the accounting of non-exchange revenue.

Subsequent cost

Subsequent cost will be evaluated against the definition of assets to determine whether it shall be capitalised.

Day-to-day servicing costs are not capitalised.

Repairs and maintenance expenses are charged to the statement of financial performance during the financial year in which they are incurred.

The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits will flow to the Municipality and the cost can be measured reliably.

Capital commitments

Capital commitments are not recognised but are disclosed separately by the Municipality.

Subsequent recognition and measurement

Cost Model

Xhariep District Municipality measures property, plant and equipment at cost less accumulated depreciation except for the following classes, which are measured using the revaluation model:

- Land
- Buildings

Revaluation model

Land held for use in the production or supply of goods and services or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Land is revalued at least once every four years. Interim valuations are performed when erven are for example subdivided or consolidated.

Any accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation increase arising on the revaluation of the Municipality' land and buildings are credited to the property revaluation reserve (net assets), except to the extent that it reverses a revaluation decrease for the same asset previously recognised in surplus and deficit, in which case the increase is credited to surplus and deficit to the extent of the decrease previously charged.

A decrease in carrying amount arising on the revaluation of such land and buildings are charged to surplus and deficit to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of the asset.

On the subsequent sale or retirement of a revalued item, the attributing surplus remaining in the revaluation reserve is transferred directly to the Municipality's accumulated surpluses (not through surplus/deficit).

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives to residual value, using the straight-line method unless another method provides better estimation of the use of the asset e.g. voltage used. Depreciation commences when the assets are ready for their intended use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Depreciation ceases at the earlier of the date the asset is classified as held for sale or the date that the asset is derecognised.

Each item of or part of an item of property, plant and equipment with a cost that is significant in relation to the total cost is depreciated separately.

As described above, general repairs and maintenance incurred from time to time is expensed. If the intention is to replace the item of property, plant and equipment in its entirety, rather than by replacing the respective significant parts, the item should be considered as a whole.

It should be noted that as a result of the reassessment policy, it is possible that the items of property, plant and equipment within the same category are depreciated over different useful lives.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Land is not depreciated, except for landfill sites.

Depreciation commences when the assets are ready for their intended use.

Property, plant and equipment, excluding land that is not depreciated and assets under construction, are measured in the statement of financial position at cost less accumulated depreciation and any accumulated impairment losses.

The residual value and useful life of an asset as well as the depreciation method are reviewed at least at each financial year-end. If expectations or the pattern of consumption differ or change, it is accounted for as a change in accounting estimate in accordance with GRAP 3 as described below.

Useful life

The useful life of an item of property, plant and equipment is the period over which the Municipality expects the asset to be available for use, or the number of production or similar units expected to be obtained from its use.

The useful life of all items of property, plant and equipment or a component of property, plant and equipment is reassessed on an annual basis to ensure that the estimated useful lives are still appropriate.

The estimated useful life is assessed based on the following:

- The replacement policy of the specific assets
- Technological obsolescence
- The economic life of an asset

Where an asset is reaching its replacement period and management are of the opinion that the asset should not be replaced, the replacement policy for the specific asset would be amended based on the reassessment, and the useful life would be adjusted accordingly.

Leasehold assets

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Componentisation

Xhariep District Municipality does not componentise items of property, plant and equipment where the individual component is not significant in relation to the total cost.

Both quantitative and qualitative significance is considered.

Quantitative significance is 25% of the value of the total asset. However, if this significant part of the asset is less than the minimum materiality level set out above, it is not componentised.

Qualitative significance is based on the following questions:

- Can the asset be sold separately and use as a separate asset?
- Does the asset have a useful life that is significantly different from that of the whole asset?

If any of these answers are yes, the Municipality accounts for the component as a separate asset.

Residual values

Residual value is calculated based on an estimated amount that the Municipality would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

The residual values are reviewed each year and where estimates differ from those previously determined, the difference is accounted for as a change in accounting estimate on a prospective basis.

Where the residual values are unknown, it is assumed to be 1% of the cost of the asset. The residual values of assets to which section 14(1) of the MFMA is applicable, is assumed to be zero.

Impairment

At each reporting date, the Municipality reviews the carrying amounts of items and groups of property plant and equipment to determine whether there is any indication that those assets have been impaired.

An asset is impaired when its carrying amount exceeds its recoverable amount.

If any such indication exists, the recoverable amount of the asset or group of assets is estimated in order to determine the extent of the impairment loss (if any).

Where it is identified that the related asset does not generate cash flows that are independent from the other assets, the Municipality estimates the recoverable amount of the cash-generating unit to which the asset or group of assets belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

At each reporting date the Municipality assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, and the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

An impairment test is performed at the end of each financial period by comparing an asset’s carrying amount to the recoverable amount. The recoverable amount is calculated as described above.

Changes in estimates and errors

Where the Municipality identifies a change in estimated useful lives, the change is accounted for as a change in accounting estimate and the financial statements are prospectively adjusted, unless it has been identified that the previous estimate were inherently incorrect. In case of the latter, the change would be a correction of the estimate and would need to be corrected retrospectively as an error.

Reclassification and de-recognition

Where the Municipality is intending to sell any item or group of property, plant and equipment within the next 12 months and the sale is highly probable, the Municipality reclassifies the item or group of property, plant and equipment as assets held for sale under current assets in the statement of financial position (see section above for a discussion of assets held for sale).

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as a surplus or deficit in the statement of financial performance.

CHAPTER 4: LIABILITIES

Definition

Liabilities are present obligations of the Municipality arising from past events, the settlement of which is expected to result in an outflow from the Municipality of resources embodying economic benefits or service potential.[10]

Classification

Liabilities are classified into the following categories for disclosure purposes on the face of the statement of financial position:

- Trade and other payables from exchange transactions
- Unspent conditional grants and receipts
- Taxes payable
- Financial liabilities (*excluding trade and other payables*)
- Post employment benefits
- Social benefit obligations
- Provisions
- Finance lease obligations (*see section W below*)

Measurement

Where payables are classified as current, the initial carrying value is assumed to approximate fair value for subsequent measurement and disclosure purposes, unless other factors indicate differently. Other factors include initial discounting of payables for measurement purposes.

[10] Source: *GRAP 1*, Definitions

SECTION L: TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Identification and classification

Trade and other payables from exchange transaction are a separately disclosable line item on the face of the statement of financial position in terms of GRAP1.

Trade and other payables include financial assets with fixed or determinable payments that are not held for trading purposes (and as a result, are not quoted in an active market) and are a sub-class of loans and payables (see section M below) and receivables that may not meet the definition of financial assets but result from exchange transactions between the Municipality and third parties.

Exchange transactions are transactions in which the one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange.[11]

Trade and other payables from exchange transactions are classified into:

- Trade payables
- Payments received in advance
- Retentions
- Staff bonuses
- Staff leave
- Other payables (*material balances are shown separately*)
- Deferred revenue (*see chapter 6*)

Deferred revenue shall be classified further in the notes to ensure the nature of the revenue deferred is shown e.g. unallocated receipts, conditional grants, etc.

Recognition, de-recognition and measurement

Trade and other payables that are financial liabilities are recognised and measured in accordance with the policy on loans and payables (see section M below).

Other payables are recognised in accordance with the general recognition criteria of liabilities and are initially measured at fair value and subsequently at amortised cost using the effective interest rate method.

The Municipality derecognises trade and other payables from exchange transactions when liability is extinguished or transferred and the Municipality does not assume any further liability.

[11] Source: IPSAS 23 Revenue from non-exchange transactions , Definitions

SECTION M: TAXES AND TRANSFERS PAYABLE

Identification and classification

Xhariep District Municipality classifies all taxes and transfers payable into the following categories:

- VAT
- Other taxes (e.g. Levies payable, material balances are showed separately)
- Transfers (material balances are shown separately)

Xhariep District Municipality is exempted from South African Income Tax.

Recognition and measurement

Xhariep District Municipality recognise tax expenses and the related liability when the Municipality has the obligation to pay these taxes. The Municipality recognises transfers in a similar way.

The Municipality recognises VAT expenses net of revenue.

SECTION N: FINANCIAL LIABILITIES

Identification and classification

Where Xhariep District Municipality has any liability that is:

- a contractual obligation:
  - to deliver cash or another financial asset to another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments

the liability is classified as a financial liability.

Where the Municipality issues rights to their own net assets/equity, these are not classified as financial instruments by the Municipality, but rather as part of the net assets of the Municipality (see chapter 8 below).

Further exemptions are:

- Contracts where the delivery is not cash or another financial instrument government grants once the payment has been received.
- Statutory obligations (see section L above)
- Liabilities as a result of finance leases (see section W).
- Obligations under employee benefit plans (see section N)
- Obligations arising under (i) an insurance contract other than an issuer's obligations arising under an insurance contract that meets the definition of a financial guarantee, or (ii) a contract that contains a discretionary participation feature. The issuer may elect to apply the accounting of financial instruments or the accounting policies relating to insurance contracts to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.
- Contracts for contingent consideration in a business combination - this exemption applies only to the acquirer.
- Contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date
- Rights to payments to reimburse the Municipality for expenditure it is required to make to settle a liability that it recognises as a provision
- Loan commitments classified as provisions.

The following categories of financial liabilities shall be used for disclosure purposes:

- Held for trading
- Designated at fair value
- Loans and payables

Held for trading financial instruments are further classified as:

- Derivatives
- Other held for trading financial liabilities (material amounts are showed separately)

Financial liabilities will only be designated at fair value if the criteria for designation (see section D above) are met.

Loans and payables are classified as:

- Trade and other payables from exchange transactions[12]
- Loans from group companies
- Loans from related parties
- Other loans (material loans are disclosed separately)

Initial recognition and measurement

The Municipality recognises financial liabilities when the Municipality becomes party to the contractual provisions of the instrument.

Financial liabilities are initially measured at fair value plus transaction costs (except for financial liabilities designated at fair value) that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The fair value of a financial liability is normally the transaction price; unless other indicators exist which indicate that it is not.

The Municipality accounts for long-term loans with no interest at the present value of all future cash flows, using a market rate of interest for a similar instrument with a similar credit rating. However, where no interest and no repayment terms exist, the Municipality accounts for the loan at the transaction price as it would be impracticable to calculate the present value.

Subsequent recognition and measurement

1. Held-for-trade and Designated at fair value

These liabilities are measured at fair value.

Changes in the fair values are recognised in surplus or deficit as they arise.

2. Loans and payables

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

Effective interest rate

The Municipality calculates the effective interest rate as the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

The Municipality includes transactions costs, premiums and discounts in the estimated cash flows when computing the effective interest rate. However, a shorter period is used if this is the period to which the fees, points paid or received,

[12] Disclosed separately (see above), in as far as this include financial liabilities

transaction costs, premiums or discounts relate. If, however, the premium or discount results from a change in the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates, it is amortised over the expected life of the instrument.

The Municipality re-estimates the effective interest rate for floating rate financial liabilities. These changes do not affect the capital amounts of the liability.

If the Municipality revises its estimates of payments, the carrying amount of the financial liability (or group of financial instruments) is adjusted, to reflect actual and revised estimated cash flows. The Municipality recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised as revenue or expenses in surplus or deficit.

Hedge accounting

The Municipality does not apply hedge accounting.[13]

De-recognition

The Municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in surplus or deficit.

[13] See paragraph 85-102 of IAS39 Recognition and Measurement of Financial Instruments

SECTION O: EMPLOYEE BENEFITS AND KEY MANAGEMENT

Identification and classification

Xhariep District Municipality discloses and classifies employee benefits as follows for statement of financial position purposes:

- Short and long term employee benefit obligations (as part of trade and other receivables from exchange transactions)
- Post-employment benefit obligations (relating to defined benefit plans: pensions, gratuities and medical aid)

For statement of financial performance purposes, the Municipality discloses and classify employee benefits separately as follows:

- Current service costs
- Past service cost
- Social contributions
- Housing benefits and allowances
- Motor vehicle allowances
- Other allowances and benefits
- Overtime payments
- Leave benefits
- Performance bonuses

The Municipality includes remuneration to key management in the above amounts, but discloses separately the remuneration to key management.

Key management are persons who have the responsibility and and authority for planning, directing and controlling the activities of the entity directly or indirectly.

For the Municipality, this will include the City Manager, the Chief Financial Officer, the Chief Operating Officer and the Executive Directors.

For Centlec, this will include the Chief Executive Officer, the Chief Financial Officer/Chief Operating Officer and Executive Managers.

The amount classified as social contributions or any other allowances only include the portion paid by the Municipality, e.g. contributions to medical aid.

Reimbursement expenses are classified separately from employee benefits.

Recognition and measurement

1. Short term employee benefits

The Municipality recognises the cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care) in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

The Municipality recognises the difference between the amount due and the amount paid is as short-term employee benefit obligations.

2. Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plan) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

The Municipality recognises the difference between the amount due and the amount paid is as short-term employee benefit obligations.

3. Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined by using the projected credit method. Actuarial valuations are conducted on an annual basis for each plan separately by independent actuaries, unless it is impracticable.

Multi-employer plans is recognised as as a contribution plan when it is impracticable to determine the separate liability of the Municipality relating to the plan. Where it is impracticable, the reasons shall be disclosed.

Consideration is given to any event that could impact the funds up to the reporting date where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial year, any cumulative unrecognised actuarial gain or loss exceeds ten percent (10%) of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the statement of financial performance over the expected average remaining service lives of participating employees. Actuarial gains or losses within the 10% corridor are not recognised.

Surpluses or deficits on the curtailment or settlement of a defined benefit plan are recognised when the Municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses, plus the present value of available refunds and reduction in future contributions to the plan.

4. Defined benefit plans: gratuities and medical aid

The Municipality could provide defined benefit plans in respect of retirement benefits, gratuities, and subsidisation of medical aid contributions after retirement to qualifying employees.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligations, calculated by using the projected unit credit method, and reduced by the fair value of plan assets, where relevant. The amount of any surplus recognised is limited to the present value of any available refunds and reduction in future contributions for the employees in the Municipality. To the extent that there is uncertainty as to the entitlement to the surplus, no asset is recognised.

Actuarial gains and losses are recognised immediately in the statement of financial performance in the period in which they arise. Past service costs are recognised immediately once the benefits are vested, otherwise they are recognised when it is probable that the expenses will be incurred.

5. Termination benefits and other long term employee benefits

Long-term employee benefits are recognised as a provision when the recognition criteria of a provision are met.

The Municipality only recognises termination benefits if there is a demonstrated commitment that:

- Employment will be terminated before normal retirement date or
- The Municipality provides termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The provision is made in accordance with the accounting policy on provisions.

SECTION P: SOCIAL BENEFIT OBLIGATIONS

Identification and classification

Social benefits are cash transfers to individuals or households and collective and individual goods and services provided by an entity to recipients in a non-exchange transaction to protect the entire population, or a particular segment of the population, in any jurisdiction against certain social risks[14].

Social benefits are categorised into three categories:

- Cash transfers;
- Individual goods and services; and
- Collective goods and services.

Cash transfers are classified as transfers and categorised with Grants and Taxes payable (see section L above). The Municipality shall disclose the nature of the transfer and a description of the transfer.

Individual goods and services include services rendered by the Municipality e.g. sewerage services and are classified with expenses according to the class of expenditure (see Chapter 5 below). The liabilities associated with individual goods and services are classified either as accrued expenses or provisions, depending on the nature of the liability.

The following classes of collective goods and services are rendered by the Municipality:

The expenses relating to the services provided are classified with expenses. The associated liabilities are disclosed as social benefit obligations.

Recognition, de-recognition and measurement

The Municipality determines the best estimate of the present obligation of social benefits and recognise such benefits as liabilities and expenses when all the eligible criteria has been met for such benefits. Future expenses shall not be recognised.

The disclosure requirements of social obligations are similar to that of provisions.

The Municipality determines the best estimate of the present value of amounts expected to be transferred under cash transfer programs to eligible individuals or households in the future and disclose these amounts as commitments in the financial statements.

[14] Source: IPSASB, ED34, March 2007

SECTION Q: PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Identification and classification

Xhariep District Municipality identifies provisions as present obligations arising from past events of uncertain timing or amount. Contingent liabilities are similar to provisions, however, are dependant on a future event for it to be probable. Contingent assets are possible assets that arise from past events but for which the occurrence is dependant on future uncertain events.

Initial recognition and measurement

The Municipality recognises provisions when:

- the Municipality has a *present* obligation as a result of a past event;
- it is *probable* that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a *reliable estimate* can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The Municipality uses a pre-tax rate that reflects current market assessments of the time value of money and the risks for which future cash flow estimates have been adjusted. The Municipality does not discount the liability where the time value of money is not material.

Where some or all of the expenditure required settling a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the Municipality settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating deficits.

The present obligation under onerous contracts shall be recognised and measured as a provision. A contract is onerous if it is a contract in which the unavoidable cost of meeting the obligation under the contract exceed the economic benefits expected to be received under it.

A constructive obligation to restructure arises only when the Municipality

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented;
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

In accordance with applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the liability is established through environmental assessment.

Subsequent recognition and measurement

After their initial recognition, contingent liabilities recognised in business combinations that were recognised separately are subsequently be measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

CHAPTER 6: REVENUE

Definition

Revenue is the gross inflow of benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.[15]

Classification

Revenue is disclosed as a line item and categorised between exchange revenue and non-exchange revenue on the face of the statement of financial performance.

Revenue is aggregated into classes in accordance with the nature thereof. Material classes of revenue are disclosed separately in the notes to the financial statements.

Recognition and measurement

Revenue is recognised when it is:

- probable and
- measurable

Revenue received that does not meet the recognition criteria are deferred to the statement of financial position and included in deferred revenue.

Revenue is measured at fair value.

[15] Source: *GRAP 1*, Definitions

SECTION R: NON-EXCHANGE REVENUE

Identification and classification

Xhariep District Municipality classifies revenue received from taxes and transfers (whether cash or non-cash, including grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind) as non-exchange revenue.

The following minimum classes of non-exchange revenue are identified:

- RSC Levy
- Government grants and subsidies
- Public contribution and donations

The Municipality classifies the assets relating to non-exchange transactions depending on the nature of the asset. The asset can take any form e.g. cash, items of property, plant and equipment or receivables. The Municipality classifies receivables relating to non-exchange transactions separately from other receivables.

The Municipality should first determine whether the rise in the asset as a result of non-exchange revenue satisfies the definition of contributions from owners (see chapter 8 below). Where the transaction does not satisfy the definition of contributions from owners, then the transaction should be classified as either revenue or liabilities.

Initial recognition and measurement

The Municipality recognises an inflow of resources from non-exchange transactions as an asset depending on the nature of the asset received. Revenue from non-exchange transactions is measured at fair value.

The Municipality recognises an asset relating to non-exchange revenue when the recognition criteria of and asset is met and the Municipality controls the asset.

The Municipality recognises an asset relating to taxes when the recognition criteria of and asset is met and the taxable event occurs.

Where the transaction satisfied the definition of owners' contribution, the credit is recognised in net assets.

Revenue from non-exchange transactions that is not owner's contribution and satisfy the definition of a present obligation (liability) in other words revenue that are subject to conditions are recognised as deferred revenue and are not recognised as revenue, but recognised as deferred revenue until there is reasonable assurance that:

- the Municipality will comply with the conditions attaching to them; and
- the grants will be received

Revenue from non-exchange transactions where restrictions comply are recognised as revenue.

Subsequent recognition and measurement

Assets and liabilities relating to non-exchange revenue are measured based on their nature as it relates to other accounting policies. The Municipality recognises receivables from non-exchange transactions subsequently at amortised cost taken into account the effect of the effective interest rate from the legislative settlement date.

Deferred revenue is recognised when the conditions to the revenue is satisfied.

Revenue from RSC Levies is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid levies is recognised on a time proportion basis, which should only be recognised when leviable in terms of the law.

Donations are recognised on a cash receipt basis or when the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use. Contributed property, plant and equipment are recognised when such items of property, plant and equipment are brought into use.

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

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

SECTION S: EXCHANGE REVENUE

Identification and classification

Xhariep District Municipality classifies revenue from exchange transactions as follows for financial statement purposes:

- Rental of facilities and equipment
- Investment income
- Rental income from operating leases
- Dividends received
- Income for agency services
- Other income (*material balances are shown separately*)

Investment income further sub-classified as:

- Dividend income - investments
- Interest earned - external investments
- Interest earned - outstanding debtors
- Interest earned – finance leases

Recognition and measurement

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

When accounting for discounts, an asset or liability account is utilised to account for such transaction. The discount is estimated at transaction date and the transaction is accounted for net of discount at transaction date. The discount is not subsequently accounted for when the transaction is settled, but on initial recognition.

The Municipality applies the following recognition criteria:

1. Rental income from operating leases

The recognition and measurement of rental income is dealt with under the accounting policy of leases (see section W).

2. Interest income

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

3. Dividend income

Dividends shall be recognised when the Municipality's right to receive payment is established.

4. Other revenue

The Municipality recognises and measures other revenue in accordance with the substance of the agreement.

Exchange revenue classes

Interest, dividends and finance income:

Interest is recognised on a time proportion basis.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

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

Sale of goods

Revenue from the sale of goods is recognised when the risk is passed to the consumer.

CHAPTER 7: EXPENSES

Definition

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence's of liabilities that result in decreases in net assets, other than those relating to distributions to owners.[16]

Classification

Expenses are classified by nature into the following classes on the face of the statement of financial performance:

- Bulk purchases (Electricity and water)
- Borrowing costs
- Bad debts
- Contractors fees
- Consultancy fees
- Councillors remuneration
- Repairs and maintenance
- Depreciation and amortisation
- Employee benefits (see discussion above)
- Grants and subsidies paid
- Impairment of financial assets
- Impairment of other assets
- Other expenses (material balances are shown separately)

Recognition

Expenses are recognised when the transaction occurred.

[16] Source: *GRAP 1*, Definitions

SECTION T: BORROWING COSTS

Identification and classification

Xhariep District Municipality classifies interest and other cost incurred in connection with the borrowing of funds as borrowing costs.

Recognition and measurement

The Municipality recognises borrowing costs as an expense in the period in which they are incurred.

CHAPTER 8: NET ASSETS AND RESERVES

Definition

Contributions from owners means future economic benefits or service potential that have been contributed to the entity by parties external to the entity that establish a financial interest in the net assets of the entity, provided that the contributions:

(a) do not result in liabilities of the entity, and

(b) meet the following test, that they:

 (i) convey entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or

 (ii) can be sold, exchanged, transferred or redeemed.[17]

Classification

Net assets are classified between:

- Owners' contributions (only applicable to the subsidiary)
- Accumulated surplus or deficit
- Revaluation reserve
- Mark-to-market reserve
- Housing development fund
- Capital replacement reserve
- Capitalisation reserve
- Government grant reserve
- Donations and public contribution reserve
- Self insurance reserve
- COID reserve

[17] Source: *GRAP 1*, Definitions

SECTION U: OWNERS CONTRIBUTION AND NET ASSETS

Identification and classification

Equity instruments issued by the Municipality are classified according to the substance of the contractual arrangements entered into.

The Municipality may not sub-divide their net assets further unless it is required by a specific accounting standard.

Recognition and measurement

Contributions to the Municipality by its owners, are made directly though net assets where it explicitly give rise to residual rights in the net assets of the Municipality.

Distributions allocated to the Municipality, in its capacity as owner, are directly credited to the owners' contribution.

Other reserves are dealt with in accordance with the related policies.

CHAPTER 9: OTHER

The Municipality shall recognise and disclose any other matters in accordance with the relevant accounting framework.

The sections contained hereafter may relate to both assets or liabilities or income and/or expenses and has been grouped here for ease of reference.

SECTION V: UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

Identification and classification

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, Municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act, the Municipal Systems Act, the Public Office Bearers Act, and the Companies Act or is in contravention of the Municipality supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

Recognition and measurement

The Municipality recognises the expenditure relating to unauthorised, irregular or fruitless and wasteful expenditure as expenses in the statement of financial performance in the year that the expenditure was incurred and classify the expenditure in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

The Municipality discloses unauthorised, irregular and fruitless and wasteful expenditure separately for the current and the prior period and any previous years if the expenditure has not been recovered or condoned.

The Municipality discloses the steps taken to recover these expenditures and steps taken to prevent future losses as a result of the above.

SECTION W: LEASES

Identification and classification

Xhariep District Municipality classifies leases as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The following are indicators of situations that individually or in combination would normally lead to a lease being classified as a finance lease:

- The lessor transfers ownership of the asset to the lessee at the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable. At the inception of the lease, it should be reasonably certain that the option will be exercised;
- The lease term should be for the major part of the economic life of the asset even if title/legal ownership is not transferred;
- At the inception of the lease the present value of the minimum lease payments should amount to at least substantially all of the fair value of the leased asset.
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- If the lessee can cancel the lease, the lessors' losses associated with the cancellation are borne by the lessee;
- Gains or losses from the fluctuation in the fair value of the residual should accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- The lessee should have the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

The Municipality considers land and buildings separately when classifying the lease when the land and building portions can be proportioned. The Municipality classifies the land as an operating lease unless title is expected to pass to the lessee by the end of the lease term. If the land portion cannot be identified, then both land and buildings are classified as finance leases, unless both classifies as operating leases.

Recognition and measurement

1. Xhariep District Municipality as lessor

Amounts due from lessees under finance leases are recognised as receivables at the net investment amount of the leases. Finance lease income is allocated over accounting periods so as to reflect a constant periodic rate of return on the outstanding net investment amounts in respect to those leases.

For finance leases other than those involving manufacturers or dealer lessors, initial direct costs are included in the initial measurement of the finance lease receivable and should reduce the amount of income recognised over the lease term.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The straight-line rentals are determined as the average rental charge over the contract period, including renewal periods if it is virtually certain that the lease will be extended for that period. It therefore includes the effect of future escalation clauses.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2. Xhariep District Municipality as lessee

Assets held under finance leases (e.g. busses) are recognised as assets of the Municipality at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The discount rate used in the determination of the present value of the minimum lease payments are the interest rate implicit in the lease. Any initial direct costs of the lease are added to amount recognised as an asset. The corresponding liability is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged to surplus or deficit and included as a sub-class under borrowing costs.

Rentals payable under operating leases are charged to surplus or deficit on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also being spread on a straight-line basis over the lease term.

The straight-line rentals are determined as the average rental charge over the contract period, including renewal periods if it is virtually certain that the lease will be extended for that period. It also includes the effect of the future escalation clauses.

SECTION X: RELATED PARTIES

Identification and classification

Related party transactions and outstanding balances with other entities (parent, subsidiaries, associates and joint ventures) in the Municipality are disclosed in the financial statements. Inter-group related party transactions and outstanding balances (e.g. inter-company loans) are eliminated in the preparation of consolidated financial statements of the Municipality, if applicable.

A party is related to the Municipality if:

1. Directly, or indirectly through one or more intermediaries, the party:
    a. controls, is controlled by, or is under common control with, Municipality (this includes parents, subsidiaries and fellow subsidiaries);
    b. has an interest in the Municipality that gives it significant influence over the Municipality; or
    c. has joint control over the Municipality;
2. The party is an associate of the Municipality;
3. The party is a joint venture in which the Municipality is a venture
4. The party is a member of the key management personnel of the Municipality;
5. The party is a close member of the family of any individual referred to in (1) or (4);
6. The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Municipality resides with, directly or indirectly, any individual referred to in (4) or (5); or
7. The party is a post-employment benefit plan for the benefit of employees of the Municipality.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged at fair value or not. Therefore, related party transactions between parties in the Municipality are disclosed, even when the transaction is at no consideration.

Where there have been related party transactions during a period, the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the potential effect of the relationship on the financial statements are disclosed.

SECTION Y: DISCONTINUED OPERATIONS

Identification and classification

A discontinued operation is a component of the Municipality that either has been disposed of, or is classified as held for sale, and

- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

Recognition and measurement

The Municipality recognises and disclose separately the post tax surplus or deficit of discontinued operations and the post tax gain or loss recognised in the measurement to fair value less cost to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

The Municipality discloses the revenue and expenses and related income tax expense(s) in a note to the financial statements, together with the net cash flows attributable to operating, investing and financing activities of the discontinued operation.

APPENDIX: DEFINITIONS

GRAP 1

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Accrual basis means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets, revenue and expenses.

Assets are resources controlled by an entity as a result have past events and from which future economic benefits or service potential are expected to flow to the entity.

Associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a controlled entity nor a joint venture.

Biological assets are a living animal or plant.

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.

Contributions from owners means future economic benefits or service potential that have been contributed to the entity by parties external to the entity that establish a financial interest in the net assets of the entity, provided that the contributions:

- (a) do not result in liabilities of the entity, and
- (b) meet the following test, that they:
    - (i) convey entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
    - (ii) can be sold, exchanged, transferred or redeemed.

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Controlled entity is an entity, including an unincorporated entity such as a partnership that is under the control of another entity (known as the controlling entity).

Controlling entity is an entity that has one or more controlled entities.

Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The surplus or deficit of the investor includes the investor's share of the results of operations of the investee.

Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence's of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

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.

A financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

- (i) to receive cash or another financial asset from another entity; or
- (ii) to exchange financial assets or liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is:

- (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Foreign operation is an entity that is a controlled entity, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Government business enterprise means an entity that, in accordance with the Public Finance Management Act, Act No. 1 of 1999 as amended:

(a) is a juristic person under the ownership control of the national/provincial executive;

(b) has been assigned the financial and operational authority to carry on a business activity;

(c) as its principal business, provides goods or services in accordance with ordinary business principles; and

(d) is financed fully or substantially from sources other than: (i) the National or Provincial Revenue Fund;
(ii) by way of a tax, levy or other statutory money.

Impracticable
Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

(a) the effects of the retrospective application or retrospective restatement are not determinable;

(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

(c) The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

    (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and

    (ii) Would have been available when the financial statements for that prior period were authorised for issue from other information.

Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Management is those persons charged with the responsibility for the governance of an entity in accordance with the relevant applicable legislation including accounting officers, accounting authorities and municipal managers.

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor.

Minority interest is that portion of the surplus or deficit and of net assets of a controlled entity attributable to interests that are not owned, directly or indirectly through controlled entities, by the controlling entity.

Net assets are the residual interest in the assets of the entity after deducting all its liabilities.

Notes contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Presentation currency is the currency in which the financial statements are presented.

Prior period errors are omissions from, and misstatements in, the entity's financial Statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Separate financial statements are those presented by a controlling entity, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

GRAP 2

Cost method is a method of accounting whereby the investment is recorded at cost. The statement of financial performance reflects revenue from the investment only to the extent that the investor receives distributions from accumulated net surpluses of the investee arising subsequent to the date of acquisition.

Exchange rate is the ratio for exchange of two currencies.

Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Foreign currency is a currency other than the functional currency of the entity.

Functional currency is the currency of the primary economic environment in which the entity operates.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.

Operating activities are the activities of the entity that are not investing or financing activities.

Proportionate consolidation is a method of accounting and reporting whereby a venture's share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined on a line-by-line basis with similar items in the venture's financial statements or reported as separate line items in the venture's financial statements.

Provisions are liabilities of uncertain timing and amount.

Revaluations are restatements of assets and liabilities.

GRAP 3

Cost method is a method of accounting whereby the investment is recorded at cost. The statement of financial performance reflects revenue from the investment only to the extent that the investor receives distributions from accumulated net surpluses of the investee arising subsequent to the date of acquisition.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Prospective application of a change in an accounting policy and have recognising the effect of a change in an accounting estimate, respectively, are:
(a) Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and
(b) Recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement and disclosure Of amounts of elements of financial statements as if a prior period error had never occurred.

IAS 16: par 6

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

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 IFRSs, eg IFRS 2 Share-based Payment.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

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

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

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

An *impairment loss* is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Property, plant and equipment are tangible items that:
(a) are held 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 higher of an asset's net selling price and its value in use.

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

Useful life is:
(a) the period over which an asset is expected to be available for use by an entity; or
(b) the number of production or similar units expected to be obtained from the asset by an entity.

IAS 40: par 5

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

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

Owner-occupied property is property 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.

IAS 38: par 8

An *active market* is a market in which all the following conditions exist:

(a) the items traded in the market are homogeneous;
(b) willing buyers and sellers can normally be found at any time; and
(c) prices are available to the public.

The *agreement date* for a business combination is the date that a substantive agreement between the combining parties is reached and, in the case of publicly listed entities, announced to the public. In the case of a hostile takeover, the earliest date that a substantive agreement between the combining parties is reached is the date that a sufficient number of the acquiree's owners have accepted the acquirer's offer for the acquirer to obtain control of the acquiree.

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

An *asset* is a resource:

(a) controlled by an entity as a result of past events; and
(b) from which future economic benefits are expected to flow to the entity.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

An *intangible asset* is an identifiable non-monetary asset without physical substance.

Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

IAS 17: par 4

A *lease* is an agreement whereby the lessor 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.

A *finance lease* is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An *operating lease* is a lease other than a finance lease.

A *non-cancellable lease* is a lease that is cancellable only:

(a) upon the occurrence of some remote contingency;
(b) with the permission of the lessor;
(c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
(d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

The *inception of the lease* is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

(a) a lease is classified as either an operating or a finance lease; and
(b) in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.

The *commencement of the lease term* is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

The *lease term* is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

(a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
(b) for a lessor, any residual value guaranteed to the lessor by:
    (i) the lessee;
    (ii) a party related to the lessee; or
    (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

Economic life is either:

(a) the period over which an asset is expected to be economically usable by one or more users; or
(b) the number of production or similar units expected to be obtained from the asset by one or more users.

Useful life is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity.

Guaranteed residual value is:

(a) for a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and
(b) for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

Un-guaranteed residual value is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.

Gross investment in the lease is the aggregate of:
(a) the minimum lease payments receivable by the lessor under a finance lease, and
(b) any un-guaranteed residual value accruing to the lessor.

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

Unearned finance income is the difference between:
(a) the gross investment in the lease, and
(b) the net investment in the lease.

The *interest rate implicit in the lease* is the discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the un-guaranteed residual value to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor.

The *lessee's incremental borrowing rate of interest* is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (eg percentage of future sales, amount of future use, future price indices, future market rates of interest).

IAS 37: par 10

A *provision* is a liability of uncertain timing or amount.

A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A *legal obligation* is an obligation that derives from:

(a) a contract (through its explicit or implicit terms);
(b) legislation; or
(c) other operation of law.

A *constructive obligation* is an obligation that derives from an entity's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A *contingent liability* is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
(ii) the amount of the obligation cannot be measured with sufficient reliability.

A *contingent asset* is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

An *onerous contract* is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

A *restructuring* is a programme that is planned and controlled by management, and materially changes either:

(a) the scope of a business undertaken by an entity; or
(b) the manner in which that business is conducted.

IAS 19: par 7

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.
Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) pool the assets contributed by various entities that are not under common control; and

(b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

Termination benefits are employee benefits payable as a result of either:

(a) an entity's decision to terminate an employee's employment before the normal retirement date; or

(b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Vested employee benefits are employee benefits that are not conditional on future employment.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Plan assets comprise:

(a)assets held by a long-term employee benefit fund; and

(b)qualifying insurance policies.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that:

(a) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and

(b) are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:

(i)the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
(ii)the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

A *qualifying insurance policy* is an insurance policy* issued by an insurer that is not a related party (as defined in IAS 24 Related Party Disclosures) of the reporting entity, if the proceeds of the policy:

(a) can be used only to pay or fund employee benefits under a defined benefit plan; and
(b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:
(i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
(ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

Actuarial gains and losses comprise:

(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
(b) the effects of changes in actuarial assumptions.

Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

IAS 18: par 7

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

IAS 23: par 5

Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.

A *qualifying asset* is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

IAS 20: par 3

Government refers to government, government agencies and similar bodies whether local, national or international.

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Grants related to income are government grants other than those related to assets.

Forgivable loans are loans which the lender undertakes to waive repayment of under certain prescribed conditions.

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

IAS 28: par 2

An *associate* is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The *equity method* is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A *subsidiary* is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

IAS 24: par 9

Related party A party is related to an entity if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

(ii) has an interest in the entity that gives it significant influence over the entity; or

(iii) has joint control over the entity;

(b) the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;

(c) the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);

(d) the party is a member of the key management personnel of the entity or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A *related party transaction* is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity (Xhariep District Municipality). They may include:

(a) the individual's partner and children;

(b) children of the individual's partner; and

(c) dependants of the individual or the individual's partner.

Compensation includes all employee benefits (as defined in IAS 19 Employee Benefits) including employee benefits to which IFRS 2 Share-based Payment applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
(c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
(d) termination benefits; and
(e) share-based payment.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

IAS 12: par 5

Accounting profit is profit or loss for a period before deducting tax expense.

Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:
(a) Deductible temporary differences;
(b) the carry forward of unused tax losses; and
(c) the carry forward of unused tax credits.

Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:
(a) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or
(b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

The *tax base* of an asset or liability is the amount attributed to that asset or liability for tax purposes.

IFRS 5:

Cash-generating unit

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Component of an entity
Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

Costs to sell
The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

Current asset
An asset that satisfies any of the following criteria:

(a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;
(b) it is held primarily for the purpose of being traded;
(c) it is expected to be realised within twelve months after the balance sheet date; or
(d) it is cash or a cash equivalent asset unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date

Discontinued operation
A component of an entity that either has been disposed of or is classified as held for sale and:

(a) represents a separate major line of business or geographical area of operations,
(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
(c) is a subsidiary acquired exclusively with a view to resale

Disposal group
A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80–87 of IAS 36 Impairment of Assets (as revised in 2004) or if it is an operation within such a cash-generating unit.

Fair value
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Firm purchase commitment
An agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.

Highly probable
Significantly more likely than probable.

Non-current asset
An asset that does not meet the definition of a current asset.

Probable
More likely than not.

Recoverable amount
The higher of an asset's fair value less cost to sell and its value in use.

Value in use
The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

IPSAS 23

Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries' regardless of whether or not they pay taxes.

Fines are economical benefits or services potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In the non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or services potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Tax expenditure are preferential provisions of the tax law that provide certain taxpayers with concessions that are nor available to others.

The *taxable event* is the event that the government, legislature or other authority has determined that will be subject to taxation.

IAS 20

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Grants related to assets (e.g. grants for new busses, refurbishment of buildings or workshops) are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Grants related to income are government grants other than those related to assets.

IAS 39

Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) de-recognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.

Effective interest rate is the rate that exactly discount estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is:

- cash;
- an equity instrument of another entity;
- a contractual right:
  - (i) to receive cash or another financial asset from another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
  - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves

contracts for the future receipt or delivery of the entity's own equity instruments.

A financial liability is any liability that is:

- a contractual obligation:
  - (i) to deliver cash or another financial asset to another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
  - (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity.

A derivative is a financial instrument or other contract within the scope of this Standard (see paragraphs 2–7) with all three of the following characteristics:

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (Xhariep District Municipality called the 'underlying');

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(c) it is settled at a future date.

A financial instrument is any contract that gives rise to a financial asset of one ME and a financial liability or equity instrument of another ME.

An equity instrument is any contract that evidences a residual interest in the assets of an ME after deducting all of its liabilities.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IAS 18), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

De-recognition is the removal of a previously recognised financial asset or financial liability from an entity's balance sheet.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see Appendix A paragraph AG13). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Definitions of four categories of financial instruments:

1) A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions.

(a) It is classified as held for trading. A financial asset or financial liability is classified as held for trading if it is:

- (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by paragraph 11A, or when doing so results in more relevant information, because either

- (i) it eliminates or significantly reduces a measurement or recognition inconsistency (Xhariep District Municipality referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IAS 24

Related Party Disclosures (as revised in 2003)), for example the entity's board of directors and chief executive officer.

In IFRS 7, paragraphs 9–11 and B4 require the entity to provide disclosures about financial assets and financial liabilities it has designated as at fair value through profit or loss, including how it has satisfied these conditions. For instruments qualifying in accordance with (ii) above, that disclosure includes a narrative description of how designation as at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured (see paragraph 46(c) and Appendix A paragraphs AG80 and AG81), shall not be designated as at fair value through profit or loss.

It should be noted that paragraphs 48, 48A, 49 and Appendix A paragraphs AG69–AG82, which set out requirements for determining a reliable measure of the fair value of a financial asset or financial liability, apply equally to all items that are measured at fair value, whether by designation or otherwise, or whose fair value is disclosed.

2) *Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity (see Appendix A paragraphs AG16–AG25) other than:

(a) those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the entity designates as available for sale; and
(c) those that meet the definition of loans and receivables.

An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

(i) are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
(ii) occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
(iii) are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

3) *Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the entity upon initial recognition designates as available for sale; or

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

An interest acquired in a pool of assets that are not loans or receivables (for example, an interest in a mutual fund or a similar fund) is not a loan or receivable.

4) Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Xhariep District Municipality

Draft Banking and Investment Policy

BANKING AND INVESTMENT POLICY

[1] Legal Compliance

The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003.

A paraphrase of the provisions of this Act is attached as Annexure I to this policy.

[2] Objective of Investment Policy

The council of the municipality is the trustee of the public revenues, which it collects, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.

The council therefore has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.

The investment policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes.

The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.

[3] Effective Cash Management

[3.1] Cash Collection

All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis.

The respective responsibilities of the Chief Financial Officer and other heads of departments in this regard is defined in a code of financial practice approved by the Municipal Manager and the chief financial officer, and this code of practice is attached as Annexure II to this policy.

The unremitting support of and commitment to the municipality's credit control policy, both by the council and the municipality's officials, is an integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

[3.2] Payments to Creditors

The Chief Financial Officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favorable to the municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the municipality.

This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the Chief Financial Officer before any payment is made.

Notwithstanding the foregoing policy directives, the Chief Financial Officer shall make full use of any extended terms of payment offered by suppliers and not settle any accounts earlier than such extended due date, except if the Chief Financial Officer determines that there are financial incentives for the municipality to do so.

The Chief Financial Officer shall not ordinarily process payments, for accounts received, more than once in each calendar month, such processing to take place on or about the end of the month concerned. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.

Special payments to creditors shall only be made with the express approval of the chief financial officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

[3.3] Management of Inventory

Each head of department shall ensure that such department's inventory levels do not exceed normal operational requirements in the case of items, which are not readily available from suppliers, and emergency requirements in the case of items, which are readily available from suppliers.

Each head of department shall periodically review the levels of inventory held, and shall ensure that any surplus items be made available to the Chief Financial Officer for sale at a public auction or by other means of disposal, as provided for in the municipality's Supply Chain Management Policy.

[3.4] Cash Management Programme

The Chief Financial Officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a weekly basis. The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when – if applicable – either long-term or short-term debt must be incurred.

Heads of departments shall in this regard furnish the Chief Financial Officer with all such information as is required, timeously and in the format indicated.

The Chief Financial Officer shall report to the executive committee or the executive mayor, as the case may be, on a monthly basis and to every ordinary council meeting the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flows for the month or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate.

The cash flow estimates shall be divided into calendar months, and in reporting the Chief Financial Officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

[4] Investment Ethics

The Chief Financial Officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the executive mayor or chairperson of the executive committee, as the case may be, and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.

In making such investments the Chief Financial Officer, shall at all times have only the best considerations of the municipality in mind, and, except for the outcome of the consultation process with the executive mayor or chairperson of the executive committee, as the case may be, shall not accede to any influence by or interference from Councillors, Investment Agents or institutions or any other outside parties.

Neither the Chief Financial Officer nor the executive Mayor or Chairperson of the Executive Committee, as the case may be, may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the municipality has made or may potentially make an investment.

[5] Investment Principles

[5.1] Limiting Exposure

Where large sums of money are available for investment the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality.

The Chief Financial Officer shall further ensure that, as far as it is practically and legally possible, the municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits).

Investments which are determined to be inconsistent with the objective of preserving and protecting the principal amount are prohibited.

[5.2] Risk and Return

Although the objective of the Chief Financial Officer in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions.

Deposits shall be made only with registered deposit-taking institutions (see 5.4 below).

[5.3] Permitted Investments

From time to time it may be in the best interest of the municipality to make longer-term investments. In such cases the CFO, must be guided by the best rates of interest pertaining to the specific type of investment, which the municipality requires, and to the best and most secure instrument available at the time.

A municipality or municipal entity may invest funds only in any of the following investment types -

a) Securities issued by the national government;

b) deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990), with investment grade rating of not lower than “A” from a nationally or internationally recognized credit rating agency;
c) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No 45 of 1984);
d) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No 46 of 1984);
e) banker’s acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990; with investment grade rating of not lower than “A” from a nationally or internationally recognized credit rating agency;
f) Guaranteed endowment policies (with credit worthy institutions), with the intention of establishing a sinking fund;
g) Municipal bonds issued by a municipality; and
h) Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.”

as the case may be “, and without guidance having been sought from the Municipality’s bankers or other credible investment advisors on the security and financial implications of the investment concerned”.

[5.4] Call Deposits and Fixed Deposits

Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three financial institutions. Given the volatility of the money market, the Chief Financial Officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth).

Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 7 paragraph) shall be paid over only to such institution itself and not to any agent or third party. Once the investment has been made, the Chief Financial Officer shall ensure that the municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the municipality.

[5.5] Restriction on Tenure of Investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of the executive mayor or the executive committee, as the case may be.

[5,6] Payment of Commission

Every financial institution with which the municipality makes an investment must issue a certificate to the chief financial officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

[6] Control over Investments

The Chief Financial Officer shall ensure that proper records are kept of all investments made by the municipality. Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date. If the investment is liquidated at a date other than the maturity date, such date shall be indicated.

The Chief Financial Officer shall ensure that all interest and capital properly due to the municipality are timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest or capital is not fully or timeously received.

The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the municipality's bankers or attorneys.

[7] Other External Investments

From time to time it may be in the best interests of the municipality to make longer-term investments in secure stock issued by the national government, Eskom or any other reputable parastatal or institution, or by another reputable municipality.

In such cases the Chief Financial Officer, must be guided by the best rates of interest pertaining to the specific type of investment, which the municipality requires, and to the best and most secure instrument available at the time.

No investment with a tenure exceeding twelve months shall be made without the prior approval of the executive mayor or executive committee, as the case may be, and without guidance having been sought from the municipality's bankers or other credible investment advisers on the security and financial implications of the investment concerned.

[8] Banking Arrangements

The Municipal Manager is responsible for the management of the municipality's bank accounts, but may delegate this function to the Chief Financial Officer. The Municipal Manager and Chief Financial Officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts.

The Municipal Manager, in consultation with the Chief Financial Officer, is authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. The list of current signatories shall be reported to the Executive Committee or the Executive Mayor, as the case may be, on a monthly basis, as part of the report dealing with the municipality's investments.

In compliance with the requirements of good governance, the Municipal Manager shall open a bank account for ordinary operating purposes, and shall further maintain a separate account for each of the following:

- the administration of the external finance fund
- the asset financing reserve (if these accounts are legally permissible).

One or more separate accounts shall also be maintained for the following:

- capital receipts in the form of grants, donations or contributions from whatever source
- trust funds
- the municipality's self-insurance reserve (if legally permissible).

In determining the number of additional accounts to be maintained, the Municipal Manager, in consultation with the Chief Financial Officer, shall have regard to the likely number of transactions affecting each of the accounts referred to.

Unless there are compelling reasons to do otherwise, and the council expressly so directs, all the municipality's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the municipality.

The Municipal Manager shall invite tenders for the placing of the municipality’s bank accounts within six months after the election of each new council, such new banking arrangements to take effect from the first day of the ensuing financial year.

However, such tenders may be invited at any earlier stage, if the Municipal Manager, in consultation with the chief financial officer, is of the opinion that the services offered by the municipality’s current bankers are materially defective, or not cost-effective, and the Executive Mayor or the Executive Committee, as the case may be, agrees to the invitation of such tenders. The bank account contract period shall not exceed five years”.

[9] Raising Of Debt

The Municipal Manager is responsible for the raising of debt, but may delegate this function to the Chief Financial Officer, who shall then manage this responsibility in consultation with the Municipal Manager. All debt shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the prior approval of the council.

Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance in the capital component of the approved annual budget or adjustments budget.

Short-term debt shall be raised only when it is unavoidable to do so in terms of cash requirements, whether for the capital or operating budgets or to settle any other obligations, and provided the need for such short-term debt, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the chief financial officer.

Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.

[10] Investments for The Redemption Of Long-Term Liabilities

In managing the municipality’s investments, the Chief Financial Officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan.

Such investment shall be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date.

The making of such investment shall be approved by the council at the time that the loan itself is approved. If the loan raised is not a fixed term loan, but an annuity loan, the Chief Financial Officer shall ensure that sufficient resources are available in the account maintained for the external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.

[11] Interest on Investments

The interest accrued on all the municipality's investments shall, in compliance with the requirements of Generally Recognized Accounting Practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made.

In the case of the external finance fund, the Chief Financial Officer may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued.

If the accrual of interest to the external finance fund, unutilised capital receipts and trust funds results in a surplus standing to the account of any such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited by the Chief Financial Officer to the appropriation account and reappropriated to the asset financing reserve.

[12] ANNEXURE I: PARAPHRASE OF REQUIREMENTS OF MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003

Note: In terms of Section 60(2) of the Municipal Systems Act No. 32 of 2000 the council may delegate the authority to take decisions on making investments on behalf of the municipality only to the Executive Mayor, Executive Committee or Chief Financial Officer.

This policy is based on the assumption that such authority has been delegated to the Chief Financial Officer.

[12.1] SECTION 7: OPENING OF BANK ACCOUNTS

Every municipality must open and maintain at least one bank account. This bank account must be in the name of the municipality, and all monies received by the municipality must be paid into this bank account or accounts, promptly and in accordance with any requirements that may be prescribed.

A municipality may not open a bank account:

- otherwise than in the name of the municipality;
- abroad; or
- with an institution not registered as a bank in terms of the Banks Act 1990

Money may be withdrawn from the municipality's bank account only in accordance with the requirements of Section 11 of the present Act.

[12.2] SECTION 8: Primary Bank Account

Every municipality must have a primary bank account, and if the municipality has only one bank account that account is its primary bank account. If the municipality has more than one bank account, it must designate one of those bank accounts as its primary bank account.

The following must be paid into the municipality's primary account:

- all allocations to the municipality
- all income received by the municipality on its investments
- all income received by the municipality in connection with its interest in any municipal entity

- all money collected by a municipal entity or other external mechanism on behalf of the municipality, and
- any other monies as may be prescribed

The Accounting Officer of the municipality must submit to the National Treasury, the Provincial Treasury and the Auditor-General, in writing, the name of the bank where the primary bank account of the municipality is held, and the type and number of the account. If the municipality wants to change its primary bank account, it may do so only after the Accounting Officer has informed the national treasury and the Auditor-General, in writing, at least 30 days before making such change.

[12.3] SECTION 9: BANK ACCOUNT DETAILS TO BE SUBMITTED TO PROVINCIAL TREASURIES AND AUDITOR GENERAL

The Accounting Officer of the municipality must submit to the provincial treasury and to the Auditor-General, in writing, within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account; and annually, before the start of each financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account.

[12.4] SECTION 10: CONTROL OF MUNICIPAL BANK ACCOUNTS

The Accounting Officer of the municipality must administer all the municipality’s bank accounts, is accountable to the municipal Council for the municipality’s bank accounts, and must enforce compliance with Sections 7, 8 and 11 of the present Act.

The Accounting Officer may delegate the duties referred to above only to the municipality’s Chief Financial Officer.

[12.5] SECTION 11: WITHDRAWALS FROM MUNICIPAL BANK ACCOUNTS

Only the Accounting Officer or the Chief Financial Officer of the municipality (presumably where this power has been appropriately delegated), or any other Senior Financial Official of the municipality acting on the written authority of the accounting officer, may withdraw money or authorise the withdrawal of money from any of the municipality’s bank accounts. Such withdrawals may be made only to:

- defray expenditure appropriated in terms of an approved budget

- defray expenditure authorised in terms of Section 26(4) of the Act (this Section deals with situations in which the budget was not timeously approved, and the province has been compelled to intervene)
- defray unforeseeable and unavoidable expenditure authorised in terms of Section 29(1) of the Act
- in the case of a bank account opened in terms of Section 12 of the Act, make payments from the account in accordance with Section 12(4) of the Act
- pay over to a person or organ of state money received by the municipality on behalf of such person or organ of state, including money collected by the municipality on behalf of such person or organ of state by agreement, or any insurance or other payments received by the municipality for such person or organ of state
- refund money incorrectly paid into a bank account
- refund guarantees, sureties and security deposits
- make investments for cash management purposes in accordance with Section 13 of the Act
- defray increased expenditure in terms of Section 31 of the Act; or
- for such other purposes as may be prescribed

(Note that Section 11(1) of the Act does not expressly provide for the withdrawal of monies to pay creditors, where the relevant obligations arose in terms of the previous budget; to repay loans; or to repay consumer deposits).

Any authorisation to a Senior Financial Official to withdraw money or to authorise the withdrawal of money from a bank account must be in accordance with the framework as may be prescribed. The Accounting Officer may not authorise any official other than the Chief Financial Officer to withdraw money or to authorise the withdrawal of money from the municipality's primary bank account if the municipality has a primary bank account, which is separate from its other bank accounts.

The Accounting Officer must, within 30 days after the end of each quarter, table in the council a consolidated report of all withdrawals made other than withdrawals to defray expenditure appropriated in terms of the approved budget, and submit a copy of the report to the relevant provincial treasury and the Auditor-General.

[12.6] SECTION 12: RELIEF, CHARITABLE, TRUST OR OTHER FUNDS

No political structure or office bearer of the municipality may set up a relief, charitable, trust or other fund of whatever description, except in the name of the municipality. Only the Municipal Manager may be the Accounting Officer of any such fund.

A municipality may open a separate bank account in the name of the municipality for the purpose of such relief, charitable, trust or other fund. Money received by the municipality for the purpose of such fund must be paid into the bank account of the municipality, or if a separate bank account has been opened for such fund, into that account.

Money in a separate account opened for such fund may be withdrawn from the account without appropriation in terms of the approved budget, but only by or on the written authority of the accounting officer, acting in accordance with decisions of the council, and for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.

[12.7] SECTION 13: CASH MANAGEMENT AND INVESTMENTS

The Minister, acting with the concurrence of the cabinet member responsible for local government, may prescribe a framework within which municipalities must conduct their cash management and investments, and invest money not immediately required.

A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be so prescribed.

A bank where the municipality at the end of the financial year holds a bank account, or held a bank account at any time during such financial year, must, within 30 days after the end of such financial year, notify the Auditor- General in writing:

- of such bank account, indicating the type and number of the account, and the opening and closing balances of that account in that financial year
- the bank must also promptly disclose any information regarding the account when so requested by the national treasury or the Auditor-General

A bank, insurance company or other financial institution which the end of the financial year holds, or at any time during the financial year held, an investment for the municipality, must, within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year. Such institution must also promptly disclose any information regarding the investment when so requested by the national treasury or the Auditor-General.

[12.8] SECTION 17: CONTENTS OF ANNUAL BUDGETS AND SUPPORTING DOCUMENTS

The following documents must accompany each tabled draft annual budget (inter alia):

- a projection of cash flows for the budget year by revenue source divided into calendar months
- particulars of the municipality's investments

[12.9] SECTION 22: PUBLICATION OF ANNUAL BUDGETS

The Accounting Officer must make public, immediately after a draft annual budget is tabled, the budget itself and all the prescribed supporting documents, and invite comments from the local community in connection with such budget (and documents).

[12.10] SECTION 36: NATIONAL AND PROVINCIAL ALLOCATIONS TO MUNICIPALITIES

In order to provide predictability and certainty about the sources and levels of intergovernmental funding for municipalities, the Accounting Officer of a National or Provincial Department and the accounting authority of a National or Provincial Public Entity responsible for the transfer of any proposed allocations to a municipality, must by no later than 20 January of each year notify the National Treasury or the relevant Provincial Treasury as may be appropriate, of all proposed allocations and the projected amounts of those allocations to be transferred to each municipality during each of the next 3 financial years.

The Minister or the MEC responsible for Finance in the province must, when tabling the national annual budget in the National Assembly or the provincial annual budget in the Provincial Legislature, make public particulars of any allocations due to each municipality in terms of that budget, including the amount to be transferred to the municipality during each of the next 3 financial years.

[12.11] SECTION 37: PROMOTION OF CO-OPERATIVE GOVERNMENT BY MUNICIPALITIES

In order to enable municipalities to include allocations from other municipalities in their budgets and to plan effectively for the spending of such allocations, the Accounting Officer of every municipality responsible for the transfer of any allocation to another municipality, must, by no later than 120 days before the start of its budget year, notify the receiving municipality of the projected amount of any allocation proposed to be transferred to that municipality during each of the next 3 financial years.

[12.12] SECTION 45: SHORT-TERM DEBT

The municipality may incur short-term debt only in accordance with and subject to the provisions of the present Act, and only when necessary to bridge

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

The council may:

- approve a short-term debt transaction individually,

- approve an agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that:
  - the credit limit must be specified in the resolution of the council;
  - the terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and
  - if the council approves a credit facility limited to emergency use, the Accounting Officer must notify the council in writing as soon as practicable of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as the options available for repaying such debt.

The municipality:

- must pay off short-term debt within the financial year in which it was incurred, and
- may not renew or refinance short-term debt, whether its own debt or that of any municipal entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

[12.13] SECTION 46: LONG-TERM DEBT

A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of the present Act, and only for the purpose of:

- capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government as set out in Section

152 of the Constitution; or refinancing existing long-term debt subject to the requirements of Section 46(5) of the Act.

[12.14] SECTION 47: CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONG-TERM DEBT

The municipality may incur debt only if the debt is denominated in rand and is not indexed to, or affected by, fluctuations in the value of the rand against any foreign currency.

[12.15] SECTION 64: REVENUE MANAGEMENT

The Accounting Officer of the municipality is responsible for the management of the revenue of the municipality. The Accounting Officer, must, among other things, take all reasonable steps to ensure that all money received is promptly deposited in accordance with the requirements of the present Act into the municipality's primary and other bank accounts.

The Accounting Officer must also ensure that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled on at least a weekly basis.

The Accounting Officer must take all reasonable steps to ensure that any funds collected by the municipality on behalf of another organ of state are transferred to that organ of state at least on a weekly basis, and that such funds are not used for purposes of the municipality.

[12.16] SECTION 65: EXPENDITURE MANAGEMENT

The Accounting Officer of the municipality is responsible for the management of the expenditure of the municipality.

The Accounting Officer must take all reasonable steps to ensure, among other things, that payments made by the municipality are made direct to the person to whom they are due, unless agreed otherwise for reasons as may be prescribed, and either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit.

The Accounting Officer must also ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

The Accounting Officer must further ensure that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework.

Part 13 Annexure II: Code Of Practice In Regard To Payments, Revenue Collection And Stores

[13.1] Stores Administration

The Chief Financial Officer shall be responsible for the proper administration of all stores. If sub-stores are established under the control of any head of Department, such head of Department shall be similarly responsible for the proper administration of such sub-store, and in doing so shall comply with the stock level policies as determined from time to time by the Chief Financial Officer, acting in consultation with the head of Department concerned. No sub-store may be established without the prior written consent of the Chief Financial Officer.

[13.2] Contracts Management

Within such general buying and related procedures as the Chief Financial Officer shall from time to time determine, and further within the confines of any relevant legislation and of such rules and procedures as may be determined by the Executive Mayor or Executive Committee, as the case may be:

- all buying contracts shall be administered by the Chief Financial Officer, and all payments relating to such contracts shall be authorised by the Chief Financial Officer or the head of department concerned; and
- all other contracts, including building, engineering and other civil contracts shall be administered by the head of department concerned, and all payments relating to such contracts shall be authorised by such head of department in accordance with the provisions of Section 25.3 below. The head of department concerned shall ensure that all payment certificates in regard to contracts are properly examined and are correct in all respects - before being submitted to the Chief Financial Officer for payment.

[13.3] Payments

- All payments, other than petty cash disbursements, shall be made through the municipality's bank account(s).

- The Chief Financial Officer shall draw all cheques on this account, and shall, in consultation with the Municipal Manager and with due regard to the council's policy on banking and investments, determine the rules and procedures relating to the signing of cheques, and from time to time jointly with the Municipal Manager decide on appropriate signatories.
- All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the chief financial officer. Such vouchers shall be authorised in terms of such rules and procedures as determined from time to time by the Chief Financial Officer.
- The Chief Financial Officer shall generally determine petty disbursements from time to time. No cash float shall be operated without the authority of the Chief Financial Officer, who may prescribe such procedures relevant to the management of such float as are considered necessary.
- The Chief Financial Officer shall be responsible for the payment of all salaries and remuneration benefits to employees and councillors, and for the determination of the payment system to be used.

[13.4] Revenue and Cash Collection

- Every head of department shall be responsible for the collection of all moneys falling within the ambit and area of his or her designated functions.
- The Chief Financial Officer shall ensure that all revenues are properly accounted for.
- The collection of all arrear revenues and the control of arrear accounts shall be co-ordinated by the Chief Financial Officer in terms of any policies determined by the council. If it is clear that any revenues are not recovered or likely to be recovered after the necessary steps have been taken, the Chief Financial Officer shall report the matter adequately and timeously to the finance and executive committees.
- The Chief Financial Officer shall ensure that adequate provision is maintained to cover the writing off of irrecoverable revenues, having due regard to the council's policy on rates and tariffs.

[13.5] Banking Of Receipts

- The Chief Financial Officer shall if necessary, determine guidelines and procedures for the banking of cheques and other receipts from time to time.
- Where applicable, every head of department shall ensure that all revenues are banked daily with the municipality's banker(s), or less frequently if so approved by the Chief Financial Officer.

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PREAMBLE

Like any other valuable assets of the Municipality, laptops are no exception to the best practice of policies and procedures propounded by Xhariep District Municipality in pursuit of effective and proper management of all the operational assets of the Municipality.

In order to enable and enhance the productivity of the municipality's operations at all times, it is of paramount importance to make use of the assets conducive enough to enable the employees to execute all their duties and responsibilities without any difficulties, especially when out of their respective working stations and offices.

Furthermore, the purpose of this policy is to develop a means of managing these tools/assets in an effective and efficient manner.

1. Name of the Policy

This policy shall be called the Xhariep District Municipality Laptop Policy **(LP)**

2. DEFINITONS

2.1 Municipality

- Means a municipality established in terms of section 12 of the Local Government: Municipal Structures Act 1998 (Act No 117 of 1998), and herein referred to as Xhariep District Municipality.

2.2 Executive Mayor

- Means an Executive Mayor elected in terms of section 55 of the Local Government: Municipal Structures Act 1998 (Act No 117 of 1998).

2.3 Speaker

- Means a speaker elected in terms of section 36 of the Local Government: Municipal Structures Act 1998 (Act No 117 of 1998).

2.4 Mayoral Committee

- Means a mayoral committee member elected in terms of section 60 of the Local Government: Municipal Structures Act 1998 (Act No 117 of 1998)

2.5 Municipal Manager

- Means a person appointed by the municipality in terms of section 82 of the Local Government: Municipal Structures Act 1998 (Act No 117 of 1998) and who is the Head of Administration and also the Accounting Officer of the Municipality.

2.6 Head of Department

- Means any person appointed by the municipality in terms of section 57 of the Local Government: Municipal Structures Act 1998 (Act No 117 of 1998) and who is the Head of the department within Xhariep District Municipality.

2.7 Personnel/Staff Member

- Means any personnel/staff member appointed by the Xhariep District Municipality.

3. PARTICIPATION IN THE LAPTOP ACQUISITION SCHEME

The following staff and councillors may participate in this scheme subject to the terms and conditions contained in this policy and procedures:

a. The Executive Mayor;
b. The Speaker;
c. Municipal Manager;
d. Section 57 employees or departmental heads; and
e. Any other employee who occupies a position identified by the Municipal Manager.

4. PROCEDURES TO BE FOLLOWED WHEN PROCURING A LAPTOP

As per the Xhariep District Municipality's Supply Chain Management Policy

5. CONDITIONS AND RESTRICTION OF USE

a. A laptop remains the property of the Municipality and it will only be used for the purpose of promoting the business interests of the Municipality.

b. The laptop will be properly recorded in the asset register of the municipality, and a councillor or official must sign the laptop register when he/she takes possession of a laptop and again when he/she returns it.

c. No any other councillor or official, not officially authorised to be in possession of this asset, will use this asset (laptop) without the knowledge and approval of the Municipal Manager or his/her delegate.

d. In cases where section 5 (c) above has been neglected, the authorised person will be fully held accountable for any loss or damage to a laptop.

e. The replacement of a laptop (asset) is the sole responsibility of the municipality, and a replacement laptop will be purchased by the municipality whenever it deems fit and necessary to do so.

f. No upgrading or tampering with the entire or any part of a laptop will be allowed without proper consent by the Municipal Manager or his/her delegate.

g. Once every three months the laptop must be handed in at the asset manager/controller who with the assistance of IT (Information Technology) personnel must inspect the laptop and determine whether it is still in a good working order and that it is virus free. In this regard a checklist must be completed and signed by the asset manager/controller and the IT staff member.

h. In case of any serious finding that may hamper the operations and use of the laptop, the matter must be reported to the Municipal Manager or his delegate in writing.

i. Upon termination of service by a councillor or official for whatever reason, the laptop must be handed back to the municipality on the last day of service and the Laptop Register controlled by the asset manager/controller, must be signed by the councillor or official handing back the laptop and the asset manager/controller.

j. Employees are responsible for the confidentiality of the information on the notebook and need to take due care about where the notebook is used and stored.

k. Employees are responsible for ensuring that adequate backups of data on the notebook are taken at regular intervals (please contact the IT Department for assistance in this regard).

6. LIFE SPAN OF A LAPTOP

- The lifespan of laptops will be three years, after which the municipality will then decide whether to upgrade, trade in or dispose off it in terms of the supply chain management policy and/or the disposal of assets policy of the Xhariep District Municipality.

7. GENERAL RULES

The following rules shall apply:

a. The laptop must be used on a daily basis by a councillor or official in possession of it.

b. Any stolen/damaged equipment is to be reported to the Municipal Manager or his delegate, in writing, within 24 working hours, accompanied by the SAPS case number where applicable.

c. In the event of an insurance claim the official user of a laptop shall be responsible for the applicable excess payable, due to the loss and/or damage resulting in the replacement of the of a laptop.

d. The official user of a laptop shall be responsible for the total replacement cost of a laptop in the event of negligence and/or abuse being evident.

e. The official user of a laptop must ensure that the laptop is secured at all times and adhere to the municipality's computer security policy.

8. AMENDMENT OF THE POLICY

- This policy may only be amended by a formal resolution of the Council of Xhariep District Municipality.

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PREAMBLE

Xhariep District Municipality continuously endeavours to achieve best practice policies and procedures when managing the administration and operations of the assets of the Municipality.

In order to enable and enhance the productivity of the municipality's business units it is critical to make use of the latest means of communication technology. Based on this, cellular phones are allocated for sound business reasons, primarily for receiving and making business calls when not located in the office.

Furthermore, the purpose of this policy is to develop a means of managing these tools/assets in an effective and efficient manner.

The most guiding principles used in developing the Xhariep District Municipality Cell Phone Policy were sourced from the following legislation and policies:

- Remuneration of Office Bearers Act 20 of 1998, section 7(3);
- Government Gazette issued yearly by the Minister of Local Government for Remuneration on Councillors;
- Municipal Supply Chain Management Regulations 2005; and
- Municipal Finance Management Act 56 of 2003.

1. Name of the Policy

This policy shall be called the **Cellular Phone Scheme** of Xhariep District Municipality **(CPS).**

2. Definitions

2.1 Municipality
Means Xhariep District Municipality.

2.2 Executive Mayor
Means an Executive Mayor elected in terms of section 55 of the Municipal Structures Act 117 of 1998.

2.3 Speaker
Means a speaker elected in terms of section 36 of the Municipal Structures Act 117 of 1998.

2.4 Mayoral Committee
Means a mayoral committee member elected in terms of section 60 of the Municipal Structures Act 117 of 1998.

2.5 Municipal Manager

Means a person appointed by the municipality in terms of section 82 of the Municipal Structures Act and who is the Head of Administration and also the Accounting Officer of the Municipality.

2.6 Head of Department

Means any person appointed by the municipality in terms of section 57 of the Municipal Structures Act and who is the Head of the department within Xhariep District Municipality.

2.7 Other Personnel

Means any other personnel appointed by the Xhariep District Municipality on post levels approved by SALGA and considered to be senior posts by the Municipality.

3. Criteria for allocation of a cellular telephone:

3.1 Cognisance is taken that the Minister of Provincial and Local Government has by notice in the Government Gazette as part of the Remuneration of Office Bearers Act 20 of 1998 determined the upper limits of the salaries, allowances and benefits of the different members of Municipal Councils.

3.2 It is also recognised that there are incumbents of positions within the Municipality whose responsibilities are of such a nature that they need cellular telephones to conduct their official business.

4. APPLICATION OF THE POLICY

This policy shall apply to the following people only:

a. The Executive Mayor;
b. The Speaker;
c. Mayoral Committee Members;
d. Other Councillors who qualifies for a cell phone allowance in terms of the Government Gazette issued by the Minister of Local Government on a yearly basis;
e. Municipal Manager;
f. Section 57 employees or departmental heads; and
g. Any other official who has received approval from the Municipal Manager for Cellular Phone Allowance.

5. Councillors:

5.1. The municipality shall procure cellular telephones by way of a contract/agreement with a service provider and issue the handset on to the relevant councillor. This arrangement shall apply to all full time and directly elected councillors of the municipality and the contract period shall not exceed two (2) years.

5.2. The service provider shall forward each individual account to the municipality for payment purposes.

5.3. Councillors shall be entitled to the cellular telephone allowances referred to in paragraph 3.1 above, read in conjunction with Section 7(3) the Remuneration of Public Office Bearers Act, 1998 (Act no 20 of 1998).

5.4. The amount stated in the cellular telephone account, referred to in paragraph 5.2 above, shall be deducted from the allowance referred to above. Any excess amounts regarding the specific individual cellular telephone account shall be deducted from the relevant councillor's remuneration.

5.5. After the expiry of the cellular telephone contract a new contract shall be entered into by the municipality and the old cellular telephone shall be replaced.

5.6. The initial connection fees for cellular telephones to be utilised by the councillors mentioned in paragraph 5.1 shall be for the account of the municipality. All additional upgrading or migration fees shall be for the account of the councillor concerned.

5.7. When a councillor vacates his/her office the handset must be returned unless arrangements have been made to retain the handset.

5.8. The Municipality shall not bear any cost for any cellular phone accessories, with the exception of the cellular telephone handset itself.

6. Municipal Manager / Section 57 Managers / Departmental Heads:

6.1. The municipality shall procure cellular telephones by way of a contract/agreement with a service provider and issue the handset on to the relevant Official. The contract period shall not exceed two (2) years.

6.2. The service provider shall forward each individual account to the municipality for payment purposes.

6.3. Officials shall be entitled to a fixed monthly the cellular telephone allowance as referred to below:

- Municipal Manager – R1,600.
- All Managers directly accountable to the Municipal Manager (Section 57) - R800.
- All General Managers - R700.
- Personal Assistants of political office - R700.
- All qualifying staff recommended by HOD - An amount determined by the Municipal Manager to a maximum of R500, based on the needs of the office occupied.

The Municipal Council may consider an adjustment of the cellular telephone allowances, mentioned in 6.3 above, only once during a financial year provided a well motivated report on the matter is submitted to Council for their consideration.

6.4. The amount stated in the cellular telephone account, referred to in paragraph 6.3 above, shall be deducted from the allowance referred to above. Any excess amounts regarding the specific individual cellular telephone account shall be deducted from the relevant Official's remuneration.

6.5. After the expiry of the cellular telephone contract a new contract shall be entered into by the municipality and the old cellular telephone shall be replaced.

6.6. The initial connection fees for cellular telephones to be utilised by the Officials mentioned in paragraph 6.1 shall be for the account of the municipality. All additional upgrading or migration fees shall be for the account of the Official concerned.

6.7. When an Official vacates his/her office the handset must be returned unless arrangements have been made to retain the handset.

6.8. The Municipality shall not bear any cost for any cellular phone accessories, with the exception of the cellular telephone handset itself.

7. PROCEDURES TO BE FOLLOWED WHEN APPLYING FOR A CELL PHONE ALLOWANCE BY OFFICIALS WHO DO NOT RECEIVE A CELL PHONE ALLOWANCE AS PART OF A REMUNERATION PACKAGE (OFFICIALS OTHER THAN COUNCILLORS, MUNNICIPAL MANAGER AND SECTION 57's OR DEPARTMENTAL HEADS).

a. It must be clearly noted that this procedure does not apply to Councillors, Municipal Manager and Managers reporting directly to the Municipal Manager or section 57's.

b. All applications must be made in writing except in special situation where the Accounting Officer has duly authorised such allowance to an official.

c. The application must be made using **Annexure A** of this policy. ***See attachment***.

d. The Head of the department must consider the application and make a recommendation to the Municipal Manager for approval.

e. The application must then be submitted to supply chain management unit (SCM) for further processing (procurement of a phone).

f. The SCM unit will then submit a letter to the Human Resources Department informing them to allocate the allowances on the user's salary as specified by the Municipal Managers' approval.

g. A copy of the signed Cellular Phone Agreement shall be handed over to the User under his/her signature and the original placed on his/her personal file kept by the Municipality.

8. CONDITIONS AND RESTRICTION OF USE (1st Option)

a. Officials are provided an allowance (refer to paragraph 6.3) in terms of the staff benefits provided by Xhariep District Municipality.

b. An allowance will not be granted to employees with no official authorisation to acquire a cell phone for official purpose.

c. In instances where a particular employee is expected to exceed the approved limit on a continual basis as a result of their job function, a written motivation should be made to the applicable Head of Department to agree on a revised limit.

d. All successful applicants are compelled to enter into a Cellular Phone Agreement with the Municipality using a form attached as **Annexure B.**

e. All the facts that necessitate the allowance must be established before an employee can qualify for the allowance, and one of them must be the nature of the job the person is doing.

f. **Pre-paid facilities** will then be made available to employees participating in the scheme, and this will require approval from the relevant head of department.

g. The insurance of this property will be the sole responsibility of the Municipality, as the municipality has entered into agreement with the service provider.

h. The Cell Phone shall remain in the possession of the User until such time the service of the User has been terminated for whatever reasons or when the municipality deems it fit and necessary to reposes the asset **(Cell Phone).**

i. The Municipality will be responsible for the monthly bill of the Cell Phone but deduct the total amount of calls, including subscription against the monthly salary of the employee.

j. The Municipality will also decide to purchase new phones from time to time and allocate such phones to the Users, and this will be in the case of the Executive Mayor or the Municipal Manager, as the case may be.

k. No upgrading of Phones will be done by officials under this option.

9. OTHER OPTION

a. Other option means any other method or option of acquiring a cell phone other than the one mentioned above.

b. In this option, an employee who qualifies or a cell phone allowance and meet the credit requirements of a relevant service provider, can negotiates an agreement with any service provider of his/her choice.

c. Including the approved service provider of the Municipality in order to obtain the corporate benefit.

d. The employee will then be solely responsible for all the aspects of the use of the phone, including insurance and upgrades.

e. The Municipality does not provide any assistance in this regard and no agreement between the Municipality and the User of this option is required.

10. RECOVERY OF EXPENSES: ONLY IF OPTION 1 IS SELECTED

a. The Municipality will be liable for the payment of the overall account of the service provider.

b. The total cellular account for each User of this option, for that specific month, will be deducted from his/her salary, irrespective of the amount of any allowance, and this is in accordance with ***clause 5.10 above***

c. When the User is no longer employed by the Municipality or a member of the Council, such User must hand in the phone, SIM card and all issued equipment on the last day of service.

11. WHEN OTHER OPTION IS SELECTED

When this option is selected, the User is responsible for all the aspects relating to his/her cellular phone but not limited to payment of accounts, insurance and upgrading.

12. GENERAL GUIDELINES

The following guidelines shall apply:

a. Upgrading will be in accordance with the service provider agreement, where appropriate.
b. The phone must be used on a daily basis by the beneficiary.

c. All the contracts to be entered into by and between the service provider and Council must be by a way of a tender in compliance with the SCM policy of the Council.

d. The abovementioned clause can only be overridden by the Municipal Manager in terms of section 36 of the supply chain management policy or in instances where in his capacity as the Accounting Officer, deems it necessary to override.

e. Any stolen/damaged equipment is to be reported to the Municipal Manager or his delegates, in writing, within 24 working hours, accompanied by the SAPS case number and statement where applicable.

f. In the event of an insurance claim the User shall be responsible for the applicable excess payable, due to the loss and/or damage resulting in the replacement of the handset or a SIM swap.

g. The User shall be responsible for the total replacement cost, including the repairs of the handset and/or SIM swap, where applicable, in the event of negligence and/or abuse being evident.

13. TAX IMPLICATIONS

a. A fixed monthly cell phone allowance is subject to employees' tax, on the same basis as the equivalent amount of, say, salary. The employee is then entitled to claim the cost of business calls against this allowance in the employees' annual tax return.

b. Section 8 of the Income Tax Act allows the employer to refund an employee for actual expenditure incurred as agent on behalf of the employer. This refund can be made on documentary proof of expenses actually incurred.

14. AMENDMENT OF THE POLICY

This policy may only be amended by a formal resolution of the Council of Xhariep District Municipality.

DRAFT:

POLICY ON THE IDENTIFICATION, TREATMENT AND WRITE OFF OF BAD DEBTS

Contents

1. DECLARATION OF INTENT

At its broadest level, the Municipal Finance Management Act endeavours "to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements."

In particular, Chapter 12 of the MFMA places the onus on the Municipality to take responsibility for the preparation and adoption of an annual report in accordance with this chapter. More specifically this Chapter provides guidance on the preparation of financial statements, disclosures on intergovernmental and other allocations and other compulsory disclosures.

2. OBJECTIVE

The objective of this policy document is to clearly define the responsibilities of the Xhariep District Municipality in terms of the Municipal Finance Management Act with respect to the identification and disclosure of Bad Debts in the Annual Financial Statements. This policy document addresses the following areas:

- Terminology and Definitions with respect to Bad Debts.
- The Accounting policy with respect of Bad Debts.
- Guidance on the accounting treatment of Bad Debts.
- Guidance on the disclosure of Bad Debts in the Annual Financial Statements of the Municipality.

3. TERMINOLOGY AND DEFINITIONS

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

"Annual Report" in relation to a municipality or municipal entity, means an annual report contemplated in section 121 of the MFMA;

"Bad Debts" A debt which has become irrecoverable and is outstanding beyond the repayment terms of the municipality.

"Financial Statements" in relation to municipality or municipal entity, means statements consisting of at least—

- A statement of financial position;
- A statement of financial performance;
- A cash-flow statement;
- Any other statements that may be prescribed; and
- Any notes to these statements;

"Financial Year" means a year ending on 30 June.

"Provision for Bad Debts" An estimate, which is made for doubtful receivables, based on a review of all outstanding amounts at year-end.

4. SCOPE OF APPLICATION

From a responsibility perspective, this policy is relevant to all employees of the Municipality, whether full-time or part-time. It is, however, specifically applicable to the Council, Accounting Officer, Chief Financial Officer and Senior Manager's whether full-time or part-time. In particular, the duly appointed Directorate and responsibility managers have significant roles in:

- *Applying the accounting policy with respect to Bad Debts.*
- *Determining whether to write off any debts and the procedure for writing of such debts*
- *Ensuring that the Bad Debts as disclosed in the Annual Financial Statements are accordance with the recognition criteria.*
- *Ensuring that Bad Debts as disclosed in the Annual Financial Statements are in accordance with the prescripts on disclosure.*

5. GOVERNING PRESCRIPTS

This Policy has been formulated in terms of the Municipal Finance Management Act, 2003 (Act 56 of 2003), Generally Recognised Accounting Practice Statement on the Presentation of Financial Statements (GRAP1) and *GRAP 19 and IAS 37* (Provisions, Contingent Liabilities and Contingent Assets).

6. LEGAL FRAMEWORK

This policy will be implemented within the legal framework of the relevant national legislation outlined hereunder.

- *The Municipal Finance Management Act, 2003 (Act 56 of 2003)* Sections 121 – 125.
- Generally Recognised Accounting Practice Statement on the Presentation of Financial Statements (GRAP1).
- *GRAP 19 and IAS 37* (Provisions, Contingent Liabilities and Contingent Assets).

7. ACCOUNTING POLICY

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified.

8. GUIDING PRINCIPLES

This policy supports the following principles:

- To secure the sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government;

- To establish treasury norms and standards for the local sphere of government;
- Ensuring transparency, accountability and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and municipal entities;
- The management of the municipality's revenues, expenditures, assets and liabilities and the handling of their financial dealings.

EXPECTED FUTURE PAYMENT LEVELS

In terms of the budgets approved by the council, and in accordance with commonly accepted best practice, this municipality will have to strive to its utmost to ensure that payment levels for the present and future financial years, in respect of all amounts legitimately owing to the municipality is maintained at a minimum of 98%.

It is generally accepted that payment levels averaging below 98% per month are untenable, and are a certain forerunner of financial disaster for a municipality. Even with payment levels of 98% it means that the council will annually have to provide on its expenses budget a contribution to bad debts of 2% of the aggregate revenues legitimately owing to this municipality – a contribution that is made at the direct cost of improved service delivery and developmental projects.

9. WRITING OFF OF BAD DEBTS

9.1 CREDIT CONTROL AND DEBT COLLECTION POLICY ACTIONS

All the applicable actions as contained in the ~~official~~ Credit Control and Debt Collection Policy of the municipality should have been executed and ~~/~~implemented.

9.2 ESTATE NOTICES MONITORING

Estate notices in the Government Gazette must be checked regularly to enable the municipality to institute claims against insolvent and deceased estates ~~in respect~~ of persons owing money to the Municipality.

9.3 TRACING OF DEBTORS

In the event that the debtor's address is not known, all reasonable steps must be taken to trace the debtor. A reasonable effort to trace the debtor will include, but is not limited to, the following:

(a) Utilising all the information available (such as vehicle registration number, school attended by children, etc.) to locate the debtor;

(b) Utilising the telephone directory for the last town or city in which the debtor lived to locate the debtor and/or his/her relatives; and

(c) Contacting the following institutions or persons in order to locate the debtor:

- The Vehicle Registration Authorities;
- The Department of Home Affairs; and
- ~~The South African Revenue Service; and~~
- Officials and/or colleagues at the debtor's last place of employment.

The Accounting Officer shall consider all other economically viable avenues for debt recovery, including the use of tracing agents, factoring of debts, recourse against sureties, guarantors or lessees, etc.

9.4 PREVENTION OF PRESCRIPTION OF DEBT

(a) Prevention:

Proceedings out of the appropriate court having jurisdiction for the recovery of a debt must be commenced as soon as is appropriate in order to prevent prescription of the debt. A summons process for payment of the debt must be successfully concluded as soon as possible to prevent prescription of the debt in terms of the Prescription Act.

(b) Prescription Act, 1969 (Act No. 68 of 1969):

Section 10 (1) of the Prescription Act provides that a debt shall be extinguished by prescription after the lapse of the period which in terms of the relevant law applies in respect of the prescription of such debt. The Municipality cannot legally enforce payment of a debt once the debt has prescribed, but the period of prescription is interrupted:-

(i) By the service on the debtor of any process whereby the creditor claims payment of the debt (Section 15). “Process” means a Summons or Notice of Motion, which must actually be served on the debtor and not simply issued by the court, and does NOT include a registered letter of demand.

(ii) the debtor acknowledges ~~the~~ liability, whether expressly or tacitly (Section 14); payment of a portion of the debt can constitute a tacit acknowledgement of liability.

The completion of prescription may also be delayed in certain circumstances (Section 13).

(c) In terms of Section 11 of the Prescription Act, 1969 (Act 68 of 1969), the periods of prescription of debts are as follows:

(i) **Thirty years** in respect of -

- any debt secured by a mortgage bond;
- any judgment debt;
- any debt in respect of any taxation imposed or levied by or under any law; and
- any debt owed to the State in respect of any share of the profits, royalties or any similar consideration payable in respect of the right to mine minerals or other substances.

(ii) **Fifteen years** in respect of any debt owed to the State and arising out of an advance or loan of money or a sale or lease of land by the State to the debtor, unless a longer period applies in respect of the debt in question in terms of paragraph (i) above.

(iii) **Six years** in respect of a debt arising from a bill of exchange or other negotiable **instrument** or from a notaries contract, unless a longer period applies in respect of the debt in question in terms of paragraph (i) or (ii) above.

(iv) **Three years** in respect of all other debts, save where an Act of Parliament provides otherwise.

9.5 GENERAL

Should all the above efforts prove to be unsuccessful and the debtor cannot be traced or it would be uneconomical to take the matter any further, only then must a submission be made requesting the write-off of the debt. This submission must detail all steps taken and the Municipality must maintain audit trails in such instances, and document the reasons for the abandonment of the actions or claims in respect of the debt.

10. WRITE OFF DEBTS OWING TO THE MUNICIPALITY

10.1GENERAL CONDITIONS

The Municipality will consider debts for write-off in the following general circumstances:

(a) When debts have prescribed, as contemplated ~~in~~ paragraph 9.4 above;

(b) When debts have not been recovered from the deceased, where their estates have been finalized, and recovery of the debts from the heirs is not possible;

(c) When debts are owed by debtors who cannot be traced, notwithstanding compliance with the provisions in paragraph 9.3 above;

(d) When no source documentation is available to substantiate or prove the claims, provided that the Accounting Officer must have satisfied him/herself that all reasonable steps have been taken to locate the source documents;

(e) When the debtor has emigrated without paying the debts, leaving no assets available for attachment~~,~~ and the debtors' whereabouts are unknown; and

(f) When it is not economical to pursue the debt further.

Note: Unless affordable arrangements can be made with tracing agents or attorneys~~,~~ the costs associated with the tracing of a debtor and subsequent legal costs occasioned thereby, could exceed the amount claimed. It would therefore not be in the Municipality's interest to attempt recovery of debts where the prospects of recovery are remote, and where the possibility exists that the costs associated with recovery may exceed the debt.

10.2 SPECIFIC CONDITIONS

The Municipality will consider debts for write-off in the following specific circumstances:

10.2.1 Sundry Debt

Debt owed to Council arising from auxiliary services rendered by Council will be regarded as irrecoverable in the following instances:

- If the debt has prescribed;
- In the circumstances contemplated in 9.1 (a) to (f) above.

10.3 FINAL ACTION

Whenever all the legal avenues, procedures and steps listed above have been exhausted, the arrear amounts should be classified as irrecoverable and should be written off by the person to whom the authority to do so has been delegated under the Municipality's system of delegations.

Immediately after 30 June each year, or more regularly if requested by Council, the Accounting Officer must present to the Council a report listing the following:

(a) For noting – details of the debts that were written off during the year ending 30 June under delegated authority, together with the reasons for the write offs; and

(b) For consideration – details of any debt, not included under (a) above, which is believed to be irrecoverable, together with the reasons for this conclusion. The council shall then approve the write-off of such arrears, if it is satisfied with the reasons provided.

11. DELEGATED AUTHORITY

The Accounting Officer can be given delegated authority to write-off debt under the following circumstances:

(a) the debt amounts to five thousand rand (R5 000.00) or less ;

(b) all reasonable steps have been taken to recover the debt as stipulated under paragraph 9 above;

(c) the debt is considered to be irrecoverable in terms of any one of the conditions stipulated in paragraph 10 above;

In such cases, the reason for each write-off must be listed in the report against each individual item, and audit trails for each write-off must be kept for control purposes.

12. CREDIT BUREAU LISTING

Debtors whose outstanding debts are written off due to any of the following reasons must be listed with the Credit Bureaus:

- Untraceable;
- Prescription;
- Insolvent;
- Emigration.

13. BAD DEBTS RECOVERED

The approval of Council for the write-off of any debt does not mean that actions to recover the money will be terminated, however, further actions will be instituted depending on the costs involved and if the debt is recovered it will be recorded in the financial records of Council as recovered.

14. IMPLEMENTATION

The Accounting officer may deviate or override provisions of this policy where necessary taking into consideration the applicable legislation.

15. GUIDING PRINCIPLES: DISCLOSURE

Bad Debts are disclosed as follows:

- As part of Consumer Debtors and other receivables in the notes to the financial statements.
- In the accounting policy notes to the Annual Financial Statements.

DEFINITIONS

Tender Document: Means formal written document prepared by the Xhariep District Municipality after issuing an invitation to tender.

Contract: Means the agreement that results from the acceptance of a tender by the Municipality.

Disability: Means, in respect of a person, an impairment of a physical, intellectual, or sensory function, which results in restricted or lack of ability to perform an activity in that manner or within the range considered normal for a human being.

Rand value: Means the total estimated value of a contract in Rand denomination which is calculated at the time invitations and includes all applicable taxes and excise duties.

Sub-Contracting: Means the primary contractor's assigning or leasing or 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.

Tender Committee: Means a committee established by the Xhariep District Municipality in terms of the Municipal Finance Management Act and Regulation for supply chain management.

The act: Means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

HDI (HISTORICALLY DISADVANTAGED INDIVIDUAL): HDI means a 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 110 of 1983) or the Constitution of the Republic of South Africa,1993(Act 200 of 1993) ("interim Constitution); and /or

- Who is female: and/ or

- Who has a disability;

- Provided that a person, who obtained South African citizenship on or after the coming into effect of the interim Constitution, is deemed not to be an HDI.

Policy: A deliberate plan of action adopted by a specific entity/municipality to guide decisions and achieve rational outcomes.

PPPF: Means a procurement policy contemplated in section 217 (2) of the Constitution.

1) Competitive Bidding Process

Goods or services above a transaction value of R200 000(VAT inclusive) and long term contracts may only be procured thorough the competitive bidding process.

The Accounting officer must establish procedures for a competitive bidding process for each of the following stages:

- Compilation of bid documentation;
- Public invitation of bids;
- Site meeting/inspection or briefing session, if applicable;
- The handling of bids submitted in response to public invitation;
- The evaluation of bids;
- Awarding of contracts;
- Administration of contracts,
  -After approval of a bid, the accounting officer and the bidder must enter into a written agreement;
- Proper record keeping,
  -Original/legal copies of written contracts/agreement should be kept in a secure place for reference purposes.
  The Chief Financial Officer shall manage procurement requisitions for amounts estimated to be in excess of R200 000 (VAT inclusive) by competitive bidding. The request for such tenders shall,
- Be prepared by the Supply Chain Unit of the finance office;
- Be prominently displayed on all the notice boards.

The procedure for the invitation of competitive bids is as follows:

1. Any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the municipality or any other appropriate way (which may include an advertisement in the Government Tender Bulletin); and

2. The information contained in a public advertisement must include-
   a) the closing date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT inclusive),or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in the newspaper.

   b) A statement that bids may only be submitted on the bid documentation provided by the municipality/municipal entity: and

   c) The date, time and venue of any proposed site meeting or compulsory briefing sessions.

3) The accounting officer may determined the closing date for the submission of bids which is less than the 30 or 14 days required, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.

4) Bids submitted must be sealed.

5) Where bids are requested in electronic format, such bids must be supplemented by sealed hard copies.

The procurement officer shall ensure that such tender boxes are sealed until the date and time of their official opening and that they are properly secured at the time. Where the relevant notice specifies that prospective bidders must complete certain documentation which must be obtained from the municipality, failure to complete such documentation shall render the bid invalid.

The relevant notice may also specify that a fee or deposit, as determined from time to time by the council, is payable in order to obtain such documentation. In the case of deposits the amount concerned shall be refundable to bidder within seven (7) working days after the bids have been opened.

No requirement for goods or services above the services above the estimated transaction value of R200 000 (VAT inclusive), may be procured by the municipality other than through competitive processing.

The requirement for goods and services will not be split into parts or items of a lesser value merely for the sake of procuring through other mechanisms than competitive bidding.

Goods and services require that consist of different parts will as far as possible be treated and dealt with as a single transaction.

Notwithstanding the above-stipulated requirements for consideration, quotations and tenders which are not to in accordance with specifications may be considered, but only if no quotations or tenders are received which substantially comply with the specifications.

2) <u>Bid documentation</u>

The accounting officer must establish the criteria to which bid documentation for a competitive bidding process must comply. The bid documentation must-

1) take into account;

    - the general conditions of contract;
    - any Treasury guidelines on bid documentation; and

- the requirements of the Contraction Industry Development Board, in the case of a bid relating to Construction, upgrading or refurbishment of building or infrastructure;

2) Include evaluation and adjudication criteria, including any criteria required by other applicable legislation;

3) Compel bidders to declare any conflict of interest they may have in the transaction for which the bid is submitted;

4) If the value of value of the transaction is expected to exceed R10 000 (VAT inclusive),require bidders to furnish-

- If the bidder is required by law to prepare annual financial statements for auditing, their audited financial statements-

i) for the past three years; or

ii) since their establishment if established during the past three years:

- A certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 days;

- Particulars of any contracts awarded to the bidder by an organ of state during the past five (5) years, including particulars of any material non- compliance or dispute concerning the execution of such contract;

- A statement indicating whether any portion of the goods or services are expected to be sourced from outside the Republic, and if so what portion and whether any portion of payment from the municipality or municipal entity is expected to be transferred outside the republic; and

- 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.

3) <u>Handling, opening and recording of bids</u>

Every tender addressed to the municipality shall be enclosed in a sealed envelope or packed bearing on its exterior any number which may have been attached by the municipality to the invitation to tender and the nature of the goods or works to which the tender relates.

No tender shall be considered unless it has been placed ,not later than the closing time specified in the invitation to tender in the tender box which the Xhariep District Municipality shall provide for the purpose and keep locked at all times ,except on the closing date of tender and tenders are being collected there from.

Bids will be opened in the public and will be opened will be opened at the same time and as soon as possible after the period for submission has expired.

Every bidder or member of the public may request the names of bidders received and when practical, the total bidding price for each of them.

The Procurement officer will:

i) Record all bids received in time in a register,

ii) Make the register available for public inspection, and

iii) Publish the entries in the register and the bid results in the website.

4) Negotiations with preferred bidders

i) The accounting officer may negotiate final terms of the contract with the bidders identified through competitive bidding process as preferred bidders provide d that such negotiations-

a) Does not allow any preferred bidder an unfair opportunity,

b) Is not be to be determined of any other bidder; and

c) Does not lead to a higher price than the bid as submitted.

ii) Minutes of such negotiations must be kept for record purpose.

5) Two stage bidding process

1) A two-stage bidding process is allowed for-

   a) Large complex projects;

   b) Projects where it may be undesirable to prepare complex detailed technical specifications; or

   c) Long term projects with a duration period exceeding three years.

2) In the first stage technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments

3) In the second stage, final technical proposals and priced bids should be invited.

6) Preferred point system, evaluation of tenders, cancelling and re-invitation of tenders.

6.1) **Stipulation of preference point system to be used**

The Xhariep District Municipality must, in the tender documents, stipulate the preference point system which will be applied in the adjudication of tenders.

6.1.1) The 80/20 preference point system

The following formula must be used to calculate the points for price in respect of tenders/procurement with a rand value equal to or above R200 000(VAT inclusive) and up to rand value of R500 000(VAT included).

The Xhariep District Municipality may, however, apply this formula for procurement with a rand value less than R200 000, if appropriate:

Ps=80[1-(pt-pmin/pmin)]

Where:

PS= Points scored for price of tender under consideration

Pt= Rand value of offer tender consideration

Pmin= Rand value of lowest acceptable tender

A maximum of 20 points may be awarded to a tender for being an HDI and/ or subcontracting with an HDI.

6.1.2) ***The 90/10 preference point system***

The following formula must be used to calculate the points for price in respect of tenders/procurement with a rand value equal to or above R500 001 (VAT inclusive)

Ps=90[1-(pt-pmin/pmin)]

Where:

PS= Points scored for price of tender under consideration

Pt= Rand value of offer tender consideration

Pmin= Rand value of lowest acceptable tender

A maximum of 10 points may be awarded to a tender for being an HDI and/ or subcontracting with an HDI.

6.1.3) The 80/20 preference point system for the sale and letting of assets.

The following formula must be used to calculate the points for price in respect of tenders with a Rand value equal to, or above, R200 000 and up to a Rand value of R500 000 and which relates to the sale and letting of assets.

The Xhariep District Municipality may, however, apply this formula for the sale letting of assets with a rand value less than R200 000, if appropriate:

Ps=80 [1-(Pt- Pmin/Pmin)]

Where:

Ps= {Points scored for price of tendered under consideration

Pt= Rand value of offer tender under consideration

Pmin= rand value of lowest acceptable tender

A maximum of 20 points may be awarded to a tender for being an HDI and/or subcontracting with an HDI.

6.1.4) The 90/10 preference point system for the sale and letting of assets.

The following formula must be used to calculate the points for price in respect of tenders with a Rand value equal to, or above, R500 001, which relates to the sale and letting of assets.

The Xhariep District Municipality may, however, apply this formula for the sale and letting of assets with a rand value less than R500 001, if appropriate:

Ps=90 [1-(Pt- Pmin/Pmin)]

Where:

Ps= Points scored for price of tender under consideration

Pt= Rand value of offer tender under consideration

Pmin= rand value of lowest acceptable tender

A maximum of 10 points may be awarded to a tender for being an HDI and/or subcontracting with an HDI.

6.1.5) Evaluation of tenders on functionality and price.

i. The Xhariep District Municipality must, in the tender document, indicate if, in respect of a particular tender invitation, tenders will be evaluated on functionality and price.

ii. The total combined points allowed for functionality and price may, in respect of tenders with an estimated Rand value equal or, bellow R500 000 not exceed 80 points.

iii. The total combined points allowed for functionality and price may, in respect of tenders with an estimated Rand value above R500 000, not exceed 90 points.

iv. When evaluating the renders contemplated in this item, the points for functionality must be evaluated for each individual tender.

v. The conditions of tender may stipulate that a tender must score a specified minimum number of points for functionality to qualify for further adjudication.

vi. The points for price, in respect of a tender which gas scored the specified number of points contemplated in regulation (5),must subject to the application of the evaluation system for functionality and price, contemplated in this regulation, be established separately and be calculated with provision of regulation 3 and 4.

vii. Preferences for being an HDI and / or subcontracting with an HDI and/ or achieving specified goals must be calculated separately and must be added to the points scored for functionality and price.

viii. Only the tender with the highest number of points scored may be selected.

6.1.6) Calculating of percentage for functionality

The percentage scored for functionality will be calculated as follows:

Each panel member should award values for each individual criterion on a score sheet. The vale scored for each criterion will be multiplied with the specified weighting for the relevant criterion to obtain the marks scored for the various criteria. These marks should be added to obtain the total score. The following formula will then be used to convert the total score a percentage for functionality.

Ps= [So/Ms]* Ap

Where:

Ps= Percentage scored for functionality by bid/proposal under consideration

So= Total score of bid/proposal under consideration

Ms= Maximum possible score

Ap= percentage allocated for functionality

The percentage allocated of each panel members to establish the average percentage obtained by each individual bidder for functionality. After calculation of the percentage for functionality, the prices of all bids that obtained the minimum score for functionality will be taken into consideration.

Bids/ proposals that do not score certain specified minimum percentage for functionality will be disqualified and not be considered further.

6.1.7) Calculation of percentage for price

The percentage cored for price will be calculated as follows:

The lowest acceptable bid/proposal will obtain the percentage allocated for price. The other bid/proposal with higher prices will proportionately obtain lowest percentage based on the following formula:

Ps= (Pmin/Pt)*Ap

Where:

Ps= percentage scored for price by bid/proposal under consideration

Pmin= lowest acceptable bid/proposal

Pt= price of bid/proposal under consideration

Ap= percentage allocated for price

The "Guide on Hourly fee rates for consultants" issued by the Department of Public Services and administration, acceptable from the website www.dpsa.gov.za, (click on service delivery improvement), should be used as a benchmark to evaluate the offered tariffs or to determine the reasonableness thereof.

6.1.8) Calculation of points for functionality and price

The percentage obtained for functionality will be added to the percentage obtained for price to obtain a percentage out of 100, which in turn will be converted to points out of 80 or 90.

The points scored out of 0 of 90 will be calculated using the following formula:

The 80/20 percentage points system

Ps=80{ 1-[(Hs-Rs)/Rs]}

The 90/10 preference point system

Ps=90{1-[(Hs-Rs)/Rs]}

Where:

Ps= points scored for functionality and price of the bid/proposal under consideration

Hs= highest percentage scored by any acceptable bidder for functionality and price

Rs= percentage scored for functionality and price by/proposal under consideration

Points scored for specified goals as contemplated by the PPPFA and its Regulations are then calculated separately and added to the points score for price and functionality in order to obtain a final point.

The contract will be awarded to the bidder scoring the highest points.

Information relating to valuation of bids and recommendations concerning awards will not be disclosed to the consultants who submitted bids or to other persons not officially concerned with the process until the successful consultant is notified.

6.2) <u>Cancellation and re-invitation of tenders.</u>

In the event that in the application of the 80/20 preference point system as stipulated in the tender documents, tenders received exceeding the estimated Rand vale of R500 000,the tender invitation may be cancelled under the discretion of the adjudication committee.

In the event that, in the application of 90/20 preference point system stipulated in the tender documents, tenders received are equal to or bellow R500 000 the tender may be called under the discretion of the adjudication committee.

If the Xhariep District municipality has cancelled a tender invitation, they must re-invite tenders and in the tender document stipulate the preference point system to be applied.

The Xhariep District Municipality may, prior to the award of a tender, cancel a tender if-

a. Due to changed circumstances, there is no longer a need for the goods or services tenders for; or

b. Funds are no longer available to cover the total envisaged expenditure; or

c. No acceptable tenders are received.

6.3) <u>Committee System</u>

The Municipal Manager shall establish tender committees to undertake the adjudication functions. The Municipal Manager, provided there is provision in the relevant departments, estimates for such expenditure, may engage a consultant or consultants to advise the tender committees on any technically complex aspect of a tender.

The department, to which the tender relates, shall bear the expenses concerned, or – if this is not possible- the expenditure shall be charged against a provision created for this purpose in the budget of the Municipal Manager or the corporate services department.

Committee members will be appointed by the accounting officer taking into account section 117 of the act.

The accounting officer must provide for an attendance or oversight process by a neutral or independent observer, appointed by the accounting officer, when this is appropriate for fairness and promoting transparency.

The accounting officer may apply the Committee system to formal written price quotations.

The Committee system for competitive bids will consist of at least:

i. A bid specification committee

ii. A bid evaluation committee

iii. A bid adjudication committee

The committee system must be consistent with-

i. This policy; and

ii. Any other applicable legislation

6.3.1) <u>Bid Specifications Committee</u>

The bid specifications committee will be composed of one or more official of the municipality, preferably the manager responsible for the function involved and when appropriate includes external advisors.

This committee will compile the specifications for procurement of goods or services by the municipality.

Specifications will be drafted in an unbiased manner to allow all potential suppliers to offer their good s and services.

This committee will also indicate each specific goal for which points will be awarded in terms of the points system set out in the preferential Procurement Regulation 2001.

Specifications will take into account any acceptable 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.

Where possible speculations must be described in terms of performance required rather than in terms of descriptive characteristics for design.

Specifications may also not create trade barriers in contract requirements in the form of specifications, plans, drawing, design, testing and test methods, packaging, marking or labelling of conformity certification.

Specifications will not make reference to any particular trademark, 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”.

All specifications must be approved by the accounting officer prior to the publication of the invitation for bids

No persons, advisor or corporate entity involved with the bid specification committee, or director of such a corporate entity, may bid for any resulting contracts.

6.3.2) <u>Bid Evaluation Committee</u>

This committee will as far as possible be composed of;

i. Officials from the departments requiring the goods or services

ii. At least 1 supply chain management practitioner

iii. Allow for a neural or independent person to monitor the fairness of the proceedings

This committee will evaluate bids according to the specifications for the specific procurement and the preference point system.

It will evaluate each bidder’s ability to execute the contract and make sure that each bidder adhered to the set tender requirements.

This committee will also check in respect of the recommended bidder whether municipal rates and taxes and the municipal services charged are not in arrears.

After the evaluation the committee will submit a respect to the adjudication committee with recommendations regarding the awarded of the bid or any relates matter.

6.3.3) <u>Bid Adjudication Committee</u>

The bid adjudication committee will consist of at least four senior managers of the municipality or municipal entity which must include:

i. The Chief Financial Officer or, if the Chief Financial Officer is not available, another manager in the Finance office reporting directly to the Chief Financial Officer and designated by the Chief Financial Officer; and

- At least one senior supply chain management practitioner who is an official of the municipality; and
- A technical expert in the relevant field who is an official, if such an expert exists.

The committee will consider the report and recommendations from the bid evaluation committee and depending on its delegations:

- Make a final award or a recommendation to the Accounting Officer to make the final award; or
- Make another recommendation to the Accounting Officer how to proceed with the relevant procurement.

The Accounting Officer must appoint the chairperson of the committee.

If the chairperson is absent from a meeting, the member of the committee who are present must elect one of them to preside at the meeting.

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.

If the bid adjudication committee decides to award a bid other than the one recommended by the bid evaluation committee, the bid adjudication committee must prior to awarding the bid-

i) Check in respect of the preferred bidder whether that bidder's municipal rates and taxes and municipal services charges are not in arrears; and

ii) Notify the accounting officer.

a) The Accounting Officer may-

- After due consideration of the reasons for the deviation, ratify or reject the decision of the bid adjudication committee; and
- If the decision of the bid adjudication committee is rejected, refer the decision of the adjudication committee back to that committee for reconsideration.

The Accounting Officer may at any stage of a bidding process, refer any recommendations made by the evaluation committee or the adjudication committee back to that committee for reconsideration of the recommendation.

The accounting officer must comply with sections 114 of the Act within 10 working days.

DRAFT TARIFF POLICY

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1. INTRODUCTION

A tariff policy must be compiled, adopted and implemented in terms of the current legislation. This Policy will provide for the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements. In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, the impact which its own tariffs may have on local economic development.

2. LEGISLATION

The tariffs policy has been compiled taking into account, where applicable, the guidelines set out in Section 74 of the Local Government Municipal Systems Amendment Act 44 of 2003

3. OBJECTIVES

The objective of the tariff policy is to ensure the following:

- The tariffs of the Municipality conform to acceptable policy principles;
- Municipal services are financially sustainable;
- There is certainty in the Council, of how the tariffs will be determined;
- Tariffs of the Municipality comply with the applicable legislation; and
- The Municipal procedures and practices are uniform and guided by a policy.

4. POLICY PRINCIPLES

The Municipality's tariff policy will reflect the following principles:

- Tariffs imposed by the district municipality shall be viewed as user charges and shall not be viewed as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigency relief measures approved by the district municipality from time to time).

- Users of municipal services should be treated equitably in the application of tariffs;

- The amount individual users pay for services should generally be in proportion to their use of that service;

- Tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement costs and interest charges;

- Tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned. A service is financially sustainable when it is provided in a manner that would ensure its financing from internal and external sources is sufficient to cover the costs of the initial capital expenditure required, operating the service, maintaining, repairing and replacing the physical assets used in its provision;

- Provision may be made in appropriate circumstances for a surcharge on the tariff for a service;

- Provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users; and

- The economical, efficient and effective use of resources and other appropriate environmental objectives must be encouraged.

The extent of subsidisation of tariffs should be fully disclosed.

5. NEED FOR A TARIFF POLICY

In terms of Section 74 of the Municipal Systems Act the Council must adopt and implement a Tariff Policy that complies with the provisions of any applicable legislation on the levying of fees for Municipal services provided by or on its behalf. The Tariff Policy may differentiate between different categories of users, debtors, service providers employees, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination. Section 75 of the Act requires that the Council adopt by-laws to give effect to the implementation and enforcement of its Tariff Policy. Such by-laws may differentiate between different categories of users, debtors, service providers, employees, service, service standards and geographical areas as long as such differentiation does not amount to unfair discrimination.

Revenue Adequacy and Certainty.

The Municipality must have access to adequate sources of revenue to enable it to carry out its functions. The Municipality must:

- Fully utilise the available sources of revenue to meet its development objectives; and
- Be reasonably certain of its revenue to allow for realistic planning.

Sustainability.

Financial sustainability requires that the Municipality must ensure that its budget balances. This means that the Municipality must ensure that:

- Services are provided at affordable levels; and
- It is able to recover the costs of service delivery.

The Municipality realises that no aid will be provided to it if it exceeds its budget or fails to establish proper financial management controls. Councillors will set realistic budgets. The current legislation requires that all budgets be fully and adequately funded. There must be sufficient income and resources to cover all budgeted spending.

Effective and Efficient usage of Resources.

Resources are scarce and must be used in the best possible way to reap the maximum benefit for the community. However, there are no mechanisms available to ensure that the Municipality's decisions will ensure effective allocation of resources. It is therefore important that the community provide the necessary checks and balances. They can do this by participating in the budget process. In addition, performance audits should be carried out by the office of the Auditor-General or outsourced to a private firm.

Accountability, Transparency and Good Governance.

The Municipality must be accountable to the community for the use of its resources. Councillors must be able to:

- Justify their expenditure decisions; and
- Explain why and how the revenue necessary to sustain expenditure, is raised.

Budgeting and the financial affairs of the Municipality must be open to public scrutiny, in accordance with Section 22 of the Municipal Finance Management Act No 53 of 2003. The community should be part of the decision-making process about how revenue is raised and spent. Community participation in budgeting should include those groups in the community, such as women, who face particular constraints in participating. It must also include a capacity-building component to ensure that people understand the prioritisation process (why resources are allocated to one area rather than another).

6. MINOR TARIFFS

All minor tariffs shall be standardized within the Municipal region. They shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidized by general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.

All monitor tariffs over which the municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.

The following services shall be considered as economic services, and the tariffs levied shall cover 100% or as near as possible to 100% of the budgeted annual operating expenses of the service concerned:

- Rentals for the use of Municipal halls, Kitchen and Braai Area;
- Rentals for the use of Office Space and Parking Spaces /Lots;
- Private use of Municipality's resources like telephone, fax machines and photocopiers; and
- Sale of tender documents.

The following charges and tariffs shall be considered as regulatory or punitive, and shall be determined as appropriate in each annual budget:

- Penalty and other charges imposed in terms of the approved policy on credit control and debt collection.
- Penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques.

Market-related rentals shall be levied for the lease of Municipal properties. In the case of rentals for the use of Municipal halls and premises, if the Municipal Manager is satisfied that the halls or premises are required for non-profit making purposes and for the provision of a service to the community, the Municipal Manager may waive 50% of the applicable rental or an applicable subsidy to its Local Municipalities.

The Municipal Manager shall determine whether an indemnity or guarantee must in each instance be lodged for the rental of Municipal halls and premises, in so determining shall be guided by the likelihood of the municipality's sustaining damages as a result of the use of the facilities concerned.

7. CATEGORIES OF USERS

The tariff structure of the Xhariep District Municipality will make provision for the following categories of users:

- Government Departments;
- Local Municipalities;
- Special arrangements for users not falling in any of the above-mentioned categories.

8. TARIFF CHARGES

Applicable tariff charges for Long term Contractual Lease Agreements as prescribed by the Municipality from time to time and on regular intervals are as follows:

- Shaded lockable Parking: R110.00 per parking per month.
- Shaded non-lockable Parking: R77.00 per parking per month.
- Office Space: R 37.93 per square meter for 742 square metres.

Applicable tariff charges for short term or day to day rentals as prescribed by the Municipality from time to time and on regular intervals are as follows:

- Auditorium: R 605.00 per day
- Kitchen: R 242.00 per day

9. RESPONSIBILITY/ACCOUNTABILITY

The Council or designates of the Council have the overall responsibility of laying down the Tariff Policy. The Municipal Finance Management Act defines the responsibility of the Municipal manager as ensuring that the Tariff Policy be in place and that it is effectively implemented.

XHARIEP DISTRICT MUNICIPALITY

DRAFT BUDGET POLICY

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1. DEFINITIONS

"accounting Officer"- means the Municipal Manager;

“allocation", means a municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution; an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution; an allocation of money to a municipality in terms of a provincial budget; or any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

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

"approved budget,” means an annual budget-

(a) approved by a municipal council, or

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

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

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

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

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

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

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

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

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

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

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

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

“councillor” means a member of a municipal council;

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

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

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

"financial recovery plan" means a plan prepared in terms of section 141 of the MFMA

"financial statements", means statements consisting of at least-

(a) a statement of financial position;

(b) a statement of financial performance;

(c) a cash-flow statement;

(d) any other statements that may be prescribed; and

(e) any notes to these statements;

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

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

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

"irregular expenditure", means-

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorized expenditure";

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

(a) the placing on deposit of funds of a municipality with a financial institution; or

(b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

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

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

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

"Municipal Systems Act" means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);
“long-term debt" means debt repayable over a period exceeding one year;

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

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

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

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

"municipality"-

(a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or

(b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

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

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

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

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

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

"official", means-

(a) an employee of a municipality or municipal entity;

(b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

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

"overspending"-

(a) means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

(b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

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

"quarter" means any of the following periods in a financial year:
(a) 1 July to 30 September;
(b) 1 October to 31 December;
(c) 1 January to 31 March; or
(d) 1 April to 30 June;

"service delivery and budget implementation plan" means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate-
(a) projections for each month of-
 (i) revenue to be collected, by source; and
 (ii) operational and capital expenditure, by vote;
(b) service delivery targets and performance indicators for each quarter; and
(c) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) (c) of the MFMA;

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

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

"unauthorised expenditure", means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes-
(a) overspending of the total amount appropriated in the municipality's approved budget;

(b) overspending of the total amount appropriated for a vote in the approved budget;

(c) expenditure from a vote unrelated to the department or functional area covered by the vote;

(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;

(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or

(f) a grant by the municipality otherwise than in accordance with the MFMA;

"virement" means transfer of funds between functions / votes

"vote" means-

(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and

(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

2. INTRODUCTION

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

According to subsection (2) of the Act concerned, in order to comply with subsection (1), the executive mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year. This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background.

Budget Policy

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

3. OBJECTIVE

The objective of the budget policy is to set out:

a) The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget

b) The responsibilities of the executive mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget

c) To establish and maintain procedures to ensure adherence to Xhariep District Municipality's Integrated Development Plan (IDP) review and budget processes.

4. BUDGETING PRINCIPLES

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

b) Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.

c) Xhariep District Municipality shall prepare three-year budget (medium term revenue and expenditure framework (MTREF)) and that be reviewed annually and approved by Council.

d) The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan (IDP).

5. BUDGET PREPARATION PROCESS

5.1. Budget Steering Committee

a) The mayor of a municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act.

b) The steering committee must consist of at least the following persons:

   i. the councillor responsible for financial matters;
   ii. the municipal manager;
   iii. the chief financial officer;
   iv. the senior managers responsible for at least the three largest votes in the municipality;
   v. the manager responsible for budgeting;
   vi. the manager responsible for planning; and
   vii. any technical experts on infrastructure.

5.2. Formulation of the budget

a) The Accounting Officer with the assistance of the Chief Financial Officer and the Director responsible for IDP shall draft the IDP process plan as well as the budget timetable for the municipality for the ensuing financial year.

b) The executive mayor shall table the IDP process plan as well as the budget timetable to Council by 31 August each year for approval (10 months before the start of the next budget year).***The Budget timetable is attached as Annexure A***.

c) IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act as well as the guidelines set by National Treasury.

d) The Executive mayor shall convene a strategic workshop before end of October with the mayoral committee and senior managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressures facing the municipality.

e) The Executive Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings, etc).

f) The Chief Financial Officer and senior managers undertake the technical preparation of the budget.

g) The budget must be in the format prescribed by National Treasury, and must be divided into capital and operating budget.

h) The budget must reflect the realistically expected revenues by major source for the budget year concerned.

i) The expenses reflected in the budget must be divided into items.

j) The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

5.3. Public participation process

(a) Immediately after the draft resolutions of the annual budget is tabled in a municipal council, the accounting officer of the municipality must— in accordance with Chapter 4 of the Municipal Systems Act—

  i. make public the annual budget and the documents referred to in section 17(3); and
  ii. invite the local community to submit representations in connection with the budget; and
  iii. submit the annual budget—(draft budget)
  iv) in both printed and electronic formats to the National Treasury and the relevant provincial treasury as prescribed by National Treasury ; and

v) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

(b) When the annual budget has been tabled, the municipal council must consider any views of—

i. the local community; and
ii. the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.

(c) The Municipal Manager must also make public any information that the municipal council considers appropriate to facilitate the budget consultation process, including:

i. Summaries of the annual budget and supporting documents in alternate languages predominant in the community; and
ii. Information relevant to each ward in the municipality
iii. All the information contemplated in subregulation (c) must cover:
iv. The relevant financial and service delivery implications of the annual budget; and
v. At least the previous year's actual outcome, the current year's forecast outcome, the budget year, and the following two years.

(d) When submitting the annual budget to the National Treasury and the relevant provincial treasury, the municipal manager must also submit to National Treasury and the relevant provincial treasury, both in printed and electronic form -

i. The supporting budget documentation as tabled in the municipal council;
ii. The draft Service Delivery and Budget Implementation Plan (SDBIP); and
iii. Any other information as may be required by National Treasury.

(e) The Municipal Manager must send copies of the annual budget and supporting documentation as tabled in the municipal council, in both printed and electronic form to:

i. Any other municipality affected by the annual budget within ten working days of the annual budget being tabled in the municipal council; and
ii. Any organ of state on receipt of a request from the organ of state.

(f) After considering all budget submissions, the council must give the Executive Mayor an opportunity—

i. to respond to the submissions; and

ii. if necessary, to revise the budget and table amendments for consideration by the council.

(g) Within consideration of the approval of the Annual Budget and thirty (30) days before the start of the budget year the Executive Mayor must table the following documents in the Council in consideration of the annual budget approval

i. A report summarizing the local community's views on the annual budget;

ii. Any comments on the annual budget received from National Treasury and Provincial Treasury

iii. Any comments on the annual budget received from any organ of state, including any affected municipality; and

iv. Any comments on the annual budget received from any other stakeholders.

(h) The Municipal Manager must assist the Executive Mayor in the preparation of the documents referred to in subregulation (g) and 23 (2) of the Act.

5.4. Approval of the budget

(a) Council shall consider the medium term revenue and expenditure framework budget (MTREF) for approval not later than 31 May (30 days before the start of the budget year).

(b) The council resolution, must contain budget policies and the performance measures to be adopted.

(c) The council must consider the full implications, financial or otherwise, of the annual budget and supporting documentation before approving the annual budget.

(d) When approving the annual budget, the council must consider and adopt separate resolutions dealing with each of the matters contemplated.

(e) Should the municipality fail to approve the budget before the start of the budget year, the executive mayor must inform the MEC for Finance that the budget has not been approved.

(f) The budget tabled to Council for approval shall include the following supporting documents:

i. draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;

ii. measurable performance objectives for each budget vote, taking into account the municipality's IDP;
iii. the projected cash flows for the financial year by revenue sources and expenditure votes;
iv. any proposed amendments to the IDP;
v. any proposed amendments to the budget-related policies;
vi. particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as Non- Governmental Organisations, welfare institutions and so on;
vii. particulars of the municipality's investments;
viii. particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
ix. particulars of any proposed allocations or grants by the municipality to—
i. other municipalities;
ii. any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
iii. any other organs of state;
iv. any organisations or bodies referred to in section 67(1) of the Act;
x. the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—
i. each political office-bearer of the municipality;
ii. councillors of the municipality; and
iii. the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;

5.5. Service Delivery and Budget Implementation Plan (SDBIP)

(a) The Executive mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council, and within ten days (10) after the Executive Mayor has approved the Plan it has to be made public.

(b) The SDBIP shall include the following components:

- Projections for each month of Revenue to be collected, by source, and Operational and capital expenditure, by vote;
- Service delivery targets and performance indicators for each quarter.
- Monthly projections of revenue to be collected for each source;
- Monthly projections of expenditure (operating and capital) and revenue for each vote;
- Quarterly projections of service delivery targets and performance indicators for each vote;
- Information for expenditure and delivery; and
- Detailed capital works plan.

6. CAPITAL BUDGET

a) All expenditure of a project shall be included in the capital budget if it meets the asset definition as per XDM Asset Management Policy.

b) Vehicle replacement shall be done in terms of Council's vehicle replacement policy. The budget for vehicles shall distinguish between replacement and new vehicles. No globular amounts shall be budgeted for vehicle acquisition.

c) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

6.1.1 Funding of Capital expenditure

a) The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.

b) An annual budget must show the total capital expenditure and the different sources of funding.

c) The total budgeted capital funding by source must equal the total budgeted capital expenditure

d) Funds created in terms of section 12 of the Act must be fully cash backed.

e) A municipality may make expenditures or donations in support of the objectives for which funds created in terms of section 12 of the Act were established if approved in an annual budget or adjustment budget.

f) No municipal funds may be paid into a fund created in terms of section 12 of the Act.

g) The capital expenditure shall be funded from the following sources: Refer to 6.1.2 to 6.1.5.

6.1.2 Revenue or Surplus

(a) If any project is to be financed from revenue this financing must be included in the cash budget to raise sufficient cash for the expenditure.

(b) If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project.

6.1.3 External loans

a) External loans can be raised only if it is linked to the financing of an asset;

b) A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured;

   i. The loan redemption period should not exceed the estimated life expectancy of the asset;

   ii. Interest payable on external loans shall be included as a cost in the revenue budget;

   iii. Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

6.1.4 Capital Replacement Reserve (CRR)

a) Council may establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve may be established from the following sources of revenue:

   i. unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;

ii. interest on the investments of the CRR, appropriated in terms of the investments policy;

iii. additional amounts appropriated as contributions in each annual or adjustments budget; and

iv. Sale of land and profit or loss on the sale of assets.

b) Before any asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed;

c) If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash with approval of Council;

d) Transfers to the CRR must be budgeted for in the cash budget;

6.1.5 Grant Funding

a) Non capital expenditure funded from grants must be budgeted for as part of the revenue budget;

I. Expenditure must be reimbursed from the unspent grants and transferred to the operating and must be budgeted for as such.

II. Capital expenditure must be budgeted for in the capital budget;

b) Interest earned on investments of Conditional Grant Funding shall be capitalized if the conditions state that interest should accumulate in the fund.

c) If there is no condition stated the interest can then be allocated directly to the revenue accounts.

d) Grant funding does not need to be cash backed but cash should be secured before spending can take place.

6.2. Approval of capital projects

a) Before approving a capital project, the Council must consider:

i. the projected cost of the project over all the ensuing financial years until the project becomes operational,

ii. future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).

b) Before approving the capital budget, the council shall consider:

    i. the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans,
    ii. depreciation of fixed assets,
    iii. maintenance of fixed assets, and
    iv. any other ordinary operational expenses associated with any item on such capital budget.

c) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded.

d) The municipality shall within ten (10) working days after the council has given individual approval for capital projects in terms of section 19(1)(b) of the Act, make public the following:

    i. The municipal council resolution approving the capital projects; and
    ii. Details of the nature, location and total project cost of the approved capital projects

e) The following capital projects may be approved by council either individually or as part of the consolidated capital program:

    i. Capital projects of which the total projected cost is below 5% of the municipality's revenue, in case of a municipality with approved total revenue in its current annual budget not exceeding R250 million.

f) Subregulation (d) does not apply to capital projects whose total projected cost when the annual budget is approved is below the values set out in subregulation (e).

g) Expenditure needed for capital projects below the values set out in subregulation (e) may be included in the annual budget before the project is approved in terms of section 19(3) of the Act.

7. OPERATING BUDGET

a) The municipality shall budget in each annual and adjustments budget for the contribution to:

    i. provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year,

ii. provision for bad debts in accordance with its rates and tariffs policies

iii. provision for the obsolescence and deterioration of stock in accordance with its asset management policy

iv. depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.

v. If realistic at least 3% of the operating budget component of each annual and adjustments budget shall be set aside for maintenance.

b) When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.

c) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

d) The operating budget shall reflect the impact of the capital component on:

i. depreciation charges

ii. repairs and maintenance expenses

iii. interest payable on external borrowings

iv. other operating expenses.

e) The chief financial officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.

8. FUNDING OF CAPITAL AND OPERATING BUDGET

(a) The budget may be financed only from:

i. realistically expected revenues, based on current and previous collection levels;

ii. cash-backed funds available from previous surpluses where such funds are not required for other purposes; and

iii. borrowed funds in respect of the capital budget only.

9. UNSPENT FUNDS / ROLL OVER OF BUDGET

(a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure.

(b) Only unspent grant (if the conditions for such grant funding allows that subject to approval of National Treasury) or loan funded capital budget may be rolled over to the next budget year

(c) Application for roll over of funds shall be forwarded to the budget office by no later than the end of April each year to be included in next year's budget for adoption by Council in May.

(d) Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.

(e) No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made 90 days (30 March each year) prior the end of that particular financial year.

(f) No unspent portion operating budget shall be rolled over to the next budget year

10. BUDGET TRANSFERS AND VIREMENTS

(a) Budget transfers within the same vote shall be recommended by the Head of Departments (HOD's) and approved by the Chief Financial Officer, in consultation with the Municipal Manger.

(b) Savings on allocations earmarked for specific identified projects as per approved SDBIP, may not be used for other purposes except with the approval of council.

(c) Directors may utilize a saving in the amount appropriated under a main expenditure category (General Expenses, Repairs & Maintenance, etc (excluding salaries)) within a vote which is under their control towards the defrayment of excess expenditure under another main expenditure category within the same vote, with the approval of the Chief Financial Officer.

(d) Virements shall be recommended by the Head / Director of Department, completing the appropriate documentation and forward to the Chief Financial Officer for approval.

(e) Virements between votes shall be permitted where the proposed shifts in funding facilitate sound risk and financial management.

(f) Virements will not be permitted in relation to the revenue side of the budget;

(g) Virements from the capital budget to the operating budget will not be permitted;

(h) Virements towards personnel expenditure will not be permitted;

(i) Virements to or from the following items will not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;

(j) Virements may not result in adding ‘new’ projects to the Capital Budget;

(k) Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework will not be permitted; and

(l) Virements limits on the amount of funds that may be moved to and from votes and sub-votes may not exceed the lower of R50,000 or ten (10%) per cent of the budget unless approved by council and incorporated as part of the adjustment budget.

11. FRAMEWORK FOR UNFORESEEN AND UNAVOIDABLE EXPENDITURE

(a) The mayor of a municipality may authorize expenditure in terms of section 29 of the Act only if –

  i. the expenditure could not have been foreseen at the time the annual budget of the municipality was passed; and

  ii. the delay that will be caused pending approval of an adjustments budget by the municipal council in terms of section 28(2)(c) of the Act to authorize the expenditure may –

    a. result in significant financial loss for the municipality;

    b. cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;

c. lead to loss of life or serious injury or significant damage to property; or
d. obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

(b) The mayor of a municipality may not authorize expenditure in terms of section 29 of the Act if the expenditure –

I. was considered by the council, but not approved in the annual budget or an adjustments budget;
II. is required for –
  i. price increases of goods or services during the financial year;
  ii. new municipal services or functions during the financial year;
  iii. the extension of existing municipal services or functions during the financial year;
  iv. the appointment of personnel during the financial year; or
  v. allocating discretionary appropriations to any vote during the financial year; or
  vi. would contravene any existing council policy; or
  vii. is intended to ratify irregular or fruitless and wasteful expenditure.

11.1. Monetary limits on unforeseen and unavoidable expenditure

(a) The amount of expenditure that a mayor of a municipality may authorize in terms of section 29 of the Act is limited to –

I. 5% of the municipality's own revenue in the case of a municipality with approved total revenue in its current annual budget not exceeding R250 million;
II. The greater of R5 million or 4% of the municipality's own revenue in the case of a municipality with an approved budget total revenue in its current annual budget greater than R250 million but not exceeding R500million; and
III. R25 million in the case of a municipality with an approved total revenue in its current annual budget greater than R500 million.

12. ADJUSTMENT BUDGET

(a) Each adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.

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

(c) Council may revise its annual budget by means of an adjustments budget as regulated.

(d) The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

(e) The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council in compliance with Item 2 of Section 10.

(f) The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.

(g) Only the Executive mayor shall table an adjustment budget. Adjustments budget shall be done once as part of the mid-year budget performance assessment:

(h) An adjustments budget must contain all of the following:

  i. an explanation of how the adjustments affect the approved annual budget;

  ii. appropriate motivations for material adjustments; and

  iii. an explanation of the impact of any increased spending on the current and future annual budgets.

(i) Any unappropriated surplus from previous financial years, even if fully cashbacked, may not be used to balance any adjustments budget, but may be appropriated to the municipality's capital replacement reserve.

(j) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan and or per National Treasury Regulations.

(k) Unauthorised expenses may be authorised in an adjustments budget.

12.1 Formats of adjustments budgets

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

12.2. Funding of the adjustments budgets

(a) An adjustments budget of a municipality must be appropriately funded.

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

12.3. Timeframes for tabling of adjustments budgets

(a) An adjustments budget referred to in section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time during the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.

(b) Only one adjustments budget referred to in subregulation (1) may be tabled in the municipal council during a financial year, except when the additional revenues contemplated in section 28(2)(b) of the Act are allocations to a municipality in a national or provincial adjustments budget, in which case subregulation (3) applies.

(c) If a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget referred to in section 28(2)(b) of the Act in the municipal council to appropriate these additional revenues.

(d) An adjustments budget referred to in section 28(2)(c) of the Act must be tabled in the municipal council at the first available opportunity after the unforeseeable and unavoidable expenditure contemplated in that section was incurred within the period set in section 29(3) of the Act.

(e) An adjustments budget referred to in section 28(2)(e) of the Act may only be tabled after the end of the financial year to which the roll-overs relate, and must be approved by the municipal council by 25 August of the financial year following the financial year to which the roll-overs relate.

(f) An adjustments budget contemplated in section 28(2)(G) of the Act may only authorise unauthorised expenditure as anticipated by section 32(2)(a)(i) of the Act, and must be –

(g) dealt with as part of the adjustments budget contemplated in subregulation (1); and

(h) a special adjustments budget tabled in the municipal council when the mayor tables the annual report in terms of section 127(2) of the Act, which may only deal with unauthorised expenditure from the previous financial year which the council is being requested to authorise in terms of section 32(2)(a)(i) of the Act.

12.4. Submission of tabled adjustments budgets

(a) The municipal manager must comply with section 28(7) of the Act, read together with section 22(b)(i) of the Act, within ten working days after the mayor has tabled an adjustments budget in the municipal council.

(b) When submitting the tabled adjustments budget to the National Treasury and the relevant provincial treasury in terms of section 28(7) of the Act, read together with section 22(b)(i) of the Act, the municipal manager must submit in both printed and electronic form

   i. the supporting documentation referred to in section 28(5) of the Act within ten working days of the adjustments budget being tabled in the municipal council; and

   ii. any other information as may be required by National Treasury.

(c) The municipal manager must send copies of an adjustments budget and supporting documentation, in both printed and electronic form to –

   iii. any other municipality affected by that adjustments budget within ten working days of the adjustments budget being tabled in the municipal council; and

   iv. any other organ of state on receipt of a request from that organ of state.

12.5. Approval of adjustment budget

(a) A municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation referred to in section (1) (a) before approving the adjustments budget.

(b) When approving the adjustment budget, a municipal council must consider and adopt separate resolutions dealing with each of the matters listed in item 4 of Schedule B.

12.6. Publications of approved adjustment budget

(a) Within ten 10 working days after the municipal council has approved an adjustment budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting documentation, as well as the resolutions referred to in section 5 (a).

(b) When making public an adjustment budget and supporting documentation, the municipal Manager must make public awareness of the adjustment budget, including –

(c) Summaries of the adjustment budget and supporting documentation in alternate languages predominant in the community;

(d) Information relevant to each ward in the municipality, if that ward is affected by the adjustments budget; and

(e) Any consequential amendment of the service delivery and budget implementation plan that is necessitated by the adjustments budget.

12.7. Submission of approved adjustments budget and other documents

(a) The municipal Manger must comply with section 28(7) of the Act read together with section 24(3) of the Act within ten working days after the municipal council has approved and adjustments budget.

b) When submitting an adjustments budget to National Treasury and other relevant provincial treasury in terms of section 28(7) of the Act read together with section 24(3) of the Act, the municipal manager must also submit to National Treasury and the relevant provincial treasury, I both printed and electronic form –

i. The supporting documentation within ten working days after the municipal council has approved the adjustments budget;

ii. The amended service delivery and budget implementation plan, within ten working days after the council has approved the amended plan in terms of the section 54(1)(c) of the Act; and

iii. Any other information as may be required by the National Treasury.

(c) The municipal manager must send copies of an adjustments budget and supporting documentation, in both electronic and printed form to –

i. Any other municipality affected by that adjustments budget within ten (10) working days of the adjustments budget being tabled in the municipal council; and

ii. Any other organ of state on receipt of a request from that organ of state.

13. BUDGET IMPLEMENTATION

13.1. Monitoring

(a) The accounting officer with the assistance of the chief financial officer and other senior managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:

i. funds are spent in accordance with the budget;

ii. expenses are reduced if expected revenues are less than projected; and

iii. revenues and expenses are properly monitored.

(b) The Accounting officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the Executive mayor for consideration and tabling to Council.

(c) The Accounting officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

13.2. Reporting

Monthly budget statements

(a) The accounting officer with the assistance of the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

(b) This report must reflect the following:

i. actual revenues per source, compared with budgeted revenues;

ii. actual expenses per vote, compared with budgeted expenses;

iii. actual capital expenditure per vote, compared with budgeted expenses;

iv. actual borrowings, compared with the borrowings envisaged to fund the capital budget;

v. the amount of allocations received, compared with the budgeted amount;

vi. actual expenses against allocations, but excluding expenses in respect of the equitable share;

vii. explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the

(c) service delivery and budget implementation plan;

viii. the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and

ix. projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

(d) The report to the National Treasury must be both in electronic format and in a signed written document.

Quarterly Reports

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

Mid-year budget and performance assessment

(a) The Accounting officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

(b) The Accounting officer must then submit a report on such assessment to the Executive mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.

(c) The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

14. CONCLUSION

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

a) the annual and adjustments budgets and all budget-related documents;

b) all budget-related policies;

c) the integrated development plan

d) the annual report;

e) all performance agreements;

f) all service delivery agreements;

g) all long-term borrowing contracts;

h) all quarterly and mid-year reports submitted the Council on the implementation of the budget and the financial state of affairs of the municipality.

15. ANNEUXURE A: SUMMARISED TIMETABLE

NOTE: DATES IN BRACKETS ARE PUTATIVE

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Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
21(1)(b)	31 August	Mayor must at least 10 months before start of budget year table in council time schedule outlining key deadlines for - preparation, tabling and approval of annual budget - annual review of IDP - annual review of budget-related policies - tabling and adoption of any amendments to IDP and budget-related policies - any consultative processes forming part of foregoing	Mayor	Time schedule must either fit in with already scheduled council meetings or must indicate when special council meetings must be scheduled.
Section 88	20 January	Accounting officer of municipal entity must assess entity's budgetary and financial performance for first six months of financial year, and submit assessment report to board of directors and parent municipality.		
72(1), (2) and (3)	25 January	Accounting officer of municipality must assess budgetary and financial performance of municipality for first six months of financial year,	Accounting officer	

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
		make recommendations on whether adjustments budget necessary, and recommend revised projections for revenues and expenses. This assessment must be submitted to the mayor, national treasury and the provincial treasury (presumably immediately).		
54(1)(f)	31 January	Mayor must submit accounting officer's report to council.	Mayor	Special council meeting may have to be scheduled.
87	31 January or earlier if so requested by parent municipality	Board of directors of municipal entity must submit to parent municipality proposed budget for entity for ensuing financial year.	Board of directors of entity	It is not clear to what person or structure in the parent municipality this budget must be submitted. However, it makes good sense for the council of the municipality to consider this budget at the same meeting that it considers The municipality's own proposed adjustments budget.
87	(31 January to mid-March)	Parent municipality must consider proposed budget, and make any necessary		It is not clear what person or structure in the parent municipality must

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
		recommendations.		perform this action, but the council seems the logical party. It would also make sense for the council to consider this budget by 31 January.
87	(Tabled in council by 31 January)	Board of directors of entity may, with approval of mayor of parent municipality, revise budget of entity for certain prescribed reasons. Adjustments budget once approved by board of directors of entity must be tabled by mayor at next meeting of council of parent municipality. Adjustments budget must be made public.	Board of directors and mayor of parent municipality	Evidently such an adjustments budget may be prepared at any stage. It would make good sense, however, for the parent municipality to insist that the entity's revised budget be prepared and submitted to the mayor at the same time that or before the entity's proposed budget for the new financial year is considered. Again the potential problem of different parent municipalities having different views will

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
				have to be resolved by (presumably) the mayors considered.
54(1) and (2)	(Between 31 January and 31 March)	If municipality faces “serious financial problems” mayor must “promptly” respond to and initiate remedial steps proposed by accounting officer, including steps to reduce expenses and tabling of adjustments budget. Mayor must also consider revisions to service delivery and budget implementation plan. (Note that only council may approve changes to service delivery targets and KPIs – these changes must therefore be tabled with the adjustments budget).	Mayor	Adjustments budgets may be prepared by the accounting officer, and tabled in council by the Mayor “when necessary”. They must be so prepared and tabled (within prescribed limits as to timing and frequency) whenever material adjustments to expenses or revenues are required, and not only when “serious financial problems” are looming. In general, adjustments budgets should preferably be tabled by or as soon as possible after 31 January, and certainly not later than 31 March when the draft annual

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
				budget for the next year is first tabled.
54(3)	(Between 31 January and 31 March)	Mayor must ensure that revisions to service delivery and budget implementation plan are "promptly" made public. (Note that no concomitant revision of performance agreements is evidently envisaged).	Mayor	Presumably the accounting officer must make these revisions for the mayor's approval as part of the process of adjusting the annual budget. The deadline for these revisions must be by or as soon as possible after 31 January, but certainly not later than 31 March. See also 54(1) and (2).
87	100 days before start of financial year (approximately mid March)	Board of directors of entity must consider recommendations, and if necessary submit revised budget to parent municipality.	Board of directors of entity	
16(2)	31 March	Mayor must table (draft) annual budget of municipality at council meeting at least 90 days before start of budget year.	Mayor	Council meeting must be scheduled appropriately.

Budget Policy

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
87	31 March	Mayor of parent municipality must table originally proposed or proposed revised budget (as case may be) of entity when (draft) annual budget of municipality first tabled.	Mayor	-
22(a) and 22(b)	Immediately after 31 March or earlier date if annual budget tabled before 31 March	Immediately after (draft) annual budget tabled in council, accounting officer must (1) make public budget and documents referred to in Section 17(3), and invite local community to submit representations in connexion with budget, and (2) submit annual budget in both printed and electronic formats to provincial treasury, and in either format to prescribed national and provincial organs of state and to other municipalities affected by the budget.	Accounting officer	
23(2)	Before 31 May	Council must give mayor opportunity (1) to respond to submissions received on (draft) annual budget and attendant documentation and (2) to revise budget, if necessary, and table amendments for consideration by council.	Mayor and council	-
24(1) and (2)	31 May	Council must consider approval of annual budget, together with resolutions imposing rates and levies, setting tariffs, approving measurable performance objectives for revenue from each	Council	Although council has until 30 June to approve budget, best practice will be to approve budget not

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
		source and for each vote, approving any changes to IDP, and approving any changes to budget-related policies.		later than 31 May.
87(4)	31 May	Board of directors of municipal entity must approve budget for coming year, having taken into account recommendations of council of parent municipality, and must make budget public.	Board of directors of municipal entity	
24(3)	(Immediate after approval date)	Accounting officer must submit approved annual budget to national treasury and provincial treasury.	Accounting officer	No time limit is specified for this action, and neither is the format in which the budget is to be submitted specified. Common sense dictates that the submission should be at least in electronic format and that it should be made as soon as possible after the approval date.
25(1) and (2)	Within 7 days of date of council meeting which failed to	If council fails to approve annual budget at meeting scheduled in terms of Section 24, must reconsider budget within 7 days of date of such meeting. If necessary, process must be	Council	As province will intervene if budget not approved by 30 June, mayor, councillors and

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
	approve annual budget	repeated until budget approved by 30 June.		accounting officer must co-operate to ensure obstacles to approval timeously removed.
69(3)(a) and (b)	14 days after approval of annual budget (mid June to mid July)	Accounting officer must submit to mayor draft service delivery and budget implementation plan, and drafts of annual performance agreements for municipal manager and all senior managers.	Accounting officer	
53(1)(c)(ii)	Within 28 days after date annual budget approved (late June to late July)	Service delivery and budget implementation plan must be approved by mayor, including projections of revenues and expenses for each month, and service delivery targets and performance indicators for each quarter. (Note that though the mayor approves these targets and KPIs, only the council may change them and then only following the approval of an adjustments budget. See Section 54(1)(c)).	Mayor	-
53(1)(c)(iii)(aa) & (bb)	Within 28 days after date annual budget approved (late June to late July)	Mayor must take all reasonable steps to ensure that annual performance agreements for municipal managers and all senior managers are linked to measurable performance objectives approved with the budget and to the service delivery and budget implementation plan, and are concluded in accordance with Section 57(2)	Mayor	No date is specified for the completion of this requirement, but the logical inference is that the date should not be much later than the date on which the service

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
		of the Municipal Systems Act.		delivery and budget implementation plan must be approved. See Section 53(3)(b).
16(1)	30 June	Annual budget must be approved by council	Council	-
53(3)(a) and (b)	14 days after approval of service delivery and budget implementation plan (mid July to mid August, depending on date plan approved)	Projections of revenues and expenses for each month and service delivery targets for each quarter (as set out in approved service delivery and budget implementation plan), and performance agreements of municipal manager and senior manager must be made public, and copies of performance agreements must be submitted to council and MEC for local government.	Mayor	Although this is not specified as a requirement, logic dictates that copies of the service delivery and budget implementation plan should also be submitted to council and the MEC.

XHARIEP DISTRICT MUNICIPALITY

DRAFT CREDIT CONTROL AND DEBT COLLECTION POLICY

TABLE OF CONTENTS

1. BACKGROUND

Xhariep District Municipality was established after the local government elections held on the 05th December 2000. The District is new and initially formed part of Motheo District Municipality. Therefore, as a new municipality, Xhariep District has to put in place operational systems and policies. One such important policy is Credit Control and Debt Collection.

The White Paper on Local Government states that municipalities should raise 90 % of own revenue. This means that it is absolutely imperative that municipalities recuperate money owed to them so that they can be financially sustainable. This however, is within the ambit of the law such as the Municipal Systems Act for the district municipalities.

It has become imperative that the District develops its policies befitting its own circumstances and conditions within the relevant legislation.

Financing of District Municipalities

Financing of District Municipalities is regulated in terms of the Regional Services Councils Act, Act No. 109 of 1985 and the Provincial District Councils Act.

Section 12 (1) of this Act stipulates that a Council shall levy and claim from-

a) Every employer who employs or is deemed to employ employees within its region and each person carrying on or deemed to be carrying on enterprise within its region, a regional services levy;

b) Every person carrying on or deemed to be carrying on an enterprise within its region, a regional establishment levy

Section 12 (11) of this Act stipulates that a levy, or interest payable, shall be deemed to be a debt due to the Council and may be recovered by the Council by way of judicial process in a competent court.

Credit Control and Debt Collection

The Municipal Council must ensure that all money that is due and payable to the Municipality is collected, subject to the Municipal Systems Act. For this purpose the debt collection policy consistent with its tariff policy and complying with the provisions of the Municipal Systems Act.

The Municipal Council must adopt by-laws to give effect to its credit control and debt collection policy, its implementation and enforcement. By-laws may differentiate between different categories of taxpayers, customers, debtor's taxes, services, service standards and other matters.

2. PURPOSE OF THE POLICY

The purpose of this policy is to ensure that credit control and debt collection form part of the financial system of Xhariep District Municipality and to ensure that prudent credit control and debt collection procedures are applied consistently.

3. DELEGATION OF POWERS

This policy is applied with due observance of the Municipality's policy with regard to delegation of powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council, the Executive Mayor and the Municipal Manager.

4. RESPONSIBILITY FOR CREDIT CONTROL

4.1 Supervisory Authority

The Executive Mayor shall

4.1.1 Oversee and monitor:

a) the implementation and enforcement of the Municipality's credit control and debt collection policy ; and

b) the performance of the Municipal Manager in implementing the policy.

4.1.2 When necessary, evaluate, review or adapt the policy , in order to improve the efficiency of its credit control and debt collection mechanisms, processes and procedures, and

4.1.3 Report quarterly to Council.

4.2 Implementing Authority

4.2.1 The Municipal Manager shall

4.2.1.1 Implement and enforce the Municipality's credit control and debt collection policy in terms of the Municipal Systems Act (Act no 32 of 2000)

4.2.1.2 Establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the Municipality; and

4.2.1.3 Report the amount owed to the Municipality and actions to be taken to recover the debt.

4.3 Unsatisfactory levels of Indebtedness

LEVELS	***MONTHS***	***NOTICE***
1	***30 DAYS***	***First notice***
2	***60 DAYS***	***Second notice, Final notice***
3	***90+***	***Unsatisfactory***

4.3.1 The Municipal Manager shall take necessary steps and develop strategies to rectify the situation in consultation and the approval of the Executive Mayor.

5. CREDIT CONTROL PROCEDURES

All outstanding debts are payable within thirty (30) days.

5.1 Action after failure to pay

5.1.1 The municipality shall;

a) Send the first notice to the consumer to pay or make arrangements to pay off the arrears within 14 days or issue a notice as per the contract specification.

b) A second notice shall be sent to the defaulter when payment or arrangement has not been made within seven days after the due date of the first notice.

c) A final demand stating the due date of seven days after the second notice when the consumer fails to respond to (a) and (b) above.

5.1.2 If the defaulter fails to respond by the demand date to either pay the arrears amount, lodge an appeal or make arrangements to pay, the municipality shall institute legal action to recover the money owed.

5.1 Dishonoured Payments

5.1.1 Where any payment made to the Municipality is later dishonoured by the bank, the Municipality shall levy such costs and administration fees against an account of the defaulting debtor.

5.5 Interest on Arrears

a) Accounts in arrears shall accumulate interest rate of 2 % above the prime rate or as determined from time to time by the municipal council.

b) As soon as an agreement to repay arrears has been concluded the amount in arrears shall be raised in the debt book and no further interest shall be levied. As long as the agreement is honoured no further interest shall be added. In case of defaulting, the suspended amount shall be reversed and interest shall again be levied from date of default.

5.7 ***Legal Fees***

All legal costs, including attorney-and-own-client costs incurred in the recovery of amounts in arrears shall be levied against the arrears account of the debtor.

5. 8 ***Full and Final Settlement of an Amount***

5.8.1 Where the exact amount due and payable to the municipality has not been paid in full, any lesser amount tendered to and accepted by a municipal employee, except the Finance Manager and/or his/her fully authorised delegate, shall not be deemed to be in final settlement of such an amount.

5.8.2 The provision above shall prevail notwithstanding the fact that such lesser payment was tendered and/or accepted in full settlement.

5.9.2 The Finance Manager and/or his/her delegate shall consent to the acceptance of such a lesser amount in writing.

5.10 Arrangements to pay outstanding and due amount in consecutive instalments

5.10.1 A debtor shall enter into a written agreement with the municipality to repay any outstanding and due amount to the municipality under the following conditions:

a) the outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments not exceeding 12 months;

b) the current monthly amount is paid in full; and

c) The written agreement has to be signed on behalf of the municipality by a duly authorised officer.

5.10.2 Should any dispute arise as to the amount owing by an owner in respect of levies the owner shall, notwithstanding such dispute, proceed to make regular minimum payments based on the calculation of the average levies for the preceding three months prior to the arising of the dispute and taking into account interest as well as the annual amendments of tariffs of the municipality.

5.11 Appeals

5.11.1 A consumer has the right to lodge an appeal if not satisfied with his or her account;

5.11.2 An appeal must be submitted in writing to the Municipal Manager prior to the final due date for payment of the contested amount, and must contain details of the specific item(s) on the account which are subject for appeal, with full reasons.

5.11.3 Whilst the appeal is still in process;

a) The consumer shall, not withstanding such an appeal, proceed to make regular minimum payments based on the calculations of the average charges for the preceding three months prior to arising of the dispute and taking into account interest as well as the annual amendments of tariffs of the municipality

5.11.4 Adjudication of appeals

a) The Finance Manager shall investigate the appeal within 14 days of lodgement to establish the accuracy thereof;

b) The debtor shall be informed in writing of the results of the investigations or in a meeting with the Finance Manager;
c) The debtor shall be encouraged to meet with the Finance Manager or duly authorised authority to deal with the appeal.

6. EXTENSION FOR PAYMENT

6.1 Extension for payment shall be granted under the following conditions:

a) The consumer is not already in default;
b) The account has been paid for the previous three consecutive months
c) The extension is not more than 12 (twelve) months
d) Extension is not requested while there is another extension

6.2 The levy payer shall;

a) Write a letter requesting extension to the municipality

b) If granted, enter into an agreement with the municipality

c) The levy payer should use XDM standard forms or templates in order for the process to be uniform.

6.4 Continuous default

6.4.(a) If a debtor fails to comply with the terms of any agreement providing for an extension of time for payment, then the total of all amounts due including interest and cost, shall immediately become payable to the municipality and the municipality shall send notice to this effect without further notice to the debtor.

6.4. (b) If the levy payer fails to respond within five (5) working days to the notice in S6.4.(a) above, the municipality shall;

i. hand over the name of such levy payer to the attorneys of the municipality for collection;

ii. the levy payer shall be summoned to appear in court for non-payment of levies;

7. PERSONNEL AND FINANCIAL IMPLICATIONS

The Municipality shall

a) Appoint or establish a credit control section or unit with personnel for the implementation of this policy; or

b) Appoint an agent to act on its behalf

8. AGENTS, ATTORNEYS AND OTHER COLLECTION AGENTS

8.1 If the Municipality outsources the credit control function, it shall

a) Name all the external agents acting on its behalf, together with their details and contact information. All agents shall be supplied with a copy of the credit control and debt collection procedures.

b) Clear instructions to agents and other arrangements shall be explained for the consumers' benefit

c) Agents shall not negotiate terms, extend payment periods or accept cash on behalf of the municipality.

8.2 The costs to the municipality and to the debtor shall be detailed for each stage of the credit control measures and for all possible actions. The liability for the costs of legal action and other credit control actions shall as far as is legally possible be for the account of the debtor.

9. IMPLEMENTATION OF THIS POLICY

This policy shall be implemented once approved by council and all future Credit Control and Debt Collection procedures shall be implemented in accordance with this policy.