



STELLENBOSCH
STELLENBOSCH • PNIEL • FRANSCHHOEK

MUNICIPALITY • UMASIPALA • MUNISIPALITEIT

File no 3/4/3/5/2/1

2016-03-04

**NOTICE OF A FINANCE AND STRATEGIC AND
CORPORATE SERVICES COMMITTEE MEETING
TUESDAY: 2016-03-08 AT 15:00**

TO Councillor N Jindela [Portfolio: Financial Services]
Councillor MG Smuts [Portfolio: Strategic & Corporate Services]

Councillors A Crombie (Ms)
JSA Fourie
N Mananga-Gugushe (Ms)
WC Petersen (Ms)
LN Siwakamisa (Ms)
AT van der Walt
MM Wanana

Ex officio Executive Mayor, Alderman CJ Sidego

Notice is hereby given that a meeting of the above-mentioned Committee will be held in the Council Chamber, Town House, Plein Street, Stellenbosch on **Tuesday, 2016-03-08 at 15:00** to consider the attached agenda.

DEPUTY EXECUTIVE MAYOR, COUNCILLOR MG SMUTS
COUNCILLOR N JINDELA
CHAIRPERSONS

A G E N D A
FINANCE AND STRATEGIC AND CORPORATE SERVICES
COMMITTEE MEETING

2016-03-08

TABLE OF CONTENTS

ITEM	SUBJECT	PAGE
1.	APPLICATION FOR LEAVE OF ABSENCE	3
2.1	DECLARATION OF INTEREST	
2.2	COMMUNICATION BY THE CHAIRPERSON	3
3.	CONFIRMATION OF MINUTES	
3.1	CONFIRMATION OF THE MINUTES OF THE FINANCE AND STRATEGIC AND CORPORATE SERVICES COMMITTEE MEETING HELD ON 2016-02-08	3
4.	REPORT BY THE DIRECTOR(S) RE OUTSTANDING RESOLUTIONS TAKEN AT THE PREVIOUS MEETING HELD	3
5.	REPORTS FROM OFFICIALS: STRATEGIC AND CORPORATE SERVICES	4
5.1	NON-DELEGATED MATTERS	
5.1.1	MFMA SECTION 116(3) – PROPOSAL TO RENEW ALL ICT CONTRACTS ANNUALLY AT THE SOLE DISCRETION OF THE MUNICIPALITY FOR A THREE YEAR PERIOD, EFFECTIVE FROM 01 JULY 2016 JUNE 2019	4
5.2	DELEGATED MATTERS	
	NONE	5
6.	REPORTS FROM OFFICIALS: FINANCIAL SERVICES	7
6.1	NON-DELEGATED MATTERS	
6.1.1	IMPROVING MUNICIPAL FINANCES	7
6.1.2	PREFERENTIAL PROCUREMENT POLICY	
6.1.3	MFMA s116(3) AMENDMENT TO INSURANCE AGREEMENT	
6.2	DELEGATED MATTERS	11
6.2.1	MONTHLY FINANCIAL STATUTORY REPORTING: DEVIATIONS & RATIFICATIONS	11
6.2.2	QUARTERLY mSCOA PROJECT PROGRESS REPORT	
6.2.3	MONTHLY FINANCIAL STATUTORY REPORTING: SECTION 71	
6.2.4	DEBTOR MANAGEMENT	
6.2.5	FEEDBACK TO MOTION BY COUNCILLOR N AUGUST: IMPLEMENTATION OF CARD SYSTEM FOR FRANSCHHOEK AND PNIEL	
7.	NOTICES OF MOTIONS AND NOTICES OF QUESTIONS RECEIVED BY THE MUNICIPAL MANAGER	
	NONE	40
8.	CONSIDERATION OF MOTIONS OF EXIGENCY	
	NONE	40
9.	MATTERS TO BE CONSIDERED IN-COMMITTEE	
	NONE	40

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-02-09
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

1. APPLICATION FOR LEAVE OF ABSENCE (3/4/3/3)

2.1 DECLARATION OF INTEREST (3/6/2/2)

2.2 COMMUNICATION BY THE CHAIRPERSON (3/4/3/6)

3. CONFIRMATION OF THE MINUTES

3.1 MINUTES OF THE FINANCE AND STRATEGIC AND CORPORATE SERVICES COMMITTEE MEETING HELD ON 2016-02-09 (3/4/3/5/2/1)

The above-mentioned minutes were previously distributed.

FOR CONFIRMATION

4. REPORT FROM DIRECTOR(S) RE RESOLUTIONS TAKEN AT PREVIOUS COMMITTEE MEETINGS (3/4/3/5/2/1)

NONE

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Deputy Executive Mayor, MG Smuts]
[Portfolio: Strategic and Corporate Services]**

5. REPORTS FROM OFFICIALS: STRATEGIC AND CORPORATE SERVICES

5.1 NON-DELEGATED MATTERS

5.1.1 MFMA SECTION 116(3) – PROPOSAL TO RENEW ALL ICT CONTRACTS ANNUALLY AT THE SOLE DISCRETION OF THE MUNICIPALITY FOR A THREE YEAR PERIOD, EFFECTIVE FROM 01 JULY 2016 TO 30 JUNE 2019

File number : 13/6 x 6/4/1

Report by : Municipal Manager

Compiled by : Director: Strategic and Corporate Services

Delegated Authority : Council

Strategic intent of item

Preferred investment destination

Greenest municipality

Safest valley

Dignified Living

Good Governance

1. PURPOSE OF REPORT

The dynamic nature of Information and Communications Technology, as well as investments made in ICT related services and systems warrant a continuous re-assessment of such investments and system functionalities to ensure that value for money is achieved at all times.

The purpose of this report is to:

- a) Inform Council of the strategic intent of the Municipality to research and assess alternative ERP solutions to assimilate the functionalities of the various disparate legacy ICT systems within one Enterprise Resource Plan;
- b) Inform Council of the intent to renew all ICT contracts terminating on 30 June 2016, annually at the discretion of Supply Chain Management, for a period of three years effective from 01 July 2016 to 30 June 2019, to allow the Municipality sufficient time to do the necessary research and assessments to establish the anticipated Enterprise Solution Framework, and in doing so,

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Deputy Executive Mayor, MG Smuts]
[Portfolio: Strategic and Corporate Services]**

- c) Comply with the prescriptive provisions of Section 116(3) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) enabling local government institutions to amend contracts with service providers under certain conditions.

Provision is made in the Municipal Supply Chain Management Policy, clause 4.2.4 (b) “except where provided otherwise in these Regulations, does not apply in respect of the procurement of goods and services contemplated in section 110(2) of the Act, including:

- the acquisition of services of information and communication technology as well as financial systems and services”.

2. BACKGROUND

2.1. Disparate Business Application Systems

The annual payment of license fees and support fees to multiple service providers for legacy systems that are totally disparate in terms of systems architecture and integration requirements cannot continue indefinitely.

Data Integration between disparate Business Application Systems remains the single major organisational risk to be resolved by the ICT Department, but with the assistance of the various Departments making use of these systems in its daily operations and decision making processes:

- a) The complexities of such manual systems integration, increases the dependency on external service providers to assist with such integration efforts and mostly at the expense of the Municipality;
- b) Manual integration between different systems is very much dependant on the interpretation of individuals and without proper automated data validation rules, the integrity of the municipal data is always at risk;
- c) Manual integration provides management information based on historic data and there for inhibits decision making on **“information that is current at any given time and from anywhere.”**

A seamless and real-time integration between ICT Systems are in line with best practice in the ICT industry, as well as the strategic intent of National Government to encourage Local Government Institutions to establish a more cost effective and sustainable portfolio of ICT Business Applications Systems.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Deputy Executive Mayor, MG Smuts]
[Portfolio: Strategic and Corporate Services]**

2.2. Intent to Re-contract

It is the intent of the Municipality to consult with ICT service providers to enter into an Agreement with Stellenbosch Municipality, effective from 01 July 2016 till 30 June 2019, but under the following terms and conditions:

- a) Regardless of the effective date of this agreement and any of its Annexures, this Agreement will terminate not later than 30 June 2017;
- b) The Municipality, at its sole discretion will have the option to extend this Agreement for a subsequent periods of twelve months, for a maximum of two annual extensions effective from 01 July 2017 till 30 June 2018 and then again from 01 July 2018 till 30 June 2019;
- c) The term in respect of each Service Agreement and/or License Agreement shall be specified in each Agreement separately as applicable to that Agreement specifically and;
- d) Notwithstanding any term expressed in any Agreement or Annexure to such an Agreement (or as it may be renewed), shall not extend beyond the termination or cancellation of this Agreement.

The above terms and conditions will be included as an Addendum to all ICT Service Provider Contracts and Service Level Agreements effective from 01 July 2016.

3. DISCUSSION

3.1. Regulatory Requirements from National Treasury

Recent statements of direction from National Government implies a more strategic approach must be introduced by all local government entities to migrate its existing portfolio of legacy ICT services and systems to a business systems architecture that will enable improved data access and reporting capabilities to all stakeholders.

3.2. MFMA Circular 57 dated 20 October 2011

MFMA Circular 57 Issued by National Treasury states: *"It is imperative that municipalities operate effectively and utilise financial applications optimally to present credible information on a timely basis for internal and external use"*.

3.3. mSCOA Implications

The mSCOA project undertaken by National Treasury and supported by the outcomes of the Consolidated Auditor General Report (2009/2010) on local government include amongst others:

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Deputy Executive Mayor, MG Smuts]
[Portfolio: Strategic and Corporate Services]**

- a) Research and assessment into various financial applications and related software systems in use by municipalities.
- b) Minimal dependency on service providers, central coordination, guidance and specialist support offered in a cost-effective and efficient manner.
- c) That guidelines be issued on minimum standards for financial systems which would minimise excessive or duplicate systems, examine critical integrated ICT solutions to maximise capabilities and achieve cost effectiveness while addressing associated maintenance costs”

“It was observed that municipalities have in the past diluted the benefits of financial applications by choosing to implement certain ‘components’ or altering the application to meet their specific requirements or utilising an application that was not integrated with the Financial system”.

3.4. MFMA Compliance Requirements

The proposed amendment to the contract term with for the relevant Service Providers will be done in compliance the terms of the MFMA Act 56 of 2003, Section 116 (3), whereby:

“local government institutions may amend contracts with service providers under certain conditions, being:

- i. The reasons for the proposed amendment have been tabled in the council of the municipality, and*
- ii. The local community been given reasonable notice on the intention to amend the contract or agreement, and*
- iii. Has been invited to submit representations to the municipality.”*

3.5. ICT Alignment with Strategic Objectives

The ability of the ICT Department to remain constantly aligned with the strategic goals and objectives of the municipality as well as the statements of direction from National Government are inhibited by two major factors:

3.5.1. Legacy ICT Systems

Various business applications systems with similar functionalities are currently deployed in the Stellenbosch Municipality, **resulting in ongoing increases in, and payment of annual licensing fees and support fees without receiving any substansive value added services or functionalities as part of the existing Agreements.** Also, ongoing data integration between disparate business application systems results in increased complexities whilst attempting to maintain data integrity between systems.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Deputy Executive Mayor, MG Smuts]
[Portfolio: Strategic and Corporate Services]**

3.5.2. Multiple ICT Vendor Contracts

The day-to-day management of vendor service contracts remains a major challenge for all municipalities. Vendor contracts are usually very one-sided and do not properly mitigate the potential risks, legally or otherwise, to which municipalities might be exposed to during the term of such contracts.

3.5.3. Deployment of an ERP Solution in the Municipality

The building blocks to establish a long term and sustainable portfolio of ICT Systems and Services in the Stellenbosch Municipality, which will require very specific objectives and goals to be achieved:

Due to the complexities inherent to such an organisational transformation venture, a best practice methodology must be followed over the next three budget cycles, being, 2016/2017, 2017/2018 and 2018/2019, to deploy an ERP solution that will be operationally efficient and will be strategically aligned with the goals and objectives of the municipality as well as the statements of direction from National Government.

The best approach will be to develop a Business Architecture Framework and establish an ICT Business Systems Architecture Framework, collectively being an ERP Solution, that is highly flexible and sustainable over the medium to longer term.

Refer APPENDIX 1 to this submission.

4. LEGAL IMPLICATION

Input requested with due date: 04/03/2016. None received.

5. FINANCIAL IMPLICATION

The vendor contracts currently being considered to be amended to remain in effect for a period of three years are as indicated in the table below:

<u>Service Providers</u>	<u>Scope of Services</u>
Bytes Universal Systems	SAMRAS is the Core Financial System for the Stellenbosch Municipality.
Payday	HR Management and Payroll System for the Stellenbosch Municipality
Business Engineering	Data and Workflow System with Document Archiving Capabilities
Ignite	Strategic and Corporate Services - Performance and Compliance Management System

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Deputy Executive Mayor, MG Smuts]
[Portfolio: Strategic and Corporate Services]**

IMQS	Support and Information System to Manage and Report on Municipal infrastructure Assets
Avalon	Data Network Management and Support Services
ABC Holdings	Property Evaluation and Rates
Barnowl	Risk Management and Compliance System
CATS	Meter Reading System
Teammate	Audit Management system
ValuProp	Valuation System
GEODEBT System	Credit Control System
PBS	Multifunctional Printing Services

The ICT Budget for the next three years for the funding ICT related Services and Systems are as indicated in the schedule below:

Extract from ICT Budget: 2015/2016 to 2017/2018 and other Departmental Budgets				
VOTE NO.	COST ITEMS	2015/2016	2016/2017	2017/2018
1/ 9910/ 0927	SERVICE LEVEL AGREEMENTS	R 240 000	R 254 400	R 279 840
1/ 9910/ 0928	CONSULTING AND PLANNING FEES	R 250 000	R 280 000	R 308 000
1/ 9910 /0942	MSP IMPLEMENTATION	R162 860	R 172 640	R 189 904
1/ 9910/ 0946	ICT LICENCES:	R 4 500 000	R4 800 000	R5 280 000
	TOTAL BUDGET			R6 057 744

Note: The Budget for 2017/2018 has been calculated at an estimated increase of 10% per annum.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Deputy Executive Mayor, MG Smuts]
[Portfolio: Strategic and Corporate Services]**

The Financial implications to establish an ERP solution is currently unknown. However, it is most certain there will be trade-offs between the ERP investment costs and the savings to be realised from the consolidation of ICT Systems and Services under one Business Systems Architecture Framework.

6. COMMENTS FROM OTHER STAKEHOLDERS

Finance: Finance support the item – response emailed on 2/03/2016.

SCM: SCM support the item – response emailed on 2/03/2016.

6.1. National Treasury

This proposed approach by the Municipality to extent all contracts for ICT related services and systems from one year to three years are fully supported by National Treasury and also aligned with the strategic objectives of National Treasury:

“It is indeed our view that the intended route you are proposing is aligned with the strategic objective of mSCOA and specifically in light of the following pronouncements made at various forums:

It is the hope and view of Treasury that all service providers are fully compliant by one July 2017;

It is not the intention of Treasury to interfere with the municipality’s ICT choice or vendor relationships; and

We believe that critical evaluation of your business processes required by the mSCOA reform will illuminate duplication, redundancies as well as gaps in your systems environments;

We are extremely confident that most of the system vendors are compliant with minimum mSCOA compliancy i.e. (Budgeting and transacting across the segments of mSCOA and extracting and supplying data to LG database.) The reluctance to pronounce on the above is due to the accounting cycle and integration conditionality’s that emerged from the research we were conducting during the piloting.

I therefore fully support and applaud your current way forward and believe it is best practice even without mSCOA as a backdrop for this decision or intent.”

(Andre Bossert: Chief Directorate; Local Government Budget Analysis).

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Deputy Executive Mayor, MG Smuts]
[Portfolio: Strategic and Corporate Services]**

RECOMMENDED

- (a) that Council take note of this proposed amendment of all one year contractual agreements for ICT related systems and services, to be in effect for a period of three years at the sole discretion of Supply Chain Management, the reason being:
- (i) The strategic intent of the Stellenbosch Municipality to research and assess alternative ERP solutions over the next three financial years that will enable the Municipality to establish a Business Systems Architecture Framework and then to assimilate the functionalities of the various disparate legacy ICT systems within a single Enterprise Resource Plan.
- (b) that Council take note of the prescriptive provisions of Section 116(3) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) enabling local government institutions to amend contracts with service providers under certain conditions, being:
- i. The reasons for the proposed amendment have been tabled in the council of the municipality, and*
 - ii. the local community been given reasonable notice on the intention to amend the contract or agreement, and*
 - iii. has been invited to submit representations to the municipality.*
- (c) that Council take note of the special terms and conditions to be introduced for ICT related Agreements effective from 01 July 2015, to ensure full compliance to all regulatory compliance requirements:
- (i) Regardless of the effective date of this Agreement and any of its Annexures, this Agreement will terminate not later than **30 June 2017**;
 - (ii) The Municipality, at its sole discretion will have the option to extend this Main Agreement for a subsequent period of twelve months, for a maximum of two extensions effective from 01 July 2016.
 - (iii) The term in respect of each Service Annexure, and/or Service shall be specified in the Service Annexure and;
 - (iv) Notwithstanding any term expressed in any Service Annexure (or as it may be renewed), shall not extend beyond the termination or cancellation of this Main Agreement.

**(DIRECTOR: STRATEGIC AND
CORPORATE SERVICES TO ACTION)**

ITEM 5.1.1

APPENDICES 1-5

**MFMA SECTION 116(3) – PROPOSAL TO RENEW
ALL ICT CONTRACTS ANNUALLY AT THE
SOLE DISCRETION OF THE MUNICIPALITY
FOR A THREE YEAR PERIOD, EFFECTIVE
FROM 01 JULY 2016 TO 30 JUNE 2019**

**FINANCE AND STRATEGIC AND
CORPORATE SERVICES
MEETING: 2016-03-08**

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

6. REPORTS FROM OFFICIALS: FINANCIAL SERVICES

6.1 NON-DELEGATED MATTERS

6.1.1 IMPROVING MUNICIPAL FINANCES

File number : 8/1/Financial

Report by : Chief Financial Officer

Compiled by : Chief Financial Officer

Delegated authority : Council

Strategic intent of item:

Preferred investment destination

Greenest municipality

Safest valley

Dignified Living

Good Governance

1. PURPOSE OF REPORT

Previously Council resolved that a report must serve at Council how financial sustainability can be improved. Specifically the resolution required the following points for discussion:

- (i) increasing revenue from alternative and existing sources, which include social housing rental stock, historical properties as well as all other land holdings of the municipality;
- (ii) recommending financial savings through the effective use of office accommodation; and
- (iii) any other recommendations that the Administration deems fit to increase revenue and to improve financial efficiencies to ensure the financial viability of the organization

1. DISCUSSION

- (i) Increasing revenue from alternative and existing sources, which include social housing rental stock, historical properties as well as all other land holdings of the municipality;
- a) Currently the Municipality owned rental flats runs at a loss. The Directorate of Human Settlements recently substantially completed the interviewing of the occupants of the municipal properties. From this an "interim report on the audit of legal occupation of public rental municipal flats" served at the Council meeting of 27 January 2016.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

The report indicated that there are cases of transferred tenancy and alleged illegal occupancy. 23 cases were referred to the Legal department for action.

- b) It is clear that many tenants cannot afford the rentals, because of limited income. This situation is one of the reasons for escalating outstanding debt. The Director: Human Settlements & Property Management will submit an Item shortly which will recommend a lower rental tariff structure to support these cases which will improve the escalating debt situation.
- c) This reduced rental structure will put more pressure on the financial sustainability of the 607 municipal flats.
- d) Possible solutions could include:
 - Outsourcing the management of the flats
 - Move single elder occupants to single units and rent out larger units at higher rates
 - Test the market for developers who might be interested to manage the flats for the exchange to obtain the rights to build another flat on municipal property to let at market related rates to cross-subsidise the current municipal social service delivery of providing housing at a financial loss.
- e) Stellenbosch Municipality is fortunate to own historical rich properties like the Voorgelegen and Rhenish complex and the Dorp street flats. However, these properties are expensive to maintain and it is debatable if these properties are optimally utilised to the wider benefit of the community. Finance proposes for the market to be tested for developers' proposals to enhance the use of these properties on terms set by Council.
- f) The revision of the Integrated Zoning Scheme will promote densification and increase revenue sources and improve the effective use of municipal infrastructure
- g) The airfield can be extended to enhance the pillar of "Preferred investment destination" and cater for private jets as well.
- h) Catalytic projects to the Transit Orientated Development on Municipal property which will promote integration; densification; the use of non-motorised transport and the effective use of infrastructure
- i) Synergies with District Municipal property like to the Fire Station
- j) Forestry and associated potential can be explored
- k) Synergies of sport facilities with the university's facilities can be explored where Stellenbosch is a popular sport destination
- l) The management of the Town Hall can be outsourced to improve revenue
- m) The Immovable Property Policy should be considered
- n) Project managers have been identified to support various property development projects.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

(i) Recommending financial savings through the effective use of office accommodation

- a) It is debatable if the current use for office space (both owned and rented) is optimal. It must be noted that converting the owned property will not provide all the required office space. It is also not always practical due to the historical nature of the owned property and conversions are also costly.
- b) It is therefore possible that a private developer may develop an office building that is fit for purpose and improve customer interface and experience more cost effectively. Finance proposes for the market to be tested for developers' proposal to develop municipal offices and lease back to Council for a number of years on terms set by Council.

(ii) Any other recommendations that the Administration deems fit to increase revenue and to improve financial efficiencies to ensure the financial viability of the organization.

- a) Various ongoing initiatives are taking place to improve efficiencies
- b) The new Policy on Development Charges will increase the revenue
- c) The new valuation roll which will come into effect 1 July 2017 should improve revenue
- d) GIS was implemented and the Billing Viewer links accounting data spatially with erven. This should provide the administration with visual analyses of revenue anomalies
- e) A service provider will be procured to project manage Revenue Enhancement
- f) New CATS meter readers were procured which can take photographs where access could not be obtained or where building work is in progress. This can be linked per GIS and compared to accounting data and Building Plan approvals which can improve revenue from interim valuations
- g) Implement subsidy housing projects through Turnkey Developers to mitigate implementation risks
- h) On 2 March there was a presentation by Province about Fleet Management which might provide a part solution to fleet management
- i) A project manager is identified to support the fleet management function
- j) A project manager is identified to support organization alignment

RECOMMENDED

that the report, be noted.

(CHIEF FINANCIAL OFFICER TO ACTION)

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

6.1.2 PREFERENTIAL PROCUREMENT POLICY

File number : 6/4/3
Report by : Chief Financial Officer
Compiled by : Chief Financial Officer
Delegated authority : Council

Strategic intent of item:

Preferred investment destination	<input type="checkbox"/>
Greenest municipality	<input type="checkbox"/>
Safest valley	<input type="checkbox"/>
Dignified Living	<input type="checkbox"/>
Good Governance	<input checked="" type="checkbox"/>

1. PURPOSE OF REPORT

1.1 To inform Council of a draft Preferential Procurement Policy.

2. DISCUSSION

The draft policy will form part of the Draft Budget Related policies for public comment to serve before Council in April and for Council's final approval at the Council meeting at the end of May 2016.

RECOMMENDED

that Council note this report.

(CHIEF FINANCIAL OFFICER TO ACTION)

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

6.1.3 MFMA s116(3) AMENDMENT TO INSURANCE AGREEMENT

File number : 8/1/Financial
Compiled by : Manager: Treasury Office
Report by : Chief Financial Officer
Delegated Authority : Council

Strategic intent of item

Preferred investment destination	<input type="checkbox"/>
Greenest municipality	<input type="checkbox"/>
Safest valley	<input type="checkbox"/>
Dignified Living	<input type="checkbox"/>
Good Governance	<input checked="" type="checkbox"/>

1. PURPOSE OF REPORT

To obtain approval from council to follow the process stipulated in Section 116(3) of the MFMA in order to amend the short term insurance agreement and extend it by a period of two years.

2. BACKGROUND

During the previous financial year of 2014/15 a tender process as stipulated by SCM processes was followed in order to obtain the most advantageous short term insurance for the municipality.

Three bids were received and after a thorough evaluation, the short term insurance tender was awarded to AON for the period 1 July 2015 – 30 June 2016.

3. DISCUSSION

As the short term insurance agreement with AON expires on 30 June 2016, it has become necessary to commence with a new process with the view of ensuring that Council assets are sufficiently ensured as of 1 July 2016.

When conducting initial research in this regard, it became apparent that the claims lodged with AON are already at 159% of the total premiums paid for the financial year.

Claims history of the previous three years is one of the major factors considered by insurance companies when calculating and quoting new premiums and excess payments.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

It stands to reason then that the relatively poor claims history of the municipality during the current financial year will have a substantial effect on premiums and excess payments for the next financial year which will be to the detriment of the municipality.

Section 116(3) of the MFMA reads as follows:

“A contract or agreement procured through the SCM policy of the municipality may be amended by the parties but only after:

1. the reasons for the proposed amendment have been tabled in council of the municipality or in the case of a municipal entity in the council of the of its parent municipality AND

2. the local community (a) has been given reasonable notice of the intention to amend the contract or agreement AND

(b) has been invited to submit representations to the municipality or municipal entity“

Legislation allows for the insurance agreement with AON to be amended and given the circumstances, it is believed that it would be the most advantageous for council to adopt this approach rather than going out on tender and having to pay significantly higher premiums and excesses.

When the market was tested during the previous competitive bidding process, AON premiums were found to be significantly lower than its competitors. Premiums quoted were as follows for 2015/16:

TENDERER	PRICE
AON	R2 974 021
INDWE	R3 863 829
MARSH	R3 596 612

By amending the current agreement and extending it by a period of two years, the municipality would ensure that its insurance premiums remain competitive and as low as possible.

Excess payments in the event of claims as quoted by AON were also the lowest amongst the three bidders.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

4. LEGAL IMPLICATION

Section 116(3) of the MFMA allows for contracts or agreements to be amended, provided the stipulated process is followed.

5. FINANCIAL IMPLICATION

Amending the insurance agreement will in all likelihood ensure substantial savings for the municipality as the recent claims history will significantly impact on premiums when new tenders are obtained for the 2016/17 financial year.

Extending the agreement by a further two years will also ensure a continuous relationship between the municipality and its broker as well as lower premiums over the long run. It is a known fact that insurance companies quote lower premiums for longer term appointments.

6. COMMENTS FROM OTHER RELEVANT DEPARTMENTS

Not requested.

7. CONCLUSION

Amending the existing short term insurance agreement with AON for a further period of two years is provided for by legislation and all indications are that it would be the most beneficial route for the municipality to follow in ensuring prudent financial management.

RECOMMENDED

that council note that the short-term insurance agreement with AON Insurance Brokers be amended and extended for a further period of two years ending on 30 June 2018 after duly following the process as stipulated in Section 116(3) of the MFMA.

(CHIEF FINANCIAL OFFICER TO ACTION)

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

6.2 DELEGATED MATTERS

6.2.1 MONTHLY FINANCIAL STATUTORY REPORTING: DEVIATIONS & RATIFICATIONS

File number : *8/1/Financial*
Report by : *Chief Financial Officer*
Compiled by : *Chief Financial Officer*
Delegated authority : *Finance & Strategic Standing Committee*

Strategic intent of item:

Preferred investment destination	<input checked="" type="checkbox"/>
Greenest municipality	<input type="checkbox"/>
Safest valley	<input type="checkbox"/>
Dignified Living	<input type="checkbox"/>
Good Governance	<input checked="" type="checkbox"/>

1. PURPOSE OF REPORT

1.1 To comply with Regulation 36(2) of the Municipal Supply Chain Management Regulations and Section 4.36.2 of the Supply Chain Management Policy 2015/2016, by reporting the deviations and ratifications for the month of February 2016.

2. DISCUSSION

2.1 To comply with Regulation 36(2) of the Municipal Supply Chain Management Regulations and Section 4.36.2 of the Supply Chain Management Policy 2015/2016, by reporting that there were no deviations or ratification for the month of February 2016.

RECOMMENDED

that the monthly financial statutory reporting, be noted.

(CHIEF FINANCIAL OFFICER TO ACTION)

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

6.2.2 QUARTERLY mSCOA PROJECT PROGRESS REPORT

File number : 5/5/5
Compiled by : Chief Financial Officer
Report by : Chief Financial Officer
Delegated Authority : Finance & Strategic Standing Committee

Strategic intent of item

Preferred investment destination	<input type="checkbox"/>
Greenest municipality	<input type="checkbox"/>
Safest valley	<input type="checkbox"/>
Dignified Living	<input type="checkbox"/>
Good Governance	<input checked="" type="checkbox"/>

3. PURPOSE OF REPORT

As stated in previous reports to Council, the strategic municipal Business reform (Municipal Regulations on a Standard Chart of Accounts) will have substantial operational and institutional implications for all municipalities leading up to 1 July 2017 (mSCOA implementation date).

The purpose of this submission to Council is to:

- 1) Inform Council on specific initiatives to date by National Treasury and Western Cape Provincial Treasury and other Stakeholders to promote an on-going awareness of the mSCOA project Implementation as applicable to all municipalities and Municipal Entities;
- 2) Maintain an on-going awareness of the mSCOA initiative in the Stellenbosch Municipality;
- 3) Report to Council on progress made to date with the implementation of mSCOA at the Stellenbosch Municipality.

4. LEGISLATIVE AND REGULATORY FRAMEWORKS

The statutory and regulatory frameworks as submitted in previous progress reports to Council are further supplemented by the additional Circular 3 and documentation from National Treasury published since the previous Progress report to council.

NT Circular 3

This NT Circular 3 is the third in a series of mSCOA circulars that Municipalities can use to assess whether they are on track in achieving mSCOA implementation and compliance by 01 July 2017.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

This NT Circular 3 once again clearly states that: “**mSCOA is a business reform** and requires a significant change in municipal business processes” It further states that:

- *“mSCOA implementation involves system conversion and/ or re-implementation with all the typical risks associated with any system conversion or implementation. Implementing mSCOA therefore requires organisational change across the municipality since not only financial and budget orientated practitioners are involved. A common misconception among municipalities and other stakeholders relates to the fact that the mSCOA Regulation is perceived to be a finance reform only, an extremely dangerous assumption.”*

NT Circular 57 as Revised

NT Circular 57 was initially published on 20 October 2011 in anticipation of the mSCOA Implementation in Local Government. This initial Circular 57 placed much emphasis on the need for all financial business processes to be reviewed and redesigned as may be applicable, to be aligned with the planned mSCOA Implementation:

“Service delivery is a by-product of effective, efficient and economical processes that are informed by strategic direction, resource planning and implementation. Furthermore, a municipality with poorly designed business processes will not resolve the problem by implementing a new (financial) system”

- This also clearly puts the focus on mSCOA as a **Business Reform Initiative** and not only a Financial Systems conversion.

Municipalities are waiting in anticipation for the revised NT Circular 57 for guidance on systems.

NT Transversal Agreement

Still await publication by NT. It is foreseen that these agreements will make system procurement easier for municipalities.

3. BACKGROUND

The required governance and management structures and forums in the Stellenbosch municipality, as well as the existing mSCOA Project Implementation Plan are fully operational and in compliance to the requirements as specified in National Treasury Circulars 1 and 2 and as submitted to Council with the previous mSCOA Progress reported in November 2015.

A copy of the mSCOA Project Implementation Plan for the Stellenbosch municipality will also be submitted to NT and the WCPT on a quarterly basis for them to ensure that the Stellenbosch municipality remains in full compliance and on track at all times leading up to 01 July 2017.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

4. DISCUSSIONS

4.1 mSCOA Design Specifications

The mSCOA systems design remains highly complex and the specifications are continuously adapted by National Treasury resulting from forum discussions and new insights gained during the mSCOA project implementation process.

The latest changes being the mSCOA Release 5.4 which was made public on 27 November 2015. Further changes to the mSCOA design specifications are still forthcoming which will again require a review of the mSCOA design formats and structures already implemented. The risks associated with such on-going changes by National Treasury also remain high.

4.2 mSCOA Project Implementation Plan

The mSCOA Project Implementation Plan is fully aligned with the latest requirements emanating from the National Treasury Circulars 1 and 2. This Project Implementation Plan will remain subject to continuous change pending further directives from National Treasury after 3rd Quarter 2015/2016.

4.3 mSCOA Risk Register

The mSCOA Risk Register is also monitored by the mSCOA Core Team as part of the mSCOA Project progress.

Two mSCOA risks are mentioned for specific notification by Council:

1. mSCOA Training is not progressing as initially planned by NT and might negatively impact of the successful participation of all senior management in the mSCOA implementation project. This matter remains on the agenda with WCPT to be resolved as matter of urgency;
- 2.1) Synergy and alignment of the Political Leadership in local government with the mSCOA implementation strategies as prescribed by National Treasury. At a Financial Working Group Meeting held on 10th February 2016 and hosted by NT and SALGA, it was resolved that SALGA will be tasked to ensure that:
- 2.2) The objectives, implementation and benefits of the mSCOA Reform in future be discussed with Councillors;
- 2.3) SALGA to arrange mSCOA training for Councillors and ,
- 2.4) NT to share the link of the presentation made on the Dummy Budget during the working group session, for Councillors to easily understand the mSCOA presentation.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

4.4 mSCOA Engagements with National Treasury and SALGA

Going forward with the mSCOA implementation in Local Government, the oversight role, previously performed by National Treasury, has now been delegated to Provincial Treasury in the Western Cape with the specific objectives to:

- 1) Assess the mSCOA readiness of all the non-piloting municipalities on an ongoing basis;
- 2) Provide guidance to non-piloting municipalities and system vendors as the design specifications may be amended from time to time;
- 3) To facilitate all mSCOA Training Initiatives for all municipalities and municipal entities.

4.5 Progress with the mSCOA Project Implementation since Previous Report to Council

Since the previous report submitted to Council in November 2015, much has been achieved to establish a sound basis to continue with the mSCOA implementation leading up to 01 July 2017:

- 1) The mSCOA Project plan has been revised and it is now fully aligned with all directives from NT and converged with the mSCOA project plan provided by the Vendor;
- 2) The mSCOA critical milestones and associated due dates in the mSCOA Project Implementation Plan been identified and summarised in the mSCOA Macro Project Plan;
- 3) An mSCOA test environment has been established and is fully functional and operational, enabling automated conversions between the existing vote structures and the mSCOA segmentation requirements;
- 4) Workshops with all budget owners are in progress to restructure and align the municipal budget with all the 7 x mSCOA Segments. These workshops to be finalised by end March 2016;
- 5) A due diligence has been done on all the ICT Infrastructures Services and System and it was found to be fully compliant with all the minimum mSCOA Systems implementation requirements.

5. CONCLUSION

- 5.1. Leading up to 01 July 2017, it must always be kept in mind that mSCOA is a **Business reform initiative promulgated by Parliament** of which National Treasury is the overall custodian;

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

- 5.2. Leading up to 01 July 2017, **mSCOA will require strong leadership from all political and executive leadership** as well as management at all levels in the municipality, and there for, mSCOA must remain a strategic item on all management agendas for the duration of the mSCOA Implementation project;
- 5.3. **Continued changes to the design specifications** of mSCOA by National Treasury increase the complexity of the mSCOA. The migration of our current financial system to be mSCOA compliant will remain a challenging and learning process for all officials in the municipality;
- 5.4. **The planning for the initial mSCOA budget for 2017/2018** will still commence this year in September 2016, for completion by March 2017.

RECOMMENDED

that the quarterly mSCOA Project progress report, be noted

(CHIEF FINANCIAL OFFICER TO ACTION)

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

6.2.3 MONTHLY FINANCIAL STATUTORY REPORTING: SECTION 71

File number : 8/1/Financial
Report by : Chief Financial Officer
Compiled by : Chief Financial Officer
Delegated authority : Finance & Strategic Standing Committee

Strategic intent of item:

Preferred investment destination	<input checked="" type="checkbox"/>
Greenest municipality	<input type="checkbox"/>
Safest valley	<input type="checkbox"/>
Dignified Living	<input type="checkbox"/>
Good Governance	<input checked="" type="checkbox"/>

1. PURPOSE OF REPORT

1.1 To comply with the requirements of Section 71 of the Municipal Finance Management Act Nr.56 of 2003, by reporting on the state of the Municipality's budget.

2. DISCUSSION

2.1 The Monthly Budget Monitoring Report for 01 January 2016 until 31 January 2016 is attached as **APPENDIX 1**.

RECOMMENDED

that the Monthly Budget Monitoring Report, be noted.

(CHIEF FINANCIAL OFFICER TO ACTION)

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

6.2.4 DEBTOR MANAGEMENT

File number : *8/1/Financial*
Report by : *Chief Financial Officer*
Compiled by : *Chief Financial Officer*
Delegated authority : *Finance & Strategic Standing Committee*

Strategic intent of item:

Preferred investment destination	<input checked="" type="checkbox"/>
Greenest municipality	<input type="checkbox"/>
Safest valley	<input type="checkbox"/>
Dignified Living	<input type="checkbox"/>
Good Governance	<input checked="" type="checkbox"/>

1. PURPOSE OF REPORT

To provide comment on debtor management and to provide information regarding the current processes which are followed by the Credit Control and Debt Collection Section, and more specifically the processes after a final demand has been issued, still without any response from the debtor for notification.

3. DISCUSSION

With reference to the SCA letter (Motion of Exigency) dated 20 February 2016 by Clr Hendrickse, "...why the administration has gone to the extreme action to obtain a court order for the sale of execution of the property Erf 3291..."

It must be put on record that no court order for a sale of execution for Erf 3291 was obtained nor requested.

Default Judgment was granted against the debtor pursuant to the Summons which was not defended. We accordingly proceeded with the issuing of a Warrant of Execution.

Please refer to the information below regarding the current processes which are followed by the Credit Control and Debt Collection Section, and more specifically the processes after a final demand has been issued, still without any response from the debtor.

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

3. BACKGROUND

With reference to Council's Credit Control and Debt Collection Policy, the following communication steps and control measures are in place to liaise with the debtor regarding any outstanding account:

1. Notes on accounts to explain the steps Council will follow whether a debtor is in default
2. First Notices via post and/or e-mail and/or cell phone text messages (SMS) to inform debtor of any outstanding debt directly after the due date. Please note, notices are sent each month notwithstanding the fact that accounts are in arrears for more than one month.
3. Notices of Council's intention to follow the steps for disconnection or restriction of services, 14 days after first notices have been issued
4. Notices of informing the debtor of actual Disconnection or restriction, (one to two days before the action for disconnection/restriction)
5. Final Demands or Notices send quarterly to request payment within 14 days from date of final demands/notices and to avoid legal action
6. Should the debtor's account still be in arrears after the 14 days period, the necessary legal steps will be followed to recover the outstanding debt
7. The Debtor's account will be handed over to the legal team in the Credit Control and Debt Collection Section who will execute the following steps :

7.1 Section 129 Letter of Demand

A Section 129 Letter of Demand will be issued via registered mail and the debtor has 14 days to reply;

7.2 Summons:

If no reply or no payment has been received by the Municipality within the prescribed time period, a Simple Summons will be issued.

A debtor has 10 days from date of the service of Summons to, either file Notice of Intention to Defend, pay the amount as set out in the Summons, or make any arrangement to settle the account

If debtor filed a Notice of Intention to Defend, the following steps will follow:

1. The Municipality has to serve a Declaration on the Debtor within 20 working days from date of service of Notice of Intention to Defend;

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

2. The Debtor has to serve a Plea on the Municipality within 20 working days from date of service of Declaration;
3. If debtor is not to serve a Plea within 20 days, the Municipality has to serve a Notice of Bar;
4. The Debtor then has 5 days to serve a Plea;
5. If no Plea has been filed within the five days, the Municipality will proceed with Default Judgment
6. If debtor neither pays the amount claimed nor serves Notice of Intention to Defend, the Municipality may also proceed with Default Judgement.

7.3 Default Judgement

1. The Municipality will now proceed with the issuing of a Request for Default Judgment together with a Warrant of Execution;
2. If the Default Judgment and Warrant of Execution is granted by court, the sheriff is instructed to serve Default Judgment together with Warrant of Execution on Debtor;
3. The Sheriff is to return with either an Inventory of all executable goods attached or with a Nula Bona return;
4. The Municipality is then to decide whether to proceed with the Sale of Execution of movable goods attached, to hold a Section 65 Financial Enquiry or to proceed with Sale of Execution of immovable property;
5. If Default Judgment is granted by the Court, the Judgment Debt will be secured for 30 years.

It is important to emphasise that the Municipality will not proceed with any Sale in Execution for movable goods or immovable property, without prior approval from Council.

The legal team has since July 2014 issued 1997 Section 129 letters, 1142 summonses and 290 Request for Default Judgments. A total of 215 arrangements have been concluded while an amount of more than Ten Million Rand has been recovered.

A risk that remains with debt management relates specifically to the quality of water consumption which is not affordable for the consumer. To mitigate this risk the Municipality commenced with the installation of Water Management Devices. The Water Management Device limits the daily water available and therefore protects the consumer from escalating debt. These devices will be installed through a pilot project; pipe replacement program as well as the new subsidy housing projects.

RECOMMENDED

that the debt management report ,be noted

(CHIEF FINANCIAL OFFICER TO ACTION)

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

**6.2.5 FEEDBACK TO MOTION BY COUNCILLOR N AUGUST:
IMPLEMENTATION OF CARD SYSTEM FOR FRANSCHHOEK AND
PNIEL**

File number : 8/3/4/1/4/1
Report by : Chief Financial Officer
Compiled by : Chief Financial Officer
Delegated authority : Council

Strategic intent of item:

Preferred investment destination	<input type="checkbox"/>
Greenest municipality	<input type="checkbox"/>
Safest valley	<input type="checkbox"/>
Dignified Living	<input type="checkbox"/>
Good Governance	<input checked="" type="checkbox"/>

1. PURPOSE OF REPORT

1.1 To give feedback to the Motion of Clr NM August derived from Council meeting of 25 August 2015.

2. BACKGROUND

A Notice of a Motion, dated 2015-06-15 was received from Councillor NM August regarding the implementation of a card system for Franschhoek and Pniel office.

3. LEGAL IMPLICATION

Not required

4. FINANCIAL IMPLICATION

Due to the minimum operation in Pniel at the cash office it will not be feasible to install a card system. In Franschhoek at hand are a few other pay points e.g. PnP, ABSA, FNB, Post Office, to name a few. It will not be financially feasible for this institution to install debit or credit card facilities at both administration offices as the cost that we will incur will be much higher than as at the main office in Stellenbosch.

RECOMMENDED

that the feedback report, be noted.

(CHIEF FINANCIAL OFFICER TO ACTION)

**AGENDA FINANCE AND STRATEGIC AND CORPORATE SERVICES 2016-03-08
COMMITTEE MEETING**

**Chairperson: Councillor, N Jindela]
[Portfolio: Financial Services]**

**7. NOTICES OF MOTIONS AND NOTICES OF QUESTIONS RECEIVED BY
THE MUNICIPAL MANAGER**

NONE

8. CONSIDERATION OF MOTIONS OF EXIGENCY

NONE

9. MATTERS TO BE CONSIDERED IN-COMMITTEE

NONE