

# 2024-2025 CONTRACT MANAGEMENT POLICY

ORIGINAL COUNCIL APPROVAL	
DATE COUNCIL APPROVAL THE POLICY	31/05/2023
COUNCIL RESOLUTION NUMBER	158/05/2023
EFFECTIVE DATE OF IMPLEMENTATION	1 July 2024

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## 1. TERMS AND DEFINITIONS

Regulatory Legislation and Framework for Managing Contract	<ul style="list-style-type: none"> <li>Section 217 of the constitution</li> <li>Section 33 and Section 116 Municipal Finance Management Act,</li> <li>Supply Chain Management Policy (applies all contract procured through supply chain management system)</li> </ul>
Accounting Officer	<ul style="list-style-type: none"> <li>Means the municipal official referred to in section 60 of the MFMA (2003)</li> </ul>
Chief Financial Officer	<ul style="list-style-type: none"> <li>Is a senior manager directly accountable to the accounting officer, His duties relate to effective financial management, sound budgeting and budgetary control practises and timely produce financial report as prescribed in MFMA and the annual Division of Revenue</li> </ul>
Contract Manager	<ul style="list-style-type: none"> <li>Oversee the day-to day management of the contract or agreement as set out in Section 116 of the MFMA</li> </ul>
Legal Advisor	<ul style="list-style-type: none"> <li>A lawyer employed by the municipality to provide legal advice.</li> </ul>
Users/User Department	<ul style="list-style-type: none"> <li>All officials as set out in the municipality involved with contracts</li> </ul>
Supply Chain Management (SCM)	<ul style="list-style-type: none"> <li>Supply Chain Management encompasses management of: demand, acquisition, logistics, disposal, and supply chain performance</li> <li>Unit Supply Chain Management Units in any government institution referred to in Treasury Regulation 16A4.1</li> </ul>
Stakeholder	<ul style="list-style-type: none"> <li>Any other stakeholder to a contract. Note that some contracts do not involve suppliers or buyers.</li> </ul>
Service Provider	<ul style="list-style-type: none"> <li>The individual or organisation providing goods or services to the government institution (opposite of buyer)</li> </ul>
Contract	<ul style="list-style-type: none"> <li>Agreement (explicit or implied) legally binding two or more parties to the terms of the agreement.</li> </ul>
Service Level Agreement (SLA)	<ul style="list-style-type: none"> <li>Is a commitment between a service provider and the municipality, detailing the aspects of the service, the nature, budget, timelines and role players' responsibilities, penalties etc.</li> </ul>
Contract Alteration	<ul style="list-style-type: none"> <li>Changing technical writing or input errors to the agreement of the contract without changing the scope of contract</li> </ul>
Contract Amendment	<ul style="list-style-type: none"> <li>Changing the scope, nature, duration, purpose or objective of the agreement or contract (In context of Circular 62 and section 116 (3) of the MFMA).</li> </ul>

Contract Extension	<ul style="list-style-type: none"> <li>The municipality may decide to increase the term of a contract mutually agreed upon in writing, but not for longer than six months in terms of Treasury Regulations.</li> </ul>
Contract Renewal	<ul style="list-style-type: none"> <li>To allow a contract to continue for a defined period if the existing contract provides for a renewal period after the termination date.</li> </ul>
Closeout	<ul style="list-style-type: none"> <li>When a contract is considered complete and the service provider has complied with all terms and condition of the contract, and delivered as promised.</li> </ul>



## 2. PURPOSE

To define the parameters and set out a clear basis for the creation, application process and procedures that should result in effective and value- adding procedures within the municipality in accordance with prescribed legislation, financial and ethical requirements.

The policy will assist to properly deliver the required outputs with clarity, effectiveness, accountability and enable standard application of the required processes resulting in accuracy and consistency in decision-making.

The intention is to establish sound and consistent contract management practices and activities within the municipality.

## 3. OBJECTIVES

3.1. To ensure compliance with section 217 (1) of the Constitution which states that “when an organ of state in the National, Provincial or Local Sphere of Government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which fair, equitable, transparent, competitive and cost-effective.

3.2. To ensure effective and efficient procurement of contract through the Supply Chain Management system

- Contract specifications reviews, proper recording and enforcement of contracts throughout the contract life cycle

3.3. Support the demand management framework, optimizing proper planning, resulting in effective service delivery.

- Contract acquisitions
- Contract management and performance
- Compliance with legislation and regulatory framework
- To assist officials in understanding their legal and managerial responsibilities with regards to contract management
- Continuous development of effective management of information systems, resulting in strategic support and risk preventions

## 4. SCOPE

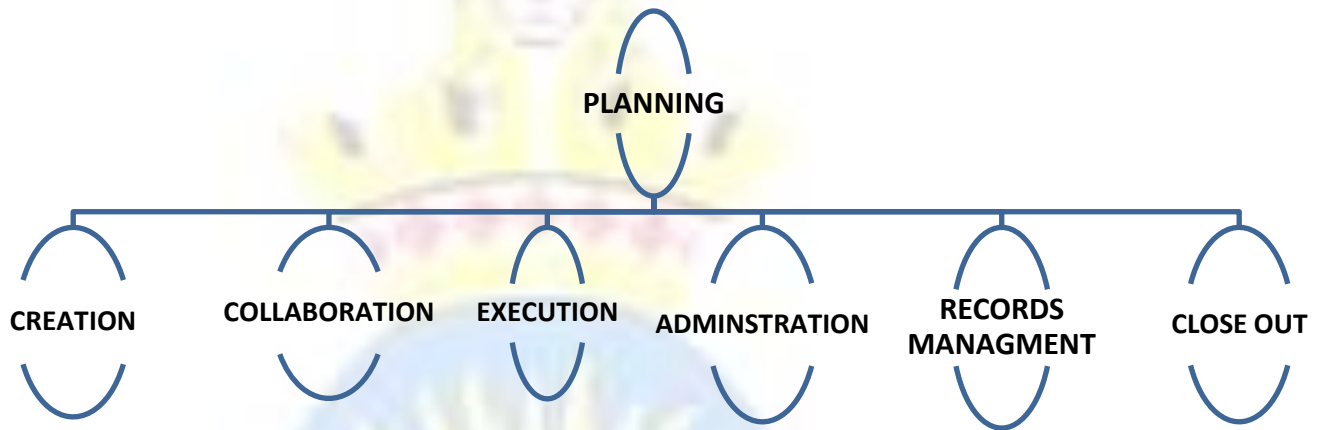
All contracts and other documents e.g. memorandum of understating which create legally binding obligations to the municipality including, but not limited to, supply chain and procurement contracts.

## 5. EXCLUSIONS

Employment contracts and Non-binding memoranda of understanding

## 6. CONTRACT LIFE CYCLE

THE FOLLOWING DEPICTS THE CONTRACT LIFE CYCLE



### 6.1. PLANNING

#### IDENTIFICATION, BUDGETING

- 6.1.1. Projects to be implemented should be identified from the Integrated Development Plan (IDP), sourced from the community and prioritised by the municipality according to availability of funds.
- 6.1.2. Prioriti-sed and identified project in the Integrated Development Plan must be linked the budget and the strategic objectives of the municipality.
- 6.1.3. Council must approve the Integrated Development Plan.
- 6.1.4. The user department must ensure that projects emanating from the approved Integrated Development Plan have an operational plan (procurement plans) and must be linked to the Service Delivery and Budget Implementation Plan (SDBIP).
- 6.1.5. Contract Manager in consultation with the Supply Chain Management Unit must ensure that contracts are procured through supply chain management system.

## **CLASSIFICATION OF CONTRACT**

- 6.1.6. To facilitate good contract management, it is useful to classify contracts or groups of contracts according to the level of management intervention required. Such a classification system should consider: -
- Contract type or nature
  - Strategic importance of the goods and services being purchased
  - Contract value
  - Contract duration and
  - Contract complexity
- 6.1.7. Each contract and / or each group of contracts should be listed by classification in a Contracts Inventory.

## **6.2. CREATION**

### **DOCUMENTATION AND INFORMATION MANAGEMENT**

- 6.2.1. Supply Chain Management section must timeously inform the Contract Manager of any tender awarded for contractual procurement of goods and services.
- 6.2.2. Contract manager must update the contract register with awarded contracts.
- 6.2.3. Contract Management and Legal Advisor must ensure that appropriate and relevant information are documented in line with the tender specifications, the terms and condition of the contract must be approved by the User Department.
- 6.2.4. The Municipal Manager and Service Provider must sign the appointment letter and the service level agreement at the same time before commencement of the project.

## **6.3. COLLABORATION**

### **RECOGNITION, MEASUREMENT AND DISCLOSURE**

- 6.3.1. The service level agreement must be drafted by the User Department as the implementer, Contract Manager as the evaluation and monitoring agent and Legal Advisor for legal opinion.
- 6.3.2. The concluded service level agreement must be submitted to the Legal Advisor to discuss the terms and condition of the contract, expected deliverables amongst others with the appointed contractor.

## 6.4. EXECUTION

### RELATIONSHIP MANAGEMENT

- 6.4.1. The Municipal Manager and Service Provider must enter into a contract by signing the service level agreements, witnessed by the Legal Advisor, Contract Manager and the User Department.
- 6.4.2. The contract will only be enforceable after all the signatures of the relevant parties are documented; the signatories (Municipal Manager and the appointed Service Provider) must sign, date and initial all pages of the service level agreement.
- 6.4.3. Effective contract management relies on good communication based on mutual respect, trust, understanding, hopelessness and accountability.
  - Keep the relationship between the municipality and the supplier open and constructive, resolving or easing tension and identifying issues early.

### RESOLUTION OF DISPUTES, OBJECTIONS, COMPLAINTS AND QUERIES

- 6.4.4. The Accounting Officer is responsible to establish a dispute resolution mechanism in line with the Supply Chain Management Policy.

## 6.5. ADMINISTRATION

### PERFORMANCE MANAGEMENT

- 6.5.1. Contract administration includes all administration
  - Day-to-day operations
  - monitoring and evaluation
  - Generating monthly and quarterly performance reports
  - Contract amendment and renewals as informed by section 33 and section 113 of Municipal Finance Management Act and National Treasury Circular 62.
- 6.5.2. Contract Manager must on an on-going basis monitor the financial health, tax compliance and overall performance of service providers.
- 6.5.3. Reconcile the monthly progress reports against the implementation plan and the service level agreement
  - Monitor the milestones against deliverable
  - Budgets movement (monitor under/ over spending on budget against reported progress)
- 6.5.4. Contract manager must on monthly basis reconcile the general ledger to the contract register.



6.5.5. For implemented contracts the Contract Manager and the User Department must from time to time review: -

**6.5.5.1. Contract pricing and discounts (if applicable)**

**6.5.5.2. Contract Increments**

- escalation notification must be in writing and approved by the Municipal Manager before the implementation date thereof in line with released South African Statistic consumer price index.

**6.5.5.3. Management of expansion or variation of orders against the original contract**

- The accounting officer may expand a contract in line with FMA Circular No. 62 Municipal Finance Management Act No. 56 of 2003

**6.5.5.4. Evaluate Service Providers' Performance**

- All parties involved are performing according to the terms and conditions of the signed contract and the implementation plan.
- Any deviations from the agreed terms and conditions of any contract must be properly followed up.
- The key performance indicators must be reviewed during the mid-year adjustment period.

**6.5.5.5. Timelines of Payment**

- The Project Manager must submit a signed progress report within five business days after end of each month.
- The municipality must pay creditors within 30 days of receiving all relevant invoice.

6.5.6. Contract Manager must ensure that the contract register recording all contract is maintained and timeously updated, the contract register must contain the following: -

- Details of awarded tender (name of the service provider, value of the contact, contract ID number, contract description and date of award)
- Contract type
- Details of price escalation
- Details of the project manager and
- Progress payments made under the contract.

6.5.7. Good performance must be recognised and communicated through established channels.

6.5.8. In consultation with the Contract Manager, appropriate action must be taken where a contractor is underperforming or is default or breach of the contract.

## 6.6. RECORDS MANAGEMENT

- 6.6.1. Supply Chain Management is the centralised place where all contract related documents are kept.
- 6.6.2. The contract manager will be responsible for adequate records keeping and records managements.

## 6.7. CLOSE OUT

### COMPLETION ASSESSMENT

- 6.7.1. Contract Manager in consultation with the User Department must assess the performance of the service provider at the regular interval during the contract life cycle.
- Produce a contractors' assessment report for completed and at inception contracts.
- 6.7.2. The assessment review must consider the following.
- Actual quantities, price, total values against budgeted quantities, price and total value.
  - Actual timeliness of delivery under the contract against the contracted timeframes
  - Actual service levels or specification of goods and service against contracted
  - Future budgets, change supplier or other stakeholders
  - Outsourcing opportunities and risk strategies.
- 6.7.3. During both the preparation for annual report a comprehensive review of the existing, recently completed and prosed projects must be reviewed in conjunction with the Contract Manager.

### CLOSE OUT REPORT

For all completed contracts the service provider must produce a close out report or a completion certificate.