



**ALFRED NZO**  
DISTRICT MUNICIPALITY

**CONTRACT MANAGEMENT POLICY**  
2024-2025

This document must be read together with the relevant Supply Chain Management Regulations, Contract Management Framework, Practice Notes, Instruction Notes and Circulars issued in terms of the Municipal Finance Management Act, Act 56 of 2003.

### POLICY APPROVAL

The policy was approved by the Council meeting on the:

DATE OF APPROVAL : 17 MAY 2024

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## DEFINITIONS

<b>Bid</b>	A written offer or stipulated form, in response to an invitation by an institution for the provision of services or goods, > R200 00, in value.
<b>Cession</b>	Means when a contract/agreement is relinquished to another individual/institution.
<b>Closeout</b>	Means when a contract is considered complete and the service provider has complied with all terms and conditions of the contract, and the Institution has inspected and accepted the goods/services and/or works.
<b>Consortium</b>	A consortium is an association of two or more individuals/companies with the objective of participating in a common activity or joining their resources to achieve a common goal.
<b>Contract</b>	Agreement (explicit or implied) legally binding two or more parties to the terms of the agreement.
<b>Contract Administrator</b>	Means the official that is responsible for the continuous updating of the contract register and management and control of all documentation relating to the contract.
<b>Contract Amendment</b>	Means changing the scope, nature, duration, purpose or objective of the agreement or contract.
<b>Contract Life Cycle</b>	The stages of a contract encompassing planning, creation, collaboration, execution, administration and closeout or renew.
<b>Contract Management</b>	Means the holistic term for all activities in the contract lifecycle that is undertaken by all role players involved in a contract and include the, Contract Manager, Contract Owner, contract champion and supplier.
<b>Contract Manager</b>	Means the official responsible for overall contract management in an institution.
<b>Contract Owner</b>	Means the official that is ultimately accountable for the deliverables during the contract lifecycle relevant to the service

	delivery target that the contract seeks to achieve.
<b>Contract Price</b>	The all-inclusive price of the contract over the complete duration of the contract and includes price escalations, cost of contract variations, disbursements, VAT, etc.
<b>Service provider</b>	The contracting party that represents a Supplier, Service Provider or Vendor.
<b>Deliverable</b>	Any measurable, tangible, verifiable outcome, result or item that must be produced, delivered or constructed to meet the strategic objectives and service delivery targets of an institution.
<b>Extension</b>	Means when an institution decides to increase the term of a contract/agreement mutually agreed upon in writing, but for no longer than six months in terms of Treasury Regulations.
<b>Finance Lease</b>	A lease that transfers substantially the risks and rewards of ownership of an asset. Title may or may not eventually be transferred.
<b>Firm Price</b>	The price that appears on the Purchase Order and is not affected by price fluctuations due to specific industry price escalations for the duration of the contract.
<b>Goods</b>	Tangible movable products that are purchased from a Supplier and consumed by the institution, excluding purchases of capital assets.
<b>Institution</b>	Municipality or Municipal Entity.
<b>Joint Venture</b>	Means a business arrangement in which two or more parties agree to join together their resources for the purpose of completing a project.
<b>Operating Lease</b>	A lease other than a finance lease and is regarded as a current payment.
<b>Project</b>	The project named in the contract on the cover page.
<b>Purchaser</b>	The acquiring public sector entity or institution.
<b>Quotation</b>	An informal written or verbal offer in response to an invitation by an institution, < R200 000 in value.

<b>Renewal</b>	Means to allow a contract/agreement to continue for a defined period if the existing contract/agreement provides for a renewal period after the termination date.
<b>Service Provider/ Supplier/ Vendor</b>	The contracting party named in the contract that is required to provide goods, services and or works to the institution.
<b>Services</b>	The tasks to be performed by the Service Provider pursuant to the contract as described in the Terms of Reference advertised in the Invitation to Bid.
<b>Sub-Service provider</b>	A person or entity that enters into a subcontracting agreement with the Service Provider/ Supplier to execute part of the contract.

**Table 1: Definitions**

## GLOSSARY

<b>AA</b>	Accounting Authority
<b>AO</b>	Accounting Officer
<b>ASB</b>	Accounting Standards Board
<b>CLMS</b>	Contract Life-Cycle Management System
<b>CMD</b>	Contract Management Database
<b>ECM</b>	Electronic Content Management
<b>GCC</b>	General Conditions of Contract
<b>GRAP</b>	Generally Recognised Accounting Practice
<b>MFMA</b>	Municipal Finance Management Act, Act No. 56 of 2003
<b>MOA</b>	Memorandum of Agreement
<b>MOU</b>	Memorandum of Understanding
<b>MTEF</b>	Medium Term Expenditure Framework
<b>NT</b>	National Treasury
<b>PPP</b>	Public Private Partnership
<b>SBD</b>	Standard Bidding Documents
<b>SCC</b>	Special Conditions of Contract
<b>SCM</b>	Supply Chain Management
<b>SCOA</b>	Standard Chart of Accounts
<b>SLA</b>	Service Level Agreement
<b>TR</b>	Treasury Regulations

**Table 2: Glossary**



## INTRODUCTION

This policy framework is designed to support Alfred Nzo District Municipality, in developing a sound, consistent and effective procedure to managing the diverse range of contracts. The objective of municipality procurement contracting is to acquire goods, services and/ or works and to carry out contracts in a manner that enhances access, competition and fairness and results in best value or, if appropriate, the optimal balance of overall benefits to the Municipality and the people of South Africa at large.

The intention of this Policy Framework is to define the parameters and set out a clear basis for the creation and application of appropriate processes and procedures that should result in efficient and value-adding procedures within Alfred Nzo District Municipality in accordance with the prescribed legal, financial and ethical requirements. It will assist to properly deliver the required outputs with clarity, effectiveness and accountability, and to further enable standard application of the required processes, thereby resulting in accuracy and consistency in decision-making.

In accordance with the National Treasury Contract Management Guidelines, 2010, contract management should deliberately focus on the activities associated with the operational phase of the contract after the contract has been awarded and is functional and being implemented. It is, however, fully acknowledged that successful contract management is significantly dependent on what happens before, during and after the tendering and award phases. For example, the quality of the original specification included in the bid documentation, and the agreed terms and conditions, play a critical role in enabling the effective management of the contract. Therefore, procurement planning during the tendering, contract award and the contract management phases should be seen as a continuum, with effective contract management planned from the very start of the procurement process. 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.

## **SCOPE AND APPLICATION**

This Policy Framework is applicable to Alfred Nzo District Municipality, for contracts that are valued greater than R200 000 and with a duration of more than 12 months.

This framework addresses the contract management lifecycle using the policies in the following

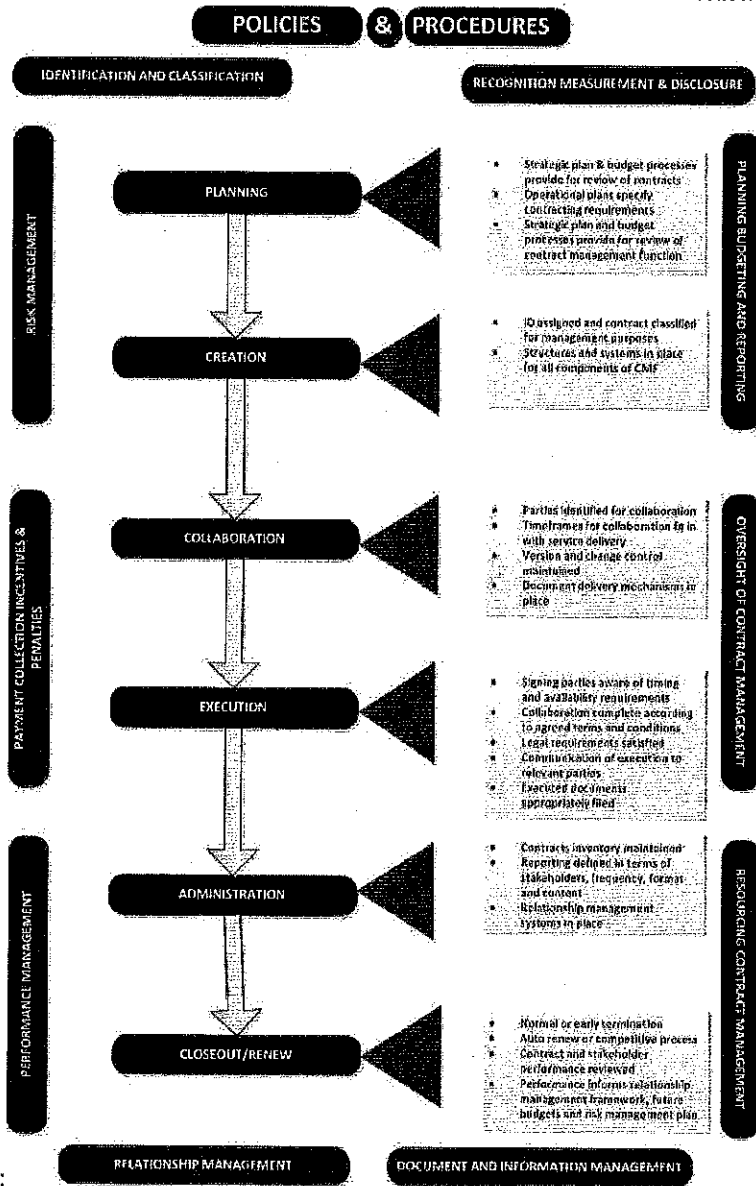


diagram:

**Figure 1: Contract Management Framework**

## 1. IDENTIFICATION AND CLASSIFICATION OF CONTRACTS

There are two main categories of contract which are used by Public Institutions for identification and classification purposes. They are Formal and Informal Contracts.

TYPE OF CONTRACT	DESCRIPTION
<b>Formal Contracts</b>	<p>a) A formal contract is an agreement between two or more parties and is made legally enforceable by following a prescribed format by incorporating conditions and clauses in its body.</p> <p>b) By entering into a formal contract, the parties are clearly defined and agree to the terms and conditions incorporated, which are clearly delineated and precisely defined in the contract document.</p> <p>c) Formal contracts are most reliable as the conditions within the contract limit the risk of ambiguity between the parties, which in turn offers a meeting of the minds.</p> <p>d) There are many types of formal contracts which can be used, depending on the type of goods, works and/or service to be provided, the timeframe of the contract, as well as the level of risk associated with executing the requirements of the agreement:</p> <p><b>i) Bilateral Agreements</b> An agreement between two parties, where one party agrees to act in exchange for a remunerative value.</p> <p><b>ii) Service Level Agreement (SLA)</b> A SLA is a contract between parties, which details the <b>nature, quality, cost and scope of the service</b> to be provided over a specified period of time.</p>

TYPE OF CONTRACT	DESCRIPTION
	<p><b>iii) Memorandum of Agreement (MOA)</b>  A MOA is a contract between parties that defines the obligations of all parties to co-operate on an agreed upon project or meet an agreed objective.</p> <p><b>iv) Tripartite Agreement</b>  A Tripartite Agreement is a contract which shares the objective agreement between three parties. The interest of all three parties are documented and the exchange or duty of each party sealed.</p>
<b>Informal Contracts</b>	<p>a) An informal contract can be defined as a contract that is not nor needs not be in a prescribed format to be legally valid or binding.</p> <p>b) An informal contract derives its force not from the observance of the formalities required to render it formal, but rather from the elements which fulfill the requirements of a binding contract.</p> <p>c) The contract is enforceable because the parties to the contract have met the requirements concerning the substance of the agreement rather than the requirements concerning the form of the agreement.</p> <p>d) An informal contract has the full weight of the law as long as the basic requirements of a contract have been met.</p>

**Table 3: Types and Description of Contracts**

This Policy Framework provides a standard approach to contracting Alfred Nzo District Municipality, in the purchase of goods, services and/ or works that are similar in nature. The standard approach is based on a comprehensive analysis of contracts that municipalities in the province usually enter into with respective service providers.

A further typology is provided below, on the basis of the type of contract that will best suit:

- a) The nature of the goods, services and/ or works being procured; or
- b) The nature and type of municipalities that are entering into an agreement.

The types of contracts that should be used should take the form of any of the types listed below:

TYPE OF CONTRACT	DESCRIPTION
<b>Memorandum of Understanding (MOU)</b>	<ul style="list-style-type: none"> <li>a) A Memorandum of Understanding (MOU) is a legal document describing a bilateral agreement between parties.</li> <li>b) It expresses a convergence of will between the parties, indicating an intended common line of action, rather than a legal commitment.</li> <li>c) It is a more formal alternative to a gentlemen's agreement, but generally lacks the binding power of a contract.</li> <li>d) It is usually selected in agreements between Public Entities or between a Public Entity and a Non-Profit Organisation, and does not involve an exchange of goods, services and/ or works for payment.</li> </ul>
<b>Service Level Agreement (SLA)</b>	<ul style="list-style-type: none"> <li>a) A SLA is a contractual agreement that is legally binding and entered into by a Service provider and the</li> </ul>

TYPE OF CONTRACT	DESCRIPTION
	<p>Municipality that specifies services that will be rendered, in lieu of specified payment.</p> <p>b) It is a contract between parties, which details the <b>nature, quality, cost and scope of the service</b> to be provided over a specified period of time.</p>
<b>Memorandum of Agreement (MOA)</b>	<p>a) A MOA is a contract between parties that defines the obligations of all parties to co-operate on an agreed project or meet an agreed objective.</p> <p>b) The purpose of an MOA is to have a written understanding of the agreement between parties.</p> <p>c) 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.</p>
<b>Transversal Contract</b>	<p>a) This is a contract facilitated and awarded by National or Provincial Treasury, with negotiated prices, considering the economies of scale, frequency and other variables.</p> <p>b) All Departments, Public Entities and Municipalities have an opportunity to participate in a transversal contract, while they retain the right to stipulate terms and conditions specific to their needs within the provisions of the main contract.</p>
<b>Lease</b>	<p>a) 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.</p> <p>b) A finance lease is a lease in which all of the risks and rewards related to ownership are transferred from the</p>

TYPE OF CONTRACT	DESCRIPTION
	<p>lessor to the lessee.</p> <p>c) 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.</p> <p>d) 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.</p> <p>e) The parties to the lease agreement are the Lessor and the Lessee.</p>
<b>Umbrella Contract</b>	<p>a) 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.</p> <p>b) The "umbrella contract" tends not to have a fixed price.</p> <p>c) As a result, it should always be accompanied by a Purchase Order that provides the price and deliverables as an annexure to the main contract.</p>
<b>Tripartite Contracts</b>	<p>a) These are contracts that involve three parties.</p>

**Table 4: Types and Description of Contracts**



## 2. OVERSIGHT OF CONTRACT MANAGEMENT

The policy framework places the responsibility of providing oversight of contract management activities on the AO.

The AO has the primary responsibility of ensuring that the necessary systems and standard operating procedures are in place for effective contract management. They also have to ensure that contracts are planned and budgeted for, that terms and conditions of the contracts are enforced, and Municipality receives good value for money.

More specifically, the oversight of contract management must address the following key issues:

- a) The Alfred Nzo District Municipality Contract Management Policy and Procedure Framework must be implemented to govern the contract management function and practices.
- b) Contracts must be properly enforced.
- c) A single person or committee must be allocated the responsibility for contract management.
- d) Roles for Contract Owners, Contract Managers and other stakeholders must be clearly defined.
- e) A system to provide early warning signals to support the contract management process must be implemented in municipality.
  - i) For every bid awarded to a Service provider, the following requirements must be adhered to:
  - ii) A formal contract must be entered into by the Municipality with the successful bidder.
  - iii) The Contract must:
    - Include **GCC**, which clearly define the responsibilities, obligations, etc. for all contracting parties, as well as penalties for poor performance, etc.
    - Include **SCC** – that is clauses that may not be covered by the GCC.

- i) Expenditure must be managed against the contract value, the procurement plan and budget.
- j) Members to Panels of Service Providers, Transversal Contracts & others must have individual contracts to regulate relationships between the Service provider and Participating Municipality, obligations in terms of performance against agreed service levels, payment milestones, price escalations, discounts, penalties for non-performance, dispute resolution, variations, etc.
- k) On-going contract management training must be provided during induction, as well as refresher training.
- l) Contract management policies and procedures must be reviewed at least annually.
- m) Municipality must ensure contract management audit queries are processed within the stipulated timeframes to achieve positive audit outcomes.

## **2.1 Monitoring and Reporting**

Monitoring mechanisms should be put in place to ensure early identification of risks, non-delivery and poor performance by the Service provider, as well as early detection of other possible hindrances to service delivery.

The AO must:

- a) Enforce adherence to terms and conditions; and
- b) Implement appropriate monitoring mechanisms that reflect the classification of the contract.

Regardless of how the contract monitoring is performed, accountability for accepting contract deliverables remains with the AO.

Information provided by a service provider for monitoring purposes should be reviewed and audited, as necessary, to ensure that it:

- a) Receives regular reports on contract performance; and
- b) Verifies the accuracy and reliability of the report, including conducting sample audits to authenticate performance information.

## **2.2. Reviews and Audits**

The management of contracts is conducted to, amongst other reasons, inform future procurement activities, selection of service providers to be awarded contracts, as well as to inform the choice of contract types, and the drafting of contracts. As a result, regular reviews should be conducted to determine the extent to which contracts represented good value for money, or not.

Audits of the contract should also be conducted by a different team from that responsible for contract management, in order to gauge the effectiveness of the controls that are put in place for contract management. Audits should also be extended to other stakeholders, including service providers and contract owners, regarding the quality of the goods, works and services they provided or received.

### 3. RESOURCING CONTRACT MANAGEMENT

#### 3.1. Role Clarification, Delegation of Responsibilities and Resourcing

The clarification of roles and responsibilities, including delegations, is central to the creation of an effective contract management system. The assignment of roles and responsibilities should be informed by:

- a) The level of complexity of the contract;
- b) The level of risk associated with the contract; and
- c) The duration of the contract. The AO must:
  - i) Assign teams and/or individuals to coordinate contract management; and
  - ii) Clarify roles and responsibilities in the contract management life cycle.

The typical roles and responsibilities in contract management are as follows:

ROLE	RESPONSIBILITIES
Contract Owner	<p>The contract owner should be tasked with the following:</p> <ul style="list-style-type: none"> <li>(a) Draft an SLA (When applicable) and submit to Legal for review and MM for approval</li> <li>(b) Monitor the service provider's progress and performance to ensure goods, services and/ or works conform to the contract requirements.</li> </ul>

ROLE	RESPONSIBILITIES
	<ul style="list-style-type: none"> <li>(c) Regular meetings with the service provider to review progress, discuss problems and consider necessary changes.</li> <li>(d) Consider project reports to advise the Contract Administrator of the performance or non-performance of the service provider and risks associated with the project.</li> <li>(e) Recommend the processing of payments consistent with the contract terms and conditions of payment.</li> <li>(f) Participate, as necessary, in developing the bid documents (specifications, scope and standards of delivery), as well as contract documents.</li> <li>(g) Resolve operational issues as they arise.</li> <li>(h) Generate change requests.</li> </ul>
<b>Contract Manager</b>	<p><b>The Contract Manager should be tasked with the following:</b></p> <ul style="list-style-type: none"> <li>(a) Establish procedures and guidelines for managing all contracts.</li> <li>(b) Authorize payments consistent with the contract terms and conditions of payment.</li> <li>(c) Manage risks and resolve disputes in a timely manner.</li> <li>(d) Maintain appropriate records.</li> <li>(e) Monitor performance data and address non-conformance.</li> <li>(f) Be the first line of dispute resolution.</li> <li>(g) Receive and consider performance reports from the service provider.</li> </ul>
<b>Contract Administrator</b>	<b>The contract administrator should be tasked with</b>

ROLE	RESPONSIBILITIES
	<p><b>the following:</b></p> <ul style="list-style-type: none"> <li>a) Keep all contract records, including bid documents, letters of awards, purchase orders, signed contract documents and amendments or variations to the contract.</li> <li>b) Create and maintain the contract registers.</li> <li>c) Manage contract amendments and variations – including scope variations, extension of contract periods, renewal and others.</li> <li>d) Institute penalties and issue warning letters to non-performing service providers.</li> <li>e) Recommend the processing of payments after verifying performance with Contract Manager.</li> <li>f) Conduct regular legal and financial reviews of contracts.</li> <li>g) Open and close projects on the contract management system.</li> </ul>
<p><b>Budget and Treasury Office (SCM Unit)</b></p>	<p><b>Budget and Treasury Office (SCM Unit) section should be tasked with the following:</b></p> <ul style="list-style-type: none"> <li>(a) Establish the type of contract required.</li> <li>(b) Negotiate heads of agreement.</li> <li>(c) Draft contract documents together with contract manager, based on Provincial templates and bid documents for specific contracts.</li> <li>(d) Oversee the signing of contracts.</li> <li>(e) Resolve disputes in consultation with legal Department.</li> </ul>
<p><b>Internal Audit</b></p>	<p><b>Contract reviewers should be tasked with the following:</b></p> <ul style="list-style-type: none"> <li>(a) Conduct scheduled audits of contracts, based on</li> </ul>

ROLE	RESPONSIBILITIES
	<p>the provisions of this policy framework.</p> <p>(b) Establish if sufficient checks and balances exist in the contract management life cycle.</p>

**Table 5: Roles and Responsibilities**

**4. DOCUMENT AND INFORMATION MANAGEMENT**

This policy framework requires AO to maintain sound records, document and information management systems for contract management.

**4.1 Contract Documentation**

- a) A valid contract is concluded and becomes binding when a bidder's bid is accepted by the municipality against an official purchase order and a signed letter of acceptance, by an authorised person, has been sent before the validity period has expired.
- b) The contract concluded must consist of:
  - i) The GCC issued by the National Treasury;
  - ii) Where applicable, SCC that enhance the GCC in relation to the specific goods, services and/ or works procured;
  - iii) Submitted bid documents;
  - iv) Documentation for the claiming of preferential procurement points;
  - v) Tax PIN number certificate; and
  - vi) Letter of acceptance.
- c) Contracts relating to information technology must be prepared in accordance with the State Information Technology Act, 1998 (Act 88 of 1988), and any regulations issued in terms of that Act.

**4.2 Standard Bidding Documents**

All contracts must be based on the GCC, issued by the National Treasury. Where no relevant municipal bidding documents (MBD) have been issued, the municipality should use other internationally recognised standard contract forms acceptable to the AO, in concurrence with the relevant Treasury.

The standard wording of the GCC must not be amended. The standard bid documentation and GCC issued by the Construction Industry Development Board must be utilized in cases of bids related to the construction industry.

The bid documents should clearly state the type of contract to be entered into and contain the appropriate contract provisions. The most common types of contracts provide for payments on the basis of lump sum prices, unit prices, reimbursable costs plus fees, or combinations thereof.

Reimbursable cost contracts should be acceptable only in exceptional circumstances, such as contracts with conditions of high risk or where costs cannot be determined in advance with sufficient accuracy. Such contracts should include appropriate incentives to limit costs and may only be concluded subject to the approval of the AO or AA.

#### **4.3 Contract File**

A contract file should be opened for each contract that includes the following documentation:

- a) Letter of Award;
- b) Purchase Order;
- c) A contract, signed by all parties post-award;
- d) All correspondence between the contracting parties;
- e) Record of payments;
- f) Evidence of delivery as provided for in the agreement;
- g) Record of amendments to the contract (including extension of time frames or expansion of scope);
- h) Record of reviews and audits conducted on the contract; and
- i) Risk assessment reports, where applicable.

#### **4.4 Contract Register/Commitments**

A contract register should be created and updated regularly. This register should include the following information:

- a) Contract identifiers (unique ID, corresponding bid/ quotation/ requisition number and purchase order number);
- b) Contract type and category;
- c) Service provider identifiers (Name of appointed bidder, Provincial database registration number, type of service provider);
- d) Description of Goods/Services/Works/Projects;
- e) Contract Value (if applicable, include percentage escalation and any other financial value);
- f) Contract period (start date, end date, duration, extension date where applicable, and early termination date where applicable); and
- g) Payment history (milestones/deliverables, actual dates of payment, payment penalties levied).

Internal Audit should conduct scheduled audits of the document and information systems that are set up in an municipality. The audit should verify that:

- a) Checks and balances are being implemented for system access controls designed to ensure unauthorised employees do not have access to, and cannot amend or alter, contract information.
- b) Contract files and contract registers exist, and are a true record of the status of the contracts.
- c) Payments are made on the basis of verifiable proof of delivery of goods, services or works as provided in the contract.
- d) The municipality conducts periodic quality assurance reviews of the information in the register.
- e) Payments are made in accordance with the terms and conditions of the contract.

#### 4.5. Variation Orders, Extensions and Retention

(a) A variation order may only be issued after -

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(i) the need for such order has been fully motivated by the responsible project manager and supported by the head of department concerned;  
and

(ii) the chief financial officer has certified that funds are available to cover



the cost the required additional work.

(c) A request for the issue of a variation order in an amount exceeding R200 000 shall first be referred to the Bid Adjudication Committee which considered the initial bid for approval provided that the accounting officer may constitute a new Bid Adjudication Committee for this purpose.

(d) No request for a variation order may be approved in circumstance where new bids may be invited for the additional work concerned.

(e) The line manager responsible for the implementation of a project undertaken either departmentally or through an appointed contractor must keep a proper record of all variation orders issued in respect of a project.

(f) The original copy of an issued variation order must be filed with the original bid and contract documents;

(g) The responsible line manager must, upon completion of additional work or the expiry of any extended contract period authorized by a variation order, certify that the terms and conditions of such variation order have been complied with. This should form part of the overall project completion report.

(h) The Limit of retention must not be less than 5% of the Contract Price and not be more than 10% of the contract Price, this will must be set at approval of tender document by bid Specification.

~~Accounting Officer of the municipality may deem it necessary to expand or vary orders against the original 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. The variations orders of Alfred Nzo District Municipality is approved through Bid Evaluation Committee and Bid Adjudication Committee.~~

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Proposed variations would be assessed to ensure that they do not breach legislation, procurement policy and financial delegation levels and the reasons clearly documented.

The Bid Evaluation Committee would receive the variation submissions from the responsible Contract Owner as a governance structure and would then ensure variations are analysed and assessed independently of the Contract Management Section prior to approval and sign-off. Necessary negotiations are necessary for significant variations.

The Variation submission may include but not limited to the following in line with the actual Contract:-

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- Change in scope of work (positive and negative)
- Change in execution of the work
- Change in resources or facilities required
- Revision of rates
- Extension of the duration of the contract
- Settlement of a claim arising from the contract

**-NB:** Under no circumstances must Variations be used to mask poor performance or serious underlying problems, as the effect on original timeframes, deliverables and value for money must be assessed.

#### 4.6. AMENDMENTS/ EXTENSION OF CONTRACT

(a) The accounting officer or nominee may, subject to subparagraphs (b) to (d) authorize the issue of variation orders in respect of contract specifications or conditions of contract in order to accommodate costs for additional work either unforeseen when contracts were awarded for infrastructure projects, essential or necessary additional work or in instances where factors beyond the control of an appointed contractor has led to or will lead to a delay in a contract completion date.

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Contract or agreement procured through the supply chain management policy of the municipality or municipal entity may be amended by the parties but only after:

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(b) The accounting officer or nominee may, subject to subparagraphs (c) to (d) authorize the issue of variation orders in respect of contract specifications or,

(c) (a) For contract amendment the reasons for the proposed amendment/extension have been tabled in the council of the municipality or in the case of municipal entity, in the council of its parent municipality, where there are financial implications;

(ib). the local community

(ii). has been given reasonable notice of the intention to amend the contract or agreement; and

(iii). has been invited to submit representations to the municipality or municipality

The extension can only be done if the duration of the agreement has not lapsed. The extension is done by a way of an addendum and which must be signed by both parties to the agreement. The extension of the life cycle of the agreement must be the same, consistent irrespective of whether the extension has the financial implications or not.

#### **4.7. Approval timelines for Variation Orders**

The approval of the variation order by the Bid Adjudication Committee should be finalized within three days of submission of the request by the user Department.

The Accounting Officer must approve the Variation order within 3 days. If the Variation order is not approved it will be referred back to the Department.

#### **4.7.4.8. Retentions and Commitments**

The limit of retention must not be less than 5% of the Contract Price and not be more than 10% of the contract price, this will be set at approval of tender document by bid specification.

#### **4.8.4.9. Cessions and Assignment**

Cession must be done when the duration between the parties is still valid. Cession must be initiated before job is done. The cession agreement must be between the

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cessionary and the cedent. Cessions agreements must be approved by HOD of the department. It must be drafted by Legal Services Unit. Signatories to the cession agreement are Cessionary, Cedent, HOD and Legal Services with a stamp.

## **5. RELATIONSHIP MANAGEMENT**

Relationship management in the contract life-cycle should involve a deliberate effort by all parties to ensure that Alfred Nzo District Municipality's risk is minimised and that Alfred Nzo District Municipality's resources are managed effectively, efficiently and economically as required by the MFMA.

Relationship management involves the relationships between the purchasing municipality, service provider's and all the relevant officials, such as Contract Managers, Legal Advisors, Contract Owner's and Senior Management.

The type of contract, its size and duration, as well as the culture of the parties and the personalities of the people involved, will influence the relationship between the parties.

It is best practice for municipality to adopt a structured approach to managing their relationship with the service provider, which should consist of:

- a) Informal, day-to-day discussions and interactions between the service provider, the Contract Manager, Contract Owner and relevant staff; and
- b) Formal meetings at pre-determined intervals with nominated personnel from both the Municipality and the Service provider.

## **6. PERFORMANCE MANAGEMENT**

The aim of performance management is to ensure that:

- a) The service provider performs in accordance with the standards previously agreed upon;
- b) The service provider is meeting their obligations stipulated in the contract;
- c) Issues and problems are identified early in order for remedial actions to be implemented; and
- d) Price and payment terms are being adhered to.

Prior to the contract commencing the parties should discuss and agree upon the policies and procedures to be used in measuring performance. These policies and procedures must be set out in the contract. The level of performance management will depend on factors such as:

- a) Contract value;
- b) Duration of the contract;
- c) Expertise of the personnel involved;
- d) Level of risk associated with the contract;
- e) Size and nature of the contract;
- f) The goods, services and/ or works to be provided; and
- g) Type of contract.

#### **6.1. Performance Targets**

In order to determine the KPI's, it is necessary to:

- a) Identify the municipality's objectives and desired outcomes;
- b) Specify the inputs, activities and outputs necessary to achieve the municipality's objectives and desired outcomes;
- c) Select indicators that will measure critical inputs, activities, as well as key outputs; and
- d) Ensure that the selected indicators are manageable and that the required data is easily available.

Once the KPI's have been defined they are used to specify performance targets which the municipality aims to achieve within a specific time period. The performance targets need to be:

- a) **S**pecific and clearly identifiable;
- b) **M**easurable;
- c) **A**chievable;
- d) **R**elevant and linked to a desired outcome; and
- e) **T**ime bound.

Performance standards also need to be set so as to identify the minimum level of performance that will be accepted by the municipality. The performance standards and targets should be specified in the contract document and communicated to all parties prior to the commencement of the contract.

## **6.2. Delayed Performance**

The GCC provides that the service provider must perform in accordance with the contract specifications within the time schedule set out in the contract. If at any time during the contract period, the service provider is unable to perform in a timely manner, the service provider must notify the municipality in writing of the cause of and the duration of the delay. Upon receipt of the notification, the municipality should evaluate the circumstances and, if deemed necessary, the municipality may extend the service provider's time for performance which will constitute an amendment to the contract. The municipality may decide to impose a delay penalty.

In the event of delayed performance that extends beyond the delivery period, the municipality is entitled to purchase commodities of a similar quantity and quality as a substitution for the outstanding commodities, without terminating the contract, as well as return commodities delivered at a later stage at the service provider's expense. Alternatively, the municipality may elect to terminate the contract and procure the necessary commodities in order to complete the contract.

In the event that the contract is terminated the municipality may claim damages from the service provider in the form of a penalty. The service provider's performance should be captured on the service provider database in order to determine whether or not the service provider should be awarded any contracts in the future.

## **6.3 Unsatisfactory Performance**

When the municipality is not satisfied or there are problems with the service provider's performance, the municipality must:

- a) Review the conditions causing the problems and determine whether or not the municipality itself has significantly contributed to the problem;
- b) Review the contract and other relevant documentation in order to identify the rights and responsibilities of each party; and
- c) Notify the service provider in writing that their performance does not comply with the terms and conditions set out in the contract.

The written notification sent to the service provider should clearly identify the following:

- a) The problem so as to avoid any misunderstanding;
- b) The corrective actions that are to be taken;
- c) The time frame allowed for the service provider to address and correct the problem; and
- d) The consequences that would arise in the event that the problem is not corrected within the specified period.

#### **6.4 Dispute Resolutions**

Alfred Nzo District Municipality will apply different measures during the preparation and administrative phases of the contract in order to avoid any problems that may lead to a dispute. These measures include the following:

- a) Stating the contractual requirements, such as specifications and delivery dates, as clearly as possible;
- b) Using plain and clear language in the contract itself, as well as all other contract documentation;
- c) Addressing issues or problems as and when they arise to prevent them escalating; and
- d) Maintaining a good working relationship with the service provider.

The policies and procedures with regards to dispute resolution should be detailed in the contract and agreed to by both parties. The resolution options should be listed in order of preference starting with the least severe method moving towards more severe methods.

## **6.5 Termination of Contract**

Breach of contract is a legal term that describes a condition that results from failure of the party to a contract to abide by the material terms or conditions of the contract such that one party loses the value of its bargain with the other party. A breach may be indicated by one or more findings contained in the contract monitoring report and any other material reports that a contractor is not complying with the terms and the conditions of the contract.

## **7. PAYMENT, COLLECTION, INCENTIVES AND PENALTIES**

Payment provisions including the value to be paid, the schedule of payments, as well as payment procedures as agreed upon by all parties, must be stipulated within the contract. The types of payment schedules include payments made at regular intervals throughout the contract period or when agreed deliverables or outputs are achieved.

### **7.1 Payment and Collection**

The GCC states that the service provider must submit an invoice together with a copy of the delivery note, as evidence of the commodities being delivered and accepted.

- a) All amounts owed by the institution must be paid within thirty (30) days, unless stated otherwise within the contract, after the receipt of invoice.
- b) In the case of a civil claim, all payments must be settled within thirty (30) days from the date of settlement or court judgement.
- c) In the event that the municipality fails to pay within the prescribed period, it will be in breach of the contract. Only amounts under dispute can be withheld by the municipality.



- d) The Contract Manager must review all invoices submitted by the service provider in order to determine the validity of the costs claimed, as well as evaluate the total contract expenditure incurred against the actual progress of the contract.
- e) The Contract Manager must file a copy of all invoices and payment vouchers, if applicable, with the contract documentation for record purposes.
- f) In addition, the Contract Manager must maintain a payment register for each contract.
- g) The payment register is used to record all payments made to the service provider, as well as the balance of the contract value.
- h) The receipt of monies due to the municipality must be closely monitored and in the event that monies are not received within the specified terms, immediate action must be taken in order to recover all outstanding amounts.

## 7.2. Incentives / Discounts for Early Payment

In some instances service providers provide discounts for invoices settled within a period of 30-days. Contract Managers must negotiate these discounts vigorously, and ensure that if indeed payment is made within 30-days, the discounts are deducted from the remaining contract amount.

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In the event that the service provider fails to deliver any or all of the goods, services and/ or works within the time frame specified in the contract, the municipality will be able to penalise the service provider. The penalty is based on the delivery price of the outstanding goods, services and/ or works and uses the current prime interest rate to calculate an amount for each day that the delivery is outstanding up until the goods, services and/ or works are delivered to the municipality. The penalty amount is deducted from the contact value.

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Both incentives and penalties are used by the municipality in order to meet its objectives. An incentive is used as a method of encouragement while a penalty is used as a form of discouragement. It is important that both incentives and penalties are enforced uniformly.

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