

OVERSTRAND MUNICIPALITY



CONTRACT MANAGEMENT POLICY

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1. PRE-AMBLE

All transactions undertaken by the Overstrand Municipality involves a contract whether explicitly agreed in writing, or implicitly implied through actions.

Properly managed contracts by all stakeholders involved, can ensure that services are delivered within specifications as set and agreed by all during the specifications phase and at the agreed cost , (Inclusive of escalation clauses in contracts) time period and qualities of the goods and services procured.

All contracts must be managed throughout the contract Life Cycle, based on the level of management control appropriate for the classification of that contract.

Improperly managed contracts may impact negatively on service delivery. Adverse effects of ineffective contract management include but are not limited to:

- 1.1 goods and services outside of specification;
- 1.2 cost overruns;
- 1.3 poor suppliers-, buyer- or other stakeholder relations;
- 1.4 negative public perception, and
- 1.5 potentially complete service delivery failures.
- 1.6 irregular expenditure or un-authorized expenditure

Hence, good contract management by all stakeholders involved is essential for good financial management and will contribute greatly to the effectiveness and efficiency of service delivery. In effect it would give strategic direction to all directorates following a centralised strategy of contract management. This policy must be read in coincidence with the SCM Policy of the Overstrand Municipality.

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2. DEFINITIONS:

In this Policy, unless the context indicates otherwise-

Accounting Officer <i>(in relation to a municipality)</i>	means the municipal official referred to in section 60 of the MFMA (2003); and include a person acting as the accounting officer.
Act or MFMA	Means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
Circular 62	means communication from National Treasury by means of a Circular to enhance compliance and accountability to SCM Regulations and the MFMA of 2003.
Construction Industry Development Board (CIDB):	means the Construction Industry Development Board (CIDB), a national body established by an Act of Parliament (Act 38 of 2000) to oversee the sustainability and growth of construction enterprises across the country.
Contract	means the agreement that results from the acceptance of a bid by the Municipality (mutual agreement)
Contract Alteration	means changing technical writing or input errors to the agreement of the contract without changing the scope of contract.
Contract Amendment	means 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).
Contract Champion	means the official/s within a specific department, responsible for all day to day administrative and management activities (including performance management and dispute resolution) during the life cycle of the contract (with delegated powers to perform this function).
Contract Management	means the holistic term of all role players involved in an agreement (SLA/SDA) or contract and include the; SCM contract manager, director, contract owner, contract champion and supplier.
SCM Contract Manager	means the SCM official responsible for monitoring, regulating and reporting on all contract related activities as set out in Section 116 of the MFMA.
Contract Owner	means the deputy director, senior manager or manager, as the case may be, that is ultimately accountable for all activities during the life cycle of the contract. The Contract Owner can also be seen as the Budget holder.
Director	Appointment according to sect 56 of the Systems Act
Delegation <i>(in relation to a duty)</i>	Includes an instruction or request to perform or to assist in performing the duty.
Force Majure	Is the expression used to denote irresistible superior force which might cause damage or prevent the execution of an obligation, therefore suppliers is not liable for damages caused by force majure or for failure to carry out a contract if prevented (Term and conditions in this regard will be determined by every individual contract/s).
Official <i>(In relation to a municipality)</i>	means: <ul style="list-style-type: none"> • an employee of a municipality; • a person seconded to a municipality to work as a member of the staff of the municipality; or • a person contracted by a municipality to work as a member of the staff of the municipality otherwise than as an employee.
Users	Means all officials as set out in the organogram of the Overstrand Municipality involved with contracts.
User Department	Means the official/s within the relevant department of a directorate, as set out in the organogram of the Overstrand Municipality, responsible for contract management.

3. ABBREVIATIONS:

BEE	Black economic empowerment
B-BBEE	Broad-Based Black Economic Empowerment
GCC	means General Conditions of contract.
MSA	means Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).
NT	means National Treasury established by section 5 of the Public Finance Management Act.
SCC	means Special Conditions of Contract.
SCM	means Supply Chain Management
SDA	means Service Delivery Agreement.
SLA	means Service Level Agreement.

4. OBJECTIVES:

- 4.1 To give effect to Section 217 of the Constitution of South Africa (1996) that stipulate:
- 4.1.1 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 is:
- 4.1.1.1 equitable
- 4.1.1.2 transparent
- 4.1.1.3 competitive
- 4.1.1.4 cost-effective and
- 4.1.1.5 fair
- 4.2 The effective and efficient control of contracts procured through the SCM system ensuring:
- 4.2.1 proper recording and enforcement of contracts throughout the contract life cycle (specifications to contract reviews);
- 4.2.2 support to the demand management framework as set out in Circular 62 of National treasury (August 2012), optimizing proper planning, resulting in effective service delivery;
- 4.2.3 management of Contract Performance;
- 4.2.4 compliance with the regulatory framework;
- 4.2.5 to assist officials in understanding their legal and managerial responsibilities with regards to contract management;
- 4.2.6 the optimization of efficient and sustainable financial wellbeing of the municipality, resulting in lower cost drivers, and
- 4.2.7 the continuous development of effective Management Information systems, resulting in strategic support and risk preventions.
- 4.3 To ensure that no contract procurement of goods and services (excluding land sales or rentals of Overstrand Municipal Assets, which are managed by Property Management Services), takes place outside of the SCM System.

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5. STATUTORY AND REGULATORY FRAMEWORK FOR MANAGING CONTRACTS

5.1 Application and Framework of the Contract Management Policy

5.1.1 All officials and other role players in the Supply Chain Management system of the Overstrand Municipality must implement this Policy in a way that gives effect to:

- 5.1.1.1 Section 217 of the Constitution;
- 5.1.1.2 Section 116 of the MFMA;
- 5.1.1.3 Section 33 of the MFMA;
- 5.1.1.4 SCM Policy;
- 5.1.1.5 SCM Regulations
- 5.1.1.6 any other legislation pertaining to SCM.

5.1.2 This Policy applies when the Municipality:

- 5.1.2.1 procures goods or services;
- 5.1.2.2 disposes of goods no longer needed; and
- 5.1.2.3 selects service providers and suppliers to provide assistance in the provision of municipal services including circumstances where Chapter 8 of the Municipal Systems Act applies.

5.2 Adoption, Amendment and Implementation of the Contract Management Policy

5.2.1 The accounting officer must:

- 5.2.1.1 at least annually review the implementation of this Policy; and
- 5.2.1.2 when the accounting officer considers it necessary, submit proposals for the amendment of this Policy to Council;
- 5.2.1.3 in terms of section 62(1) (f) (IV) of the Act, take all reasonable steps to ensure that the Contract Management Policy is implemented.

5.3 Conditions of Contract

5.3.1 A contract or agreement procured through the Supply Chain Management System of the Municipality must:

- 5.3.1.1 be in writing;
- 5.3.1.2 stipulate the terms and conditions of the contract or agreement, which must provide for:
 - 5.3.1.2.1 the termination of the contract or agreement in the case of non- or underperformance;
 - 5.3.1.2.2 dispute resolution mechanisms to settle disputes between the parties;
 - 5.3.1.2.3 a periodic review of the contract or agreement once every three years in the case of a contract or agreement for longer than three years; and
 - 5.3.1.2.4 any other matters that may be prescribed.

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- 5.4 Administrative Capacity
- 5.4.1 The relevant Director, with delegated powers from the Municipal Manager, must establish capacity in his/her directorate to assist the accounting officer in carrying out the duties set out in section 116(2) of the MFMA.
- 5.5 Management of Contracts
- 5.5.1 The accounting officer and delegated officials must take all reasonable steps to:
- 5.5.1.1 ensure that a contract or agreement procured through the supply chain management policy of the municipality is properly enforced;
- 5.5.1.2 monitor on a monthly basis the performance of the contractor under the contract or agreement.
- 5.5.1.3 administrate the contract with the necessary competencies and delegations, ensuring effective management of contracts.
- 5.5.2 The Contract Owner must ensure that contract champions submit suppliers' performance reports to the SCM contract manager within 5 business days after the end of each month.
- 5.5.3 The SCM Contract Manager submits a consolidated report to the relevant Director and Contract Owner within 15 business days after the end of each month for purposes of Section 116 (2)(b) of the Act.
- 5.5.4 The SCM Contract Manager submits a consolidated report on the performance of contracts or agreements for purposes of Section 116 (2)(d), to the Accounting Officer within 15 business days of the end of each quarter.
- 5.6 Amendment of Contracts
- 5.6.1 A contract or agreement procured through the supply chain management policy of the municipality may be amended by the parties, in exceptional circumstances in order to mitigate abuse, in perception after the fact to prevent financial inefficiencies and influencing financial sustainability.
- 5.6.2 In terms of Section 116(3) of the MFMA, (56 of 2003), amendments (in compliance with SCM procedures), may only be made after:
- 5.6.2.1 the reasons for the proposed amendment have been tabled in the council; and
- 5.6.2.2 the local community has been given reasonable notice of the intention to amend the contract or agreement; and
- 5.6.2.3 has been invited to submit representations to the municipality.
- 5.6.3 Amendments of contracts where the expansion or variation is not more than (NT Circular 62):
- 5.6.3.1 20% (construction related goods, services and/or infrastructure projects), and
- 5.6.3.2 15% (all other goods and/or services) of the original value of the contract, must be submitted directly to the Contract Man-

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agement Office for approval and further reference to the SCM committee system for approval.

- 5.6.4 Amendments of contracts where the expansion or variation is more than the threshold prescribed by National Treasury (Circular 62), must be dealt with in terms of the provisions of section 116(3) of the MFMA, and are exempt from this process.
- 5.6.5 Amendments to the contract, without influencing the value or term of the contract, within the scope of the original terms and conditions, may be altered, provided that both parties have consensus on the amendment and the contract amendment is in writing and signed by both parties.
- 5.6.6 No agreement to amend or vary a contract shall be valid and of any force unless such agreement to amend or vary is entered into in writing and signed by the contracting parties.
- 5.6.7 Section 33 of the MFMA will apply when an amendment has budgetary implications for a term longer than the 3 (three) financial years of the current year's budget, (Section 116 (3) of the MFMA will be followed, in conjunction with section 33, when amending an existing contract for longer than 3 years). It remains the responsibility of the user department to give effect to section 33, following due process, as stipulated in Section 33 of the MFMA. The SCM Contract Management office will support the relevant user department in order to ensure that compliance to all SCM legislation is adhered to.

6. MAINTENANCE AND CONTRACT ADMINISTRATION

- 6.1 Contract administration includes all administrative duties associated with a contract once it is adjudicated and implemented.
- 6.2 No rights in terms of an awarded contract will accrue before the SCM appeal period and/or appeal has been finalised.
- 6.3 The contract should be signed by all parties concerned (The relevant official should also ensure that the suppliers have the delegated powers to sign and amend the contractual agreement).
- 6.4 The contract will only be enforceable after all the signatures of the relevant parties are documented.
- 6.5 A signed service level agreement (if applicable) must be compiled and signed which will incorporate all the relevant sections of the tender documentation.
- 6.6 All once-off purchases shall have a specified end delivery date.

7. ROLES AND RESPONSIBILITIES OF OFFICIALS:

- 7.1 SCM Contract Manager:
 - 7.1.1 The SCM Contract Manager is the SCM official responsible for system administration, status and SCM performance reporting on all contracts related activities.
 - 7.1.2 For the purposes of **contract management** activities performed by the relevant role players, the SCM contract manager will monitor and report on the following activities:
 - 7.1.2.1 identification and classification of contracts for management purposes in terms of the SCM processes;
 - 7.1.2.2 recognition, measurement and disclosure;

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- 7.1.2.3 oversight of contract management as is provided for in this policy;
 - 7.1.2.4 oversight of contract management as is provided for in this policy;
 - 7.1.2.5 document and information management;
 - 7.1.2.6 relationship management;
 - 7.1.2.7 performance management;
 - 7.1.2.8 contract risk management.
- 7.2 Contract Champion
- 7.2.1 The contract champion is responsible for the following activities:
 - 7.2.2.1 ensuring that all the necessary legal formalities in entering into the contract are adhered to;
 - 7.2.2.2 ensuring that all applicable contract information is maintained in the electronic contract management system;
 - 7.2.2.3 ensuring that purchase orders are processed on the financial system in accordance with the pricing schedule;
 - 7.2.2.4 maintaining adequate records (paper and/or electronic) in sufficient detail on an appropriate contract file to provide an audit trail;
 - 7.2.2.5 inform the Asset Management section of the Expenditure Department of the location of newly procured assets for asset register and insurance purposes; and
 - 7.2.2.6 where appropriate, in terms of Council's Delegations, authorise invoices due for payment.
 - 7.2.2.7 to take appropriate action in consultation with the contract owner and the SCM contract manager, where a contractor is underperforming or is in default or breach of the contract.
 - 7.2.2.8 ensure performance of suppliers is managed appropriately to the terms and conditions of the contract.
- 7.3 Contract Owner
- 7.3.1 The contract owner is responsible for ensuring that contract champions are assigned to all contracts.
 - 7.3.2 The contract owner is ultimately responsible for management of the activities.
- 7.4 Director
- 7.4.1 The relevant director is responsible for signing of contracts with the relevant service provider, in line with the Delegation of Powers and Duties Policy.
 - 7.4.2 The relevant director is ultimately accountable for the contract.

8. RECORD KEEPING

- 8.1 Proper records regarding all aspects of the contract must be maintained and kept in accordance with relevant legislation.

- 8.2 All communication related to contracts must be linked to the master document on the electronic system, by the relevant official.
- 8.3 Safe custody of all contract documents must be enforced by all relevant users.
- 8.4 Contract Champions and Contract Owners are responsible for the electronic capturing of the contract information and maintenance thereof on the Contract Management system.
- 8.5 The original signed contract must be sent to the records department (by the contract management office) for safekeeping and storage.
- 8.6 The records department is responsible for the administration of archived contract documentation.

9. CONTRACTS HAVING BUDGETARY IMPLICATIONS BEYOND THREE FINANCIAL YEARS

Overstrand Municipality may not enter into any contract that will impose financial obligations beyond the three years covered in the annual budget for that financial year, unless the requirements of Section 33 of the Municipal Finance Management Act have been fully complied with.

10. RESOLUTION OF DISPUTES, OBJECTIONS, COMPLAINTS AND QUERIES:

The accounting officer is responsible to establish a dispute resolution mechanism as per paragraph 5.3.1.2.2 and also as required by section 116(1) of the MFMA and paragraph 50 of the SCM Policy.

11. CONTRACT PRICE ESCALATIONS:

- 11.1 An appropriate contract price adjustment formula or specified terms of escalation must be specified in the bid documents
- 11.2 Escalation notification must be in writing and presented before the implementation date thereof.
- 11.3 User departments are responsible to manage, verify and implement price escalations as per originally agreed terms and conditions set out in the specifications of the contract and keep proof of evidence to the newly agreed escalations on the system for all other relevant stakeholders to access.

12. PERFORMANCE ON CONTRACTS:

- 12.1 In terms of the SCM Policy and the Municipal Systems Act, the accounting officer must implement an internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised supply chain management processes were followed and whether the objectives of this Policy were achieved in terms of the Performance Management System Implementation Policy (Paragraph 9).
 - 12.1.1 Municipality's Performance:
 - 12.1.1.1 The municipality is required to pay creditors within 30 days of receiving all relevant invoice statements.
 - 12.1.1.2 The municipality is also required to create a favourable environment to receive services and goods without preventing the supplier to perform their duties.
 - 12.1.1.3 All parties involved must perform according to the terms and conditions of the relevant contract, while the contract is alive.

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12.2.1 Supplier Performance:

- 12.2.1.1 The supplier of goods and services is required to perform as per terms and conditioned agreed upon and should inform the municipality if circumstances prevents them to perform, with reasons provided, within 5 working days (to be included in all contracts).
- 12.2.1.2 For all relevant deviations from the agreed terms and conditions of any contract, the key performance indicators (KPI's) should be reviewed as well as the alignment with the strategic objectives established in the IDP.
- 12.2.1.3 Suppliers performance will be reviewed by Overstrand Officials on a monthly basis (every 25th of the month) giving effect to section 116 of the MFMA, 2003 and the Performance Management System Implementation Policy
- 12.2.1.4 Prescribed procedures to evaluate service providers must be complied with.
(Refer to the Performance Management Framework Policy)

THE FOLLOWING PROCEDURES NEED TO BE FOLLOWED:

1. The requirements of this policy must be included in the contract of the service provider.
2. The performance of the service provider under the contract or service level agreement must be assessed monthly by the Reporting Officer.
3. The assessment must be completed in the contract management system.
4. The Reporting Officer must complete the Service Provider Assessment on the contract management at the end of each month.
5. The quarterly assessment and reporting must be completed within 15 working days after the end of each quarter. (Refer to the Performance Management Framework Policy, paragraph 9.2.1).
6. The Reporting Officer must provide a copy of the assessment to the Service Provider at the end of each quarterly assessment period and on completion or termination of the contract.
7. Supply Chain Management Unit (Contract Management Office) will review the quarterly Service Provider assessments within 20 days after the end of each quarter and submit a summary report to the Accounting Officer.
8. The Accounting Officer need to develop the necessary forms and report structures to be utilised to manage the above processes. The forms and reporting requirements need to be reviewed on a regular basis.
9. In the instance of under-performance:
 - a. The Municipality will facilitate support interventions to service providers in the identified areas of underperformance
 - b. Service providers who have been identified as under-performing in identified areas must be informed of these support interventions.
 - c. The impact of support interventions must be monitored by the Reporting Officer.
 - d. Corrective action should be documented in writing within the contract management system
 - e. The records of the support interventions must be documented, signed by both parties and appropriately filed in the contract management system.

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13. REVIEW OF CONTRACTS

- 13.1 In terms of section 116 (1) of the MFMA, a contract or agreement procured through the Supply Chain Management system must have a periodic review once every three years in the case of a contract or agreement that are longer than three years.
- 13.2 The contract owner or champion must conduct, as appropriate, within 3 months after the expiry of contracts, post contract reviews.

14 IMPLEMENTATION AND REVIEW PROCESS

This policy will come into effect on 1 July 2017;

This policy will be reviewed at least annually or when required by way of a Council resolution.

POLICY SECTION:	MANAGER: CONTRACTS
CURRENT UPDATE	31 MAY 2017
PREVIOUS REVIEW	25 MAY 2016
PREVIOUS REVIEW	25 MAY 2015
PREVIOUS REVIEW	28 MAY 2014
APPROVAL BY COUNCIL	8 MAY 2013

**OVERSTRAND
MUNICIPALITY**



**INVESTMENT & CASH MANAGEMENT
POLICY**

PREAMBLE

Whereas section 13 of the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003) determines that a municipality must introduce appropriate and effective investment arrangements;

And whereas a municipality must disclose its investment details;

And whereas councillors and officials as trustees of public funds, have an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible;

Now therefore the Overstrand Municipality adopts the following Investment & Cash Management Policy:

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OVERSTRAND MUNICIPALITY – INVESTMENT POLICY

1. DEFINITIONS

For the purpose of this policy, unless the context indicates otherwise, any word or expression to which a meaning has been attached in the Act shall bear the same meaning and means:-

“Accounting Officer”	a person appointed by the Municipality in terms of Section 82 of the Local Government: Municipal Structure Act, 1998 (Act No. 117 of 1998) and who is the head of administration and also the Municipal Manager for the Municipality.
“Chief Financial Officer”	an officer of the municipality appointed as the Head of the Finance Department and includes any person:- a) acting in such position; and b) to whom the Chief Financial Officer has delegated a power, function or duty in respect of such a delegated power, function or duty.
“Council” or “municipal council”	a municipal council referred to in section 18 of the Local Government: Municipal Structures Act, 1998 (Act No 117 of 1998) and for purposes of this policy, the municipal council of the Municipality of Overstrand.
“Councillor”	a member of the Municipal Council
“Investments”	funds not immediately required for the defraying of expenses and invested at approved financial institutions.
“Municipal Manager”	the accounting officer appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act No 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) and includes any person:- a) acting in such position; and b) to whom the Municipal Manager has delegated a power, function or duty in respect of such a delegated power, function or duty.
“municipality”	the institution that is responsible for the collection of funds and the provision of services to the customers of Overstrand.
“public funds”	all monies received by the municipality to perform the functions allocated to them.

2. OBJECTIVE OF POLICY

The objectives of the Investment Policy are:-

- 2.1 to manage the investments of the municipality in such a manner that it will not tie up the municipality's scarce resources required to improve the quality of life of the citizens;
- 2.2 to manage the investments of the municipality in such a manner that sufficient cash resources are available to finance the capital and operating budgets of the municipality; and

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- 2.3 to gain the highest possible return on investments during periods when excess funds are not being used, without unnecessary risk.

3. SCOPE OF POLICY

- 3.1 The Policy deals with:-
- 3.2 Responsibility / accountability;
- 3.3 Investment instruments;
- 3.4 Cash flow estimates;
- 3.5 Investment ethics and principles;
- 3.6 Investment procedures;
- 3.7 Other external deposits; and
- 3.8 Control over investments.

4. RESPONSIBILITY / ACCOUNTABILITY

- 4.1 The Municipal Manager as the Accounting Officer of the municipality is accountable for investment management.
- 4.2 The municipal council must approve a policy directing procedures, processes and systems required to ensure efficient and effective management of investments.
- 4.3 Efficient and effective investment management include:-
- a. Accurately forecasting the institution's cash flow requirements.
 - b. Timing of the in- and outflow of cash.
 - c. Recognising the time value of money.
 - d. Taking any other action that avoids locking up money unnecessarily and inefficiently.
 - e. Avoiding bank overdrafts.

5. INVESTMENT INSTRUMENTS

- 5.1 The Minister of Provincial and Local Government may with the concurrence of the Minister of Finance by notice in the Gazette determine instruments or investments other than those referred to below in which Municipality may invest:-
- a. Deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);
 - b. Securities issued by the National Government;

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- c. Investments with the Public Investment Commissioners as contemplated by the Public Deposits Act, 1984 (Act No 46 of 1984);
- d. A municipality's own stock or similar type of debt; internal funds of a municipality which have been established in terms of a law to pool money available to the municipality and to employ such money for the granting of loans or advances to departments within a municipality, to finance capital expenditure;
- e. Bankers' acceptance certificates, negotiable certificates or deposits of banks;
- f. Long-term securities offered by insurance companies in order to meet the redemption fund requirements of municipalities; and
- g. Any other instruments or investments in which a municipality was under a law permitted to invest before the commencement of the Local Government Transition Act, 1996: provided that such instruments shall not extend beyond the date of maturity or redemption thereof.

6. CASH FLOW ESTIMATES

- 6.1 Before money can be invested, the Municipal Manager must determine whether there will be surplus funds available for the term of the investment.
- 6.2 In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.
- 6.3 Provision must be made in the cash flow estimates for the operating and capital requirements of the municipality:-
 - a. The operating requirements must include provisions for:-
 - i. Payment of monthly salaries.
 - ii. Payment for bulk purchases of electricity and water.
 - iii. Interest on long-term loans.
 - iv. Maintenance of assets.
 - v. General expenditure.
 - vi. Expected daily and monthly income.
 - b. Capital requirement must provide for:-
 - i. The anticipated cash flow requirements for each capital project.

7. INVESTMENT ETHICS AND PRINCIPLES

- 7.1 The Municipal Manager will be responsible for the investment of funds, and he/she has to steer clear of outside interference, regardless of whether such interference comes from individual councillors, agents or any other institution.
- 7.2 Under no circumstances may he/she be forced or bribed into making an investment.

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- 7.3 No member of staff may accept any gift unless that gift can be deemed so small that it would not have an influence on his/her work or was not intended to do so, and can merely be seen as goodwill.
- 7.4 A certificate in respect of any gifts received should be furnished to the Municipality.
- 7.5 Interest rates offered should never be divulged to another institution.
- 7.6 Long-term investments should be made with an institution with at least a minimum BBB rating (where BBB refers to low risk institutions).
- 7.7 Short-term investments should be made with an institution with at least a minimum F3 rating (where F3 refers to low risk institutions).
- 7.8 Not more than 50% of the funds that have become available for investing, on any given day, should be placed with a single institution if the available funds exceed R100m.
- 7.9 The maximum amount invested with a financial institution should not exceed 10% of the relevant institution's shareholder's funds (capital and reserves).
- 7.10 The municipality may not borrow money specifically for reinvestment, as this would mean interest rates would have to be estimated in advance, which can be seen as speculation with public funds.
- 7.11 If the Municipal Manager invests with financial institutions, he/she must ensure that such institutions are registered in terms of the Banks Act, 1990 (Act No 94 of 1990) and that they are approved financial institutions, as approved by the Reserve Bank of South Africa from time to time.
- 7.12 When making growth related investments, the Municipal Manager must obtain a guarantee that at least the capital amount invested is safe, and must exercise due diligence in this regard.

8. INVESTMENT PROCEDURES

After determining whether there is cash available for investment and fixing the maximum term of investment, the Municipal Manager must consider the way in which the investment is to be made.

- 8.1 Short-term investments:
 - a. Quotations should be obtained from a minimum of three financial institutions (local banks), for the term of which the funds will be invested.
 - b. Should one of the institutions offer a better rate for a term, other than what the municipality had in mind, the other institutions which were approached, should also be asked to quote a rate for the other term.
 - c. Quotations should be obtained in writing or electronic medium.

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- d. Quotations from institutions must include the following:-
- i Name of institution;
 - ii Name of person quoting rates;
 - iii Period of the investment;
 - iv Relevant conditions; and
 - v Other facts, such as interest payable monthly or on maturation date.
- e. Once the required number of quotes has been obtained, a decision must be taken regarding the best terms offered and the institution with which funds are going to be invested.
- f. The best offer must under normal circumstances be accepted, with thorough consideration of investment principles.
- g. No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
- h. The investment capital must only be paid over to the institution with which it is to be invested and not to an agent or third party.
- i. The financial institution where the investment is made must issue a confirmation stating the details of the investments.
- j. The Municipal Manager must make sure that the investment document, if issued, is a genuine document and issued by the approved institution.
- k. The financial institution, where the investment is made, must issue a certificate for each investment made stating that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.
- l. The municipality must be given a monthly report on all investments.
- m. The Municipal Manager must obtain information from which the creditworthiness of financial institutions can be determined. This must be obtained and analysed annually.

8.2 Long-term investments:

- a Written quotations must be obtained for all investments made for periods longer than twelve months.
- b The municipal council must approve all investments made for periods longer than twelve months after considering the cash requirement for the next three years.
- c The municipality must within 30 days after an investment with a term of 12 months or longer has been made, publish in a local newspaper in circulation within its area of jurisdiction, full details of any investments so made.

8.3. Withdrawals

All investment amounts withdrawn and not to be reinvested at the same institution at the time of withdrawal, shall be paid into the primary bank account.

All interest shall be paid into the primary bank account at the time of withdrawal of an investment, irrespective of the capital being reinvested.

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The principles and procedures set out above must apply to other investment possibilities subject to the applicable legislation, which is available to the municipality, including debentures and other securities of the state as well as other municipalities or statutory bodies in the Republic of South Africa, instituted under and in terms of any law.

10. CONTROL OVER INVESTMENTS

10.1 An investment register should be kept of all investments made. The following information must be recorded:-

- a. name of institution;
- b. capital invested;
- c. date invested;
- d. interest rate;
- e. maturation date;
- f. interest received;
- g. capital repaid; and
- h. balance invested.

10.2 The investment register and accounting records must be reconciled on a monthly basis.

10.3 The investment register must be examined on a weekly basis to identify investments falling due within the next week.

10.4 Interest, correctly calculated, must be received timeously, together with any distributable capital.

10.5 Investment certificates, if issued, must be kept in a safe place with dual custody.

10.6 The following documents must be safeguarded:-

- a. Fixed deposit letter or investment certificate;
- b. Receipt confirmation for capital invested;
- c. Copy of electronic transfer or cheque requisition;
- d. Schedule of comparative investment figures;
- e. Commission certificate indicating no commission was paid on the investment; and
- f. Interest rate quoted.

11. IMPLEMENTATION AND REVIEW OF POLICY

This policy shall be implemented on 1 July 2017 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives

OVERSTRAND MUNICIPALITY – INVESTMENT POLICY

and with legislation.

12. SHORT TITLE

This Policy shall be called the **Investment & Cash Management Policy of the Overstrand Municipality**.

POLICY SECTION:	SENIOR MANAGER: FINANCIAL SERVICES
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**OVERSTRAND
MUNICIPALITY**



BUDGET POLICY

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OVERSTRAND MUNICIPALITY – BUDGET POLICY**PREAMBLE**

In the spirit of the Municipal Finance Management Act, (No.56 of 2003), to modernise budget and financial management practices by placing local government finances on a sustainable footing in order to maximize the capacity of municipalities to deliver services to all residents customers, users and investors, and,

Whereas chapter 4 of the Municipal Finance Management Act, (No 56 of 2003) determines that a municipality may, except where otherwise provided in the Act, incur expenditure only in terms of an approved budget; and within the limits of the amounts appropriated for the different votes in an approved budget,

Therefore the Overstrand Municipality adopts the budget policy set out in this document.

OVERSTRAND MUNICIPALITY – BUDGET POLICY**1. OBJECTIVES OF POLICY**

The policy sets out the budgeting principles which Overstrand Municipality will follow in preparing each annual budget. The policy aims to give effect to the requirements and stipulations of the Municipal Finance Management Act in terms of the planning, preparation and approval of the annual budgets.

The policy shall apply to all the relevant parties within the Overstrand Municipality that are involved throughout the budget process.

A Budget Steering Committee will be established to guide the budget process.

2. BUDGET PRINCIPLES**2.1. Capital Budget**

The capital budget refers to the allocations made to specific infrastructural projects and the purchase of equipment and other forms of assets, as classified per the Overstrand Asset Management Policy.

2.1.1 Basis of Calculation

- a. The current three year MTREF budget is the departure point in preparing the subsequent annual capital budget.
- b. The annual capital budget shall be based on realistically anticipated revenue, which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- c. The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.
- d. In addition, the council shall consider the likely impact of such operational expenses, net of any revenues expected to be generated by such items on future property rates and service tariffs.

2.1.2 Financing**Own Financing Sources****Own financing consists of the following sources:**

- a. Unappropriated cash-backed surpluses from previous financial years, to the extent that such surpluses are not required for operational purposes and cash resources are adequate for cost coverage and liquidity ratio.
- b. Borrowing (External Loans)

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- c. Proceeds on the sale of fixed assets, less cost to sell, in terms of the Asset Management-, Administration of Immovable Property- and Accounting policies.

Other Financing Sources (External)

The external funded capital budget shall be financed from external sources such as the following:

- a. Grants and subsidies as allocated in the annual Division of Revenue of Act.
- b. Grants and subsidies as allocated by Provincial government.
- c. Public contributions and donations.
- d. Any other external financing source secured by the local authority.

2.1.3 Process and responsible parties

The process to be followed in the compilation of the capital budget is as follows:

- a. The current 3 year MTREF budget is the departure point in preparing the subsequent annual capital budget.
- b. The CFO, in conjunction with the Senior Manager: Financial Services and the Manager: Budget Office and after consultation with the Budget Steering Committee sets the reasonable growth level of the capital budget to be financed out of own and external sources and determines affordability.
- c. The draft capital budget is compiled based on the projects that emanated out of the engagements with the different stakeholders.
- d. The CFO, together with the Senior Manager: Financial Services and the Manager: Budget Office, engage with the Directors and the Senior Manager: Strategic Services in order to determine the priorities for a particular financial year and to determine the ranking of projects based on these priorities.
- e. The draft capital budget is submitted to the Budget Steering Committee for perusal and suggestions.
- f. The draft capital budget is tabled in Council at least 90 days (31 March) before the start of the new financial year.
- g. After the draft budget is tabled in Council, it is advertised for public comment for a period of 30 days.
- h. Once the comments from the public have been received, noted and considered, any amendments and the final budget are tabled in Council for final approval, at least 30 days (31 May) before the start of the financial year.

OVERSTRAND MUNICIPALITY – BUDGET POLICY**2.1.4 Implementation**

- a. After the budget has been approved, the service delivery and budget implementation plan (SDBIP) is finalised.
- b. The SDBIP must be submitted to the Mayor within 14 days after aforementioned approval, for approval within a further 14 days.
- c. Each director indicates the intended spending for both capital and operating budgets.
- d. Cash flows are included in the Service Delivery and Budget Implementation Plan of the organisation.
- e. The SDBIP is monitored on a monthly basis.
- f. Each project manager uses the respective cost allocation and unique key numbers as indicated on the capital budget.

2.2. Operational Budget

The operational budget refers to the funds that would be generated for the delivery of basic services, grants & subsidies and any other municipal services rendered. These funds are in turn used to cover the expenses incurred in the day to day running of the organization.

2.2.1. Basis of Calculation

- a. The zero based and incremental approach is used by budget holders in preparing the annual operating budget, depending on the type of revenue or expenditure.
- b. The annual operating budget shall be based on realistically anticipated revenue, which should at least be equal to the anticipated cash operating expenditure in order to result in a balanced budget.
- c. An income based approach shall be used where the realistically anticipated revenue would firstly be projected. The level of operating expenditure will then be based on the projected revenue, thus resulting in a balanced budget.

2.2.2. Financing

The operating expenditure shall be financed from the following sources:

- a. **Service Charges**
 - (i) Property Rates
 - (ii) Electricity Charges
 - (iii) Water Sales

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(iv) Refuse Removal Fees

(v) Sewerage Fees

Service charges shall be based on the tariff growth rate as agreed upon plus a growth rate of the town.

b. Grants, Subsidies, Conditional Receipts & Awards

Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other allocations received by the organization.

c. Interest on Investments

The budget for interest on investments shall be in accordance with the Investment and Cash Management Policy of the organization.

d. Rental Fees

Fees for rentals will be determined based on the percentage growth as determined by contracts for a particular budget year.

e. Fines

Revenue from fines will be budgeted for based on the projected fines that will be issued during the financial year.

f. Other Income

All other income items will be budgeted for based on the historic trends.

2.2.3 Budget Categories

The following expenditure categories shall be accommodated in the operating budget:

a Salaries, Wages and Allowances

The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organised labour and the employer for a particular period. The remuneration of all political office bearers is based on percentages as gazetted.

b Bulk Purchases

The expenditure on bulk purchases shall be determined using the tariffs as stipulated by NERSA from time to time.

c Impairment

OVERSTRAND MUNICIPALITY – BUDGET POLICY

Impairment losses will be budgeted for to the extent that Assets and other financial assets, such as Debtors and receivables from Fines, are impaired.

d Other General Expenditure

A percentage growth for all other general expenditure shall be based on budget requests to be considered by the Budget Steering Committee in line with growth rates and the CPI.

e Repairs and Maintenance

The budget of repairs and maintenance shall be based on budget requests to be considered by the Budget Steering Committee in conjunction with the needs of the departments in terms of repairing and maintaining their assets.

f Capital Expenses

Capital expenses refer to:

- i) Interest payable on external loans taken up by Council. The budget for interest on external loans will be determined by the repayments that the municipality is liable for based on the agreements entered into with the lenders.
- ii) Interest on Finance Leases
- iii) Depreciation, based on the estimated useful lives of assets.

g Contributions to Provisions

Refers to the contribution made to provisions (e.g. leave, bonus, rehabilitation of land-fill sites, clearing of alien vegetation) on an annual basis and is calculated from relevant data and any other factors that could have an effect.

h Recharges

This category refers to interdepartmental charges (Overheads) within the organization. The performance of each of the line items is analyzed and then the budget is based on the preceding year's performance.

2.2.4. Process

- a. The CFO, in conjunction with the Senior Manager: Financial Services and the Manager: Budget Office, and after consultation with the Budget Steering Committee, sets the reasonable growth level of the operational budget based on the current financial performance and the prevailing industry growth levels. (i.e. CPI).
- b. After the income has been determined, an acceptable growth level for the operating expenditure is determined and the draft operating budget is

OVERSTRAND MUNICIPALITY – BUDGET POLICY

discussed with the relevant Directors for their perusal and amendments.

- c. The draft operating budget is compiled based on the submissions from the engagements with the different stakeholders.
- d. The draft operating budget serves before the Budget Steering Committee for perusal and suggestions.
- e. The draft operating budget is tabled in Council at least 90 days (31 March) before the start of the new financial year.
- f. The draft SDBIP is tabled in Council at least 90 days (31 March) before the start of the new financial year.
- g. After the draft budget is tabled in Council, it is advertised for public comment for a period of 30 days.
- h. Once the comments from the public have been received, noted and considered, the final budget (inclusive of any amendments) is tabled in Council for adoption, at least 30 days (31 May) before the start of the financial year.
- i. Sect 25(1) of the Municipal Finance Management Act (56 of 2003) states that "if a municipal council fails to approve an annual budget, including revenue raising measures necessary to give effect to the budget, the Council must reconsider the budget and again vote on the budget, or on an amended version thereof, within 7 days of the Council meeting that failed to approve the budget."

2.2.5. Implementation

- a. After the budget has been approved, the service delivery and budget implementation plan (SDBIP) is finalised.
- b. The SDBIP must be submitted to the Mayor within 14 days after aforementioned approval, for Mayoral approval with a further 14 days.
- c. Each director indicates the intended spending for both capital and operating budgets.
- d. Cash flows are included in the Service Delivery and Budget Implementation Plan of the organisation.
- e. The SDBIP is monitored on a monthly basis.
- f. Each directorate uses their respective vote numbers as indicated on the operational budget.

OVERSTRAND MUNICIPALITY – BUDGET POLICY**2.3. Adjustments Budget**

- 2.3.1 A general adjustments budget may be tabled once a year by 28 February.
- 2.3.2 The adjustments budget process shall be aligned to the annual budget in terms of consideration by the Budget Steering Committee.
- 2.3.3 The adjustments budget must be approved by Council before implementation.
- 2.3.4 Any consequential amendment of the SDBIP necessitated by the adjustments budget must be published together with the adjustments budget within 5 days after the Municipal Council has approved an adjustments budget.

3. IMPLEMENTATION AND REVIEW OF POLICY

This policy shall be implemented on 1 July 2017 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.

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