

# CONTRACT MANAGEMENT POLICY

| <b>ORIGINAL COUNCIL APPROVAL</b>        |                     |
|---|---------------------|
| <b>DATE COUNCIL APPROVAL THE POLICY</b> | <b>03 JUNE 2026</b> |
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## 1. ACRONYMS AND DEFINITIONS

| <b>TERM</b>                                       | <b>DEFINITION</b>   |
|---|---|
| 1. Act or MFMA                                    | <p>Local Government: Municipal Finance Management Act, 2003(Act No. 56 of 2003)</p> <ul style="list-style-type: none"> <li>▪ Section 217 of the constitution</li> <li>▪ Section 33 Municipal Finance Management Act</li> <li>▪ Section 116 Municipal Finance Management Act</li> </ul>  |
| 2. Circular                                       | <ul style="list-style-type: none"> <li>▪ Communication from National Treasury by means of a Circular to enhance compliance and accountability to SCM Regulations and the MFMA of 2003</li> </ul>  |
| 3. Construction Industry Development Board (CIDB) | <ul style="list-style-type: none"> <li>▪ Construction Industry Development Board (CIDB), a national, a body established by an Act of Parliament (Act 38 of 2000) to oversee the sustainability and growth of construction enterprises across the country.</li> </ul>  |
| 4. Accounting Officer                             | <ul style="list-style-type: none"> <li>▪ Municipal official referred to in section 60 of the MFMA (2003)</li> </ul>   |
| 5. 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 practices and timely produce financial report as prescribed in MFMA and the annual Division of Revenue</li> </ul>   |
| 6. Senior Managers/ Head of Departments           | <ul style="list-style-type: none"> <li>▪ Is a senior manager directly accountable to the Accounting Officer, responsible for observing of contracts with the relevant service provider</li> <li>▪ The Head of department shall avail key personnel (contract owner/ end-user) to assist the service provider in achieving set-out objectives and to ensure that the services are rendered effectively and efficiently without any interruption</li> </ul> |
| 7. Contract owner/ end-user                       | <ul style="list-style-type: none"> <li>▪ The contract owner is ultimately responsible for management of the activities.</li> <li>▪ The contract owner must monitor delivery under the contract to ensure that it achieves its original objective and effect any necessary changes to the contract.</li> </ul>   |

| <b>TERM</b>                             | <b>DEFINITION</b>   |
|---|---|
| 8. 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>  |
| 9. Legal Advisor                        | <ul style="list-style-type: none"> <li>Professional legal personnel employed by the municipality to provide expert guidance and advice on legal matters</li> </ul>  |
| 10. 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>   |
| 11. 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>   |
| 12. 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>  |
| 13. Joint venture                       | <ul style="list-style-type: none"> <li>A group of individuals coming together to combine their expertise, resources, capital, efforts, skills, and knowledge to execute a contract.</li> </ul>  |
| 14. Sub-contract                        | <ul style="list-style-type: none"> <li>The primary contractor's transfer, leasing, subcontracting, or engagement of another party to help carry out a part of the project as specified in the contract.</li> </ul>  |
| 15. Tripartite contracts                | <ul style="list-style-type: none"> <li>These are contracts that involve three parties.</li> </ul>   |
| 16. Small and Medium Enterprises (SMEs) | <ul style="list-style-type: none"> <li>Independent firms that are not subsidiaries.</li> </ul>  |
| 17. Contract                            | <ul style="list-style-type: none"> <li>A contract or agreement procured through the supply chain management system which must be in written and stipulate the terms and conditions of the agreement.</li> </ul>   |
| 18. Service Level Agreement (SLA)       | <ul style="list-style-type: none"> <li>An SLA is a contractual agreement that is legally binding and entered into by a service provider and the municipality that specifies services that will be rendered, specified payment.</li> <li>Is a commitment between a service provider and the municipality, detailing the aspects of the service, the nature, contract price, timelines and</li> </ul> |

| <b>TERM</b>                           | <b>DEFINITION</b>   |
|---------------------------------------|---|
|                                       | role players' responsibilities, performance, breach, dispute, penalties etc.  |
| 19. Three (3) years contract          | <ul style="list-style-type: none"> <li>▪ A contract with a three-year term.</li> </ul>  |
| 20. Long term contract                | <ul style="list-style-type: none"> <li>▪ Contract that will impose financial obligations beyond the three (3) years.</li> </ul>   |
| 21. Umbrella contract                 | <ul style="list-style-type: none"> <li>▪ This is a type of contract where a number of service providers are appointed to a panel, from which the purchasing municipality purchases goods, services and/ or works on an as-the-need-arises basis or on a rotational basis.</li> <li>▪ The “umbrella contract” tends not to have a fixed price (rate-based appointment)</li> </ul>  |
| 22. Transversal contract              | <ul style="list-style-type: none"> <li>▪ A contract facilitated and awarded by National or Provincial Treasury, with negotiated prices, considering the economies of scale, frequency and other variables.</li> </ul>   |
| 23. Memorandum of Agreement (MOA)     | <ul style="list-style-type: none"> <li>▪ A MOA is a written understanding of the agreement between parties, is a contract between parties that defines the obligations of all parties to co-operate on an agreed project or meet an agreed objective.</li> <li>▪ The MOA can also be a legal document that is binding and hold the parties responsible to their commitment or simply just a partnership agreement.</li> </ul>                         |
| 24. Memorandum of Understanding (MOU) | <ul style="list-style-type: none"> <li>▪ A Memorandum of Understanding (MOU) is a legal document describing a bilateral agreement between parties, indicating an intended common line of action, rather than a legal commitment.</li> <li>▪ It is a more formal alternative to a gentlemen's agreement, but generally lacks the binding power of a contract and does not involve an exchange of goods, services and/ or works for payment.</li> </ul> |
| 25. Lease                             | <ul style="list-style-type: none"> <li>▪ This is a legally binding agreement through which the state will be assigned the right to use an asset owned by a service provider, for the duration of a specified period, in exchange for a series of specified payments.</li> <li>▪ A finance lease is a lease in which all of the risks and rewards related to ownership are transferred</li> </ul>  |

| <b>TERM</b>             | <b>DEFINITION</b>  |
|-------------------------|--|
|                         | <p>from the lessor to the lessee.</p> <ul style="list-style-type: none"> <li>▪ An operating lease is a lease in which the risks and rewards associated with ownership are not transferred to the lessee but instead are retained by the lessor.</li> <li>▪ Contracts that are classified as leases include contracts for technological devices such as printers and photocopiers, leases for fleet, as well as contracts for property rentals.</li> <li>▪ The parties to the lease agreement are the Lessor and the Lessee.</li> </ul> |
| 26. Contract alteration | <p>Any change or modification made to the terms, conditions, or provisions of an existing contract.</p> <ul style="list-style-type: none"> <li>▪ This can include additions, deletions, or revisions to the original agreement, which is typically a documented and mutually agreed-upon change, the term "alteration" can sometimes imply informal or unilateral changes, which may not always be legally valid unless agreed upon by all parties.</li> </ul>   |
| 27. Contract amendment  | <ul style="list-style-type: none"> <li>▪ A formal change or modification made to a contract, an amendment is used to alter specific terms, conditions, or provisions of the original contract without invalidating the entire agreement.</li> <li>▪ It allows parties to update the contract to reflect new circumstances, correct errors, or address issues that were not initially anticipated.</li> </ul>   |
| 28. Contract expansion  | <ul style="list-style-type: none"> <li>▪ Management of expansion or variation of orders against the original contract “contracts may be expanded or varied by not more than 15% for all other goods and/or services of the original value of the contract. contracts may be expanded or varied by not more than 20% for construction related goods, services and/or infrastructure projects and 15% for all other goods and/or services of the original value of the contract in line MFMA Circular No. 62</li> </ul>                  |

| <b>TERM</b>             | <b>DEFINITION</b>   |
|-------------------------|---|
| 29. Contract extension  | <ul style="list-style-type: none"> <li>▪ Continuation of an existing contract for a specified additional period beyond its original end date, without altering the fundamental terms and conditions of the agreement.</li> </ul>  |
| 30. Variation order     | <ul style="list-style-type: none"> <li>▪ Expansion of scope, terms, or deliverables of an existing contract to include additional responsibilities, services, products, or other elements that were not originally part of the agreement.</li> <li>▪ Modifying the contract to accommodate new requirements or expanded needs of one or both parties</li> </ul>   |
| 31. Contract renewal    | <ul style="list-style-type: none"> <li>▪ The process of extending or continuing an existing contract between two or more parties beyond its original expiration date. This typically involves reviewing, renegotiating, and updating the terms and conditions of the agreement to reflect any changes in circumstances, requirements, or expectations.</li> </ul> |
| 32. Contract completion | <ul style="list-style-type: none"> <li>▪ The fulfillment of all terms, conditions, and obligations outlined in a contract by all parties involved. It signifies that the agreed-upon work, services, or deliverables have been fully performed, and all contractual requirements have been met.</li> </ul>  |
| 33. Exclusions          | <ul style="list-style-type: none"> <li>▪ Refers to specific conditions, circumstances, agreements, MOUs, or items that are not addressed, permitted, or eligible under this policy e.g. Employment contracts and Non-binding memoranda of understanding.</li> </ul>   |

## 2. PURPOSE

To establish a sound and consistent contract management practices and activities within the Moses Kotane Local municipality.

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 in accordance with the National Treasury Contract Management Guidelines, 2010.

Contract management should focus on the operational and functionality being implemented, the policy framework is designed not only to support the application of good practice within a contract, but also to support the development and application of an effective contract management function, in general.

### 3. OBJECTIVES

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.

To ensure effective and efficient management contracts.

- contract reviews, proper recording and enforcement of contracts throughout the contract life cycle.
- 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. CONTRACT LIFE CYCLE



## **5. PLANNING**

### **A. IDENTIFICATION, BUDGETING AND APPROVAL**

1. Goods and service contracts are identified and budgeted for by contract owners/ end users
2. For construction related goods (projects) to be implemented are identified from the Integrated Development Plan (IDP), sourced from the community and prioritised by the municipality according to availability of funds.
3. prioritised and identified project in the Integrated Development Plan must be linked the budget and the strategic objectives of the municipality.
4. The user department must ensure that projects/ contractors are incorporated in the Service Delivery and Budget Implementation Plan (SDBIP).
5. Supply Chain Management Unit must ensure that contracts are procured through supply chain management system and issue an appointment letter.
6. The Legal Advisor will develop the service level agreement for the contract management unit to update the contract register.

### **B. CLASSIFICATION OF CONTRACT**

To support effective contract management, the contract register is valuable for classifying contracts and tracking any changes or developments, the register will cover the following-

- A. record contracts/projects according to responsible departments.
- B. category (contract type or nature).
- C. contract name.
- D. contract description.
- E. contract value.
- F. contract duration.
- G. remaining duration months
- H. contract status
- I. contracted value
- J. variation value
- K. extension value

## **6. CREATION**

### **DOCUMENTATION AND INFORMATION MANAGEMENT**

The supply chain management unit is required to timeously inform the Legal Advisor and contract management unit about awarded tenders. The Legal Advisor will develop a service level agreement covering the following-

- A. preamble and appointment
- B. premises and access
- C. disclosure

- D. constituent documents
- E. project information
- F. alterations or modification to the contract
- G. postponement and cancellation
- H. extension of contract duration
- I. duties of service provider (scope of work)
- J. duties of the municipality
- K. skills transfer
- L. annual increment (percentage escalation)
- M. performance assessment
- N. remuneration
- O. copyright
- P. confidentiality
- Q. non- assignment
- R. breach
- S. disputes
- T. force majeure
- U. indemnification
- V. variation
- W. approval, acceptance and witnessed.
- X. The Municipal Manager and the Service Provider must require to a contract by signing the service level agreement, witnessed by Legal Advisor, the user department's Head of Department and the Contract Manager.
- Y. The contract management unit must update the contract register.

## **7. CONTRACT MANAGEMENT ADMINISTRATION**

Contract management unit is responsible for ensuring daily updating/reviewing the contract register with the following-

- A. contract identifiers (bid tender number/contract reference number)
- B. contract category.
- C. name of appointed bidder
- D. description of goods/services/works/projects.
- E. contract value.
- F. contract period (start date, end date and duration)
- G. contract extension.
- H. variation orders
- I. contract alteration
- J. contract amendments
- K. irregular indicator
- L. payment penalty
- M. early termination.

N. Timeously opening contract/project files.

1. The end user and contract management unit will review contract on monthly basis for any contract extension, variation order contract modifications, amendments, and renewals in order to assist with facilitating the application and compliance with legislation and internal process.
2. Quarterly reviewing performance assessment compiled by the end user with the aim of ensuring that the service provider(s) performs in compliance with terms and condition of the SLA by ensuring that-
3. the service provider is meeting get obligations and set targets.
4. price and payment terms are being adhered to.
5. Identified concerns are resolved through mutually agreed corrective actions as set out in the SLA.
6. report any deviations, under and non-performance.

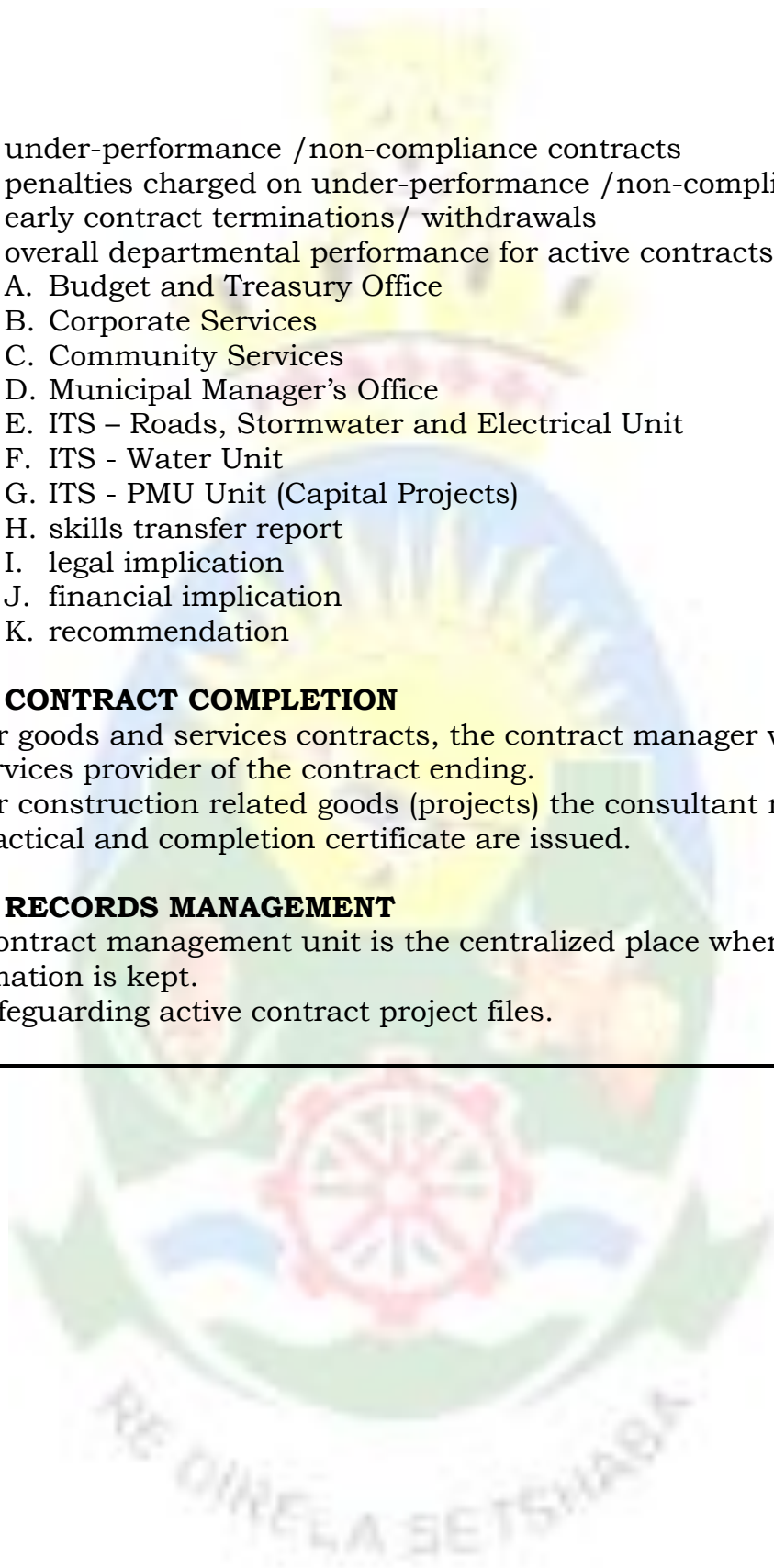
## **8. RISK MANAGEMENT**

Risk analysis is conducted by the Risk officer, risk is defined as uncertainty of outcome, whether this is positive (an opportunity) or negative (a threat).

- A. factors that may have an impact on the fulfilment of a contract.
- B. risks may be classified as, operating risks that the institution and the service provider may encounter during the operational phase of the contract.
  - these may be further categorised as environmental risks.
  - financial and investment risks, demand risks, employment risks and performance risks.
  - emerging risks that are unknown during the procurement process but which will come to light and require management during the life of the contract.
  - Monitoring mechanisms should be put in place to ensure early identification of risks which may result in non-delivery and poor performance by the service provider, as well as early detection of other possible hindrances to service delivery.

## **9. REPORTING**

- A. The Contract Manager will daily activities to the Head of Unit:SCM, who reports directly to the CFO.
- B. The Contract Manager will report to the Contract Management Committee and quarterly basis and submit a contract management report to Council.
- C. The contract management report will cover the following
  1. contract alterations.
  2. contract amendment.
  3. contracts beyond three (3) years
  4. contract variation orders
  5. contract extensions

- 
6. under-performance / non-compliance contracts
  7. penalties charged on under-performance / non-compliance contracts
  8. early contract terminations/ withdrawals
  9. overall departmental performance for active contracts-
    - A. Budget and Treasury Office
    - B. Corporate Services
    - C. Community Services
    - D. Municipal Manager's Office
    - E. ITS – Roads, Stormwater and Electrical Unit
    - F. ITS - Water Unit
    - G. ITS - PMU Unit (Capital Projects)
    - H. skills transfer report
    - I. legal implication
    - J. financial implication
    - K. recommendation

#### **10. CONTRACT COMPLETION**

- A. For goods and services contracts, the contract manager will remind the services provider of the contract ending.
- B. For construction related goods (projects) the consultant must ensure that a practical and completion certificate are issued.

#### **11. RECORDS MANAGEMENT**

The contract management unit is the centralized place where all contract related information is kept.

- Safeguarding active contract project files.
-