



PAYMENT OF CREDITORS POLICY

POLICY HISTORY

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POLICY CHAMPION		Designation: Deputy Director -Creditors Name: Siphokazi Simakuhle Tel: 041-5061342 E-mail: ssimakuhle@mandelametro.gov.za				
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ACRONYMS

CFO	Chief Financial Officer
CSR	Contract Service Request Document
MFMA	Local Government: Municipal Finance Management Act 56 of 2003
MSA	Local Government: Municipal Systems Act 32 of 2000
NMBM	Nelson Mandela Bay Municipality
PAYE	Pay As You Earn
RDP	Reconstruction and Development Program
SARS	South African Revenue Services
SCM	Supply Chain Management
SOP	Standard Operating Procedure
UIF	Unemployment Insurance Fund
UIF+W	Unauthorised; Irregular; Fruitless and Wasteful Expenditure
VAT	Value Added Tax

1. DEFINITIONS

In the policy, unless the context indicates otherwise,

“Accounting Officer” means the municipal manager as defined in Section 1(a) of the Local Government: Municipal Systems Act 32 of 2000 and the Accounting Officer as defined in Section 1 of the Local Government: Municipal Finance Management Act 56 of 2003.

“accounts payable” means money owed by an organization to its creditor/s for goods and services purchased on credit. Also referred to as the responsible Nelson Mandela Bay Municipality Sub-Directorate dealing with the payment of its creditors.

“cash position” means the amount of cash an institution or business has available in its bank account(s).

“Chief Financial Officer” means, the person designated to this role in terms of section 81 of the MFMA.

“creditor” means a person or legal entity to whom money is owed by the Municipality.

“credit note” means a document provided by a supplier, stating that a certain amount has been credited to the *Municipality’s* account due to supplies returned.

“contract” means the agreement that results from the acceptance of a *tender* by the Nelson Mandela Bay Municipality in accordance with its Supply Chain Management Policy.

“Contract Service Request Document” means the *Municipality’s* official hardcopy authority issued to an accredited Supplier to deliver goods and/or services at a specified price, place, time and terms.

“Council” means the municipal council of Nelson Mandela Bay Municipality.

“Electronic Fund Transfer” means the electronic movement of funds from the *Municipality’s* main bank account to the different supplier’s bank accounts in the same or different banks, using wire transfer or computers but without the use of paper documents.

“emergency” includes the existence of one or more of the following:

- a) the possibility of human injury, death or suffering and the death of livestock and animals;
- b) the possibility of damage to and loss of property;
- c) the prevalence of human suffering or deprivation of rights;
- d) the interruption of essential or support services critical to the effective functioning of the *Municipality*;
- e) the possibility of serious damage to the natural environment;
- f) the possibility that the security of the state could be compromised; and
- g) the possibility that failure to take the necessary action may result in the *Municipality* not being able to render an essential community service. The prevailing situation or imminent danger should be of such a nature and scale that it could not readily be alleviated by interim measures, in order to allow time for the approval of the *Order or Contract Service Request Document* prior to the commencement of the works and/or delivery of the goods or services.

“financial year” means a year ending on 30 June.

“fruitless and wasteful expenditure” means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

“government subsidised housing top structure” is also referred to as a RDP house which government provides to a qualifying beneficiary free of charge.

“housing contract” means a *contract* concluded for the construction of subsidized housing top structures by the Municipality on behalf of the National Department of Human Settlements and where the funding from the National Department of Human Settlements that are associated with the respective contract has been received into the *Municipality’s* bank account from the National or Provincial Department of Human Settlements.

“invoice” means a non-negotiable commercial instrument issued by a supplier to the Municipality, identifying both trading parties, lists/describes and quantifies the items/services provided, and shows the date of supply together with the amount due, as per the requirements of a SARS compliant tax *invoice*.

“MFMA” means the Local Government: Municipal Finance Management Act 56 of 2003, unless otherwise stated in *the Policy*.

“Municipality” means the Nelson Mandela Bay Metropolitan Municipality a, Category A Municipality established in terms of Part 2 of Schedule 1 of Notice 85 in the Eastern Cape Provincial Gazette No. 654 on 27 September 2000, promulgated in terms of Section 12(1) of the Local Government: Municipal Structures Act 117 of 1998.

“municipal official” as defined in the Local Government: Municipal Finance Management Act 56 of 2003 means:

- a) an employee of the Municipality or its Municipal Entity;
- b) a person seconded to the Municipality or its Municipal Entity to work as a member of the staff of the Municipality or a Municipal Entity; or
- c) a person contracted by the Municipality or its Municipal Entity to work as a member of the staff of the Municipality or a Municipal Entity otherwise than as an employee.

“Municipal Systems Act” means the Local Government: Municipal Systems Act 32 of 2000 and includes the Regulations under this Act.

“Order” means the *Municipality’s* official hardcopy authority issued to an accredited Supplier to deliver goods and/or services at a specified price, place, time and terms.

“payment” means the partial or complete discharge of an obligation by its settlement in the form of the transfer of funds on an approved outstanding invoice.

“the Policy” refers to the Payment of Creditors Policy.

“Political Office Bearer” as defined in the Local Government: Municipal Finance Management Act 56 of 2003 means the speaker; executive mayor; deputy executive

mayor; mayor; deputy mayor or a member of the executive or mayoral committee of a municipality elected, designated or appointed in terms of a specific provision of the Municipal Structures Act; or a councillor referred to in section 57(1) of the MFMA.

“Standard Operating Procedure” refers to a set of written instructions that describes the step-by-step process that must be taken to properly perform a routine activity.

“standard payment terms” refers the payment of invoices that is made within 30 days of receiving the relevant *invoice* and statement, for certain categories of *creditors* as stipulated in *the Policy*.

“statement” refers to a summary of all transaction’s debits or credits and representing amounts raised and paid during a specific period to a creditor that occurred during the previous month and their effect on an opening-account balance. It is also called a statement of account.

“Sundry Payment” refers to specific disbursements which may include ad hoc payments relating to, for example, debtor refunds, municipal owned vehicle license fees; purchase of postage stamps. Sundry Payments are therefore allowable exceptions to the formal procurement procedures as stipulated in the Municipality’s Supply Chain Management Policy but are not requests for payments to deviate from the Local government Supply Chain Management Regulations and /or the *Municipality’s SCM Policy*.

“tender” means, as defined in the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2022, the written offer in the form determined by an organ of state in response to an invitation to provide goods, work and/or services through price quotations, competitive tendering process or any other method envisaged in legislation.

“Treasury Guidelines” mean any guidelines on expenditure management issued by the Minister of Finance in terms of Section 168 of the Local Government: Municipal Finance Management Act 56 of 2003.

“VAT” means Value Added Tax. VAT is a consumption tax levied on goods and services at each step of the production/distribution cycle. An indirect tax, VAT is paid by manufacturers, distributors, and retailers when they receive goods in their inventories. Businesses can recover VAT payments through tax deductions, with the cost of the tax ultimately paid by the end-consumer.

2. PURPOSE

- 2.1 In accordance with the Local Government: Municipal Finance Management Act (No. 56 of 2003), Local Government: Municipal Systems Act No. 32 of 2000, and any pertinent legislation, the *Municipality* is obligated to establish and uphold a robust internal financial management control system.
- 2.2 Section 65 of the *MFMA* specifies that the *Accounting Officer* of a municipality bears the responsibility for overseeing municipal expenditures. In pursuit of this, the *Accounting Officer* must take reasonable measures to ensure the municipality possesses and sustains an effective expenditure control system.
- 2.3 The aim of this policy, therefore, is to uphold the principle of cost containment and implement necessary control measures within the Municipality's *Accounts Payable* processes. This aligns with the statutory obligations of the *Municipality* for *creditor* payments and aims to optimize the efficiency of *Accounts Payable* procedures.

3. REGULATORY FRAMEWORK

- 3.1 The *Policy* is informed and regulated by the following:

Statutes:

Local Government: Municipal Systems Act 32 of 2000

- a) Municipal Cost Containment Regulations, 2019
- b) Municipal Finance Management Act No 56 of 2003
- c) National Archives and Records Service of South Africa Act 43 of 1996
- d) Value Added Tax Act 89 of 1991

Policies:

- a) Cash Management and Investment Policy for Nelson Mandela Bay Municipality
- b) Cost Containment Policy for the Nelson Mandela Bay Municipality and Its Entities
- c) Financial Management Policies of *Council*
- d) *Municipality* Supply Chain Management Policy
- e) Policy Governing Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIF+W) for the Nelson Mandela Bay Metropolitan Municipality.

Guidelines:

- a) South Africa Revenue Services guidelines
- b) South Africa Local Government Association and IMFO: Local Government Financial Best Practice Manual.

4. POLICY PRINCIPLES

4.1 *The Policy* is underpinned by the following principles:

- a) compliance with Section 62 of the Local Government: Municipal Finance Management Act 56 of 2003,
- b) compliance with Section 65 of the Local Government: Municipal Finance Management Act 56 of 2003,
- c) compliance with the Local Government: Municipal Systems 32 of 2000, and
- d) adherence to any applicable pertinent legislative measures, National Treasury directives, and local government policy.

5. POLICY OBJECTIVES

5.1 *The Policy* aims to operationalise the following provisions of the *MFMA*:

Section 62 (1) - Emphasising the role of the *Municipality's Accounting Officer* in financial administration, the objectives are to ensure that:

- a) *Municipality* resources are utilised effectively, efficiently, and economically;
- b) Comprehensive and accurate financial records are maintained as per prescribed norms and standards;
- c) Transparent and robust systems of financial management, risk management, and internal controls are established and maintained; and
- d) Unauthorized, irregular, fruitless, wasteful expenditure, and potential losses are prevented.

Section 65 (1) - Focusing on expenditure management, the objectives are to reinforce the responsibility of the *Accounting Officer* for overseeing municipality expenditure.

Section 65 (2) - To fulfil the requirements of subsection (1), the objectives are to take reasonable measures to ensure that:

- a) An effective expenditure control system is established, encompassing procedures for fund approval, authorization, withdrawal, and *payment*;
- b) A system of internal control related to creditors and payments is established and maintained;
- c) Payments are made directly to the intended recipient, unless specified otherwise or agreed upon;
- d) Payments are executed electronically;
- e) Outstanding dues are settled within 30 days upon receiving the relevant *invoice* or *statement*, unless exemptions apply for specific expenditure categories; and
- f) The Municipality's available working capital is managed efficiently and economically, guided by prescribed cash management and investment frameworks.

5.2 Moreover, *the Policy* commits to adhering to revised *MFMA* provisions, incorporating updates, and complying with any *National Treasury Guidelines*, *Circulars*, and Instruction Notes relevant to the scope and implementation of *the Policy*.

6. POLICY APPLICATION AND SCOPE

- 6.1 *The Policy* applies to the Nelson Mandela Bay Municipality and extends to all entities receiving payments from the *Municipality* as its *creditors*.

7. INVOICE SUBMISSION AND CREDITOR PAYMENT PROCESS

- 7.1 All *invoices* for goods, works and services rendered and/or supplied to the *Municipality*, (including both *sundry payment* and non-sundry payments) are required to be submitted by the *creditor* to the relevant municipal Directorate that initiated the procurement of *goods, works and/or services*.
- 7.2 *Invoices* received for goods, works, and services (excluding *sundry payments*) will be settled within a period of thirty (30) days from the date of receipt, unless otherwise specified in the terms of the *contract*. This is applicable unless:
- a) The *invoice* is compliant with the requirements set forth by the South African Revenue Service (SARS).
 - b) The *invoice* features a valid *Municipality* Order or CSRD number, which must be issued to the Supplier before the commencement of work. This requirement is with the exception of cases involving emergencies as defined in *the Policy*.
 - c) The *Municipality* maintains a positive net *cash position*.
- 7.3 For a *Municipality Creditor* that has received cumulative payments during the respective *financial year*, amounting to fifteen million Rand (VAT inclusive) or more, the *invoice(s)* must be accompanied by the *Creditor's Statement* for the month preceding the month in which the respective *invoice(s)* is due.
- 7.4 Notably, the provision outlined in clause 7.2 above does not apply to *invoices* related to the payment for the supply of bulk water and/or electricity services to the *Municipality*.
- 7.5 Instances where requests for payments lack the requisite *Creditor's Statement* as specified in clause 7.2 above, such requests should be submitted in writing by the concerned *municipal official(s)* to the *Chief Financial Officer*. These payments will only be authorized with explicit approval from the CFO, who must be satisfied that there exist compelling justifications for such payment requests.

8. SPECIAL PAYMENT PROVISIONS FOR GOVERNMENT SUBSIDISED HOUSING TOP STRUCTURES

8.1 Payments pertaining to *housing contracts* for the provision of Government *Subsidised Housing Top Structures* have the flexibility to be executed before the *standard payment terms*, and this can occur without the application of an early settlement discount as outlined in Section 11 below. This is contingent upon the following conditions being met:

- a) The *invoice* adheres to the requirements set forth by the South African Revenue Service (SARS).
- b) The *invoice* bears a valid *Municipality Order* or *Contract Service Request Document* number, which should be issued to the Supplier prior to work commencement or when the *Municipality* is formally committed to the project. An exception to this requirement applies in cases where emergencies are defined as per *the Policy*.
- c) The requisite funds have been successfully deposited into the *Municipality's* bank account from the National or Provincial Department of Human Settlements.
- d) In cases where an *invoice* is submitted by a *Municipality creditor* that has accumulated payments from the Municipality during the corresponding *financial year*, summing up to fifteen million Rand (VAT Inclusive) or beyond, the respective *invoice(s)* necessitates an accompanying *statement* from the *creditor* for that specific period.

9. SUNDRY PAYMENTS

9.1 Section 36(1) of the *Municipality's* SCM Policy authorises the *Accounting Officer* to bypass the official procurement processes, such as obtaining multiple quotes or engaging in competitive bidding. This exemption applies only under specific circumstances:

- a) In case of an emergency;
- b) When the required goods or services are exclusively provided by a single provider;

- c) For procuring special works of art or historical objects with complex specifications;
 - d) For obtaining animals destined for zoos, nature and game reserves;
 - e) In exceptional scenarios where following the official procurement processes is impractical or unfeasible
- 9.2 It is important to note that non-compliant procurement with the above processes does not automatically necessitate the use of the *Sundry Payment* method for settling resulting *invoices*.
- 9.3 Prior authorisation from the *Accounting Officer* is essential, and the requisite procedures in accordance with the stipulations of Section 32 of the Local Government: Municipal Finance Management Act 56 of 2003, the Municipality's Policy Governing Unauthorised, Irregular, Fruitless & Wasteful Expenditure (UIF+W), and relevant *Treasury Guidelines* must be followed. These measures are to address any Unauthorised, Irregular, or Fruitless & Wasteful Expenditure that might arise.
- 9.4 *Invoices* eligible for payment through the *Sundry Payment* method encompass, among others:
- a) Refunds, except for cases where there are UIF/PAYE implications.
 - b) Membership fees for professional bodies (excluding training, which must adhere to SCM processes).
 - c) Bulk electricity charges from ESKOM.
 - d) Telkom telephone account payments.
 - e) Bulk water charges.
 - f) Transfers of funds to organizations and entities outside of Government as per Section 67 of the *MFMA*.
 - g) Receipt of other grants and donations.
 - h) Payments to SARS (South African Revenue Service).
 - i) Settlements with the Sheriff of the Court.
 - j) Acquisition of postage stamps.
 - k) Vehicle and plant license fees.
 - l) Funding external bursary beneficiaries.
 - m) Covering Injury on Duty medical costs.
 - n) Payment of the Auditor General's annual audit fee.
 - o) Subscription payments for medical aid.

- p) Settling third-party claims for damages incurred to private property, personal injury, or loss of life.

10. PAYMENT PROCESS AND AUTHORITY FOR CREDITOR PAYMENT

- 10.1 All payments to the *Municipality's creditors* will be executed exclusively through approved Electronic Funds Transfer transactions.
- 10.2 The designated authority within the *Municipality* will establish procedures and safeguards to validate and confirm the accuracy and validity of banking details provided by each respective *creditor*.
- 10.3 Except for petty cash disbursements, all payments to *creditors* will be processed through the *Municipality's* relevant bank account. These transactions will be conducted by an authorized Municipality official, who is specifically delegated within the Municipality's Budget and Treasury: Cash Management Section.

11. REQUESTS FOR EARLY SETTLEMENT OF AN INVOICE

- 11.1 Should a supplier request early settlement of an *invoice(s)*, they are expected to provide an early settlement discount of up to four (4) percent. This discount will be calculated at a rate of one (1) percent for each week, or a proportional part thereof.
- 11.2 In instances where early payments are requested without an accompanying early settlement discount, such requests must be formally submitted in writing to the *Chief Financial Officer* by the relevant *Municipality* official(s). Approval for such payments will only be granted by the CFO following a thorough assessment of compelling justifications.
- 11.3 Any early *payment* request that does not include an offered discount must take into account the *Municipality's net cash position* at the time of the request. No

early *payment* will be authorized if executing such *payment* would result in the *Municipality* reflecting a net negative *cash position*.

12. INTEREST AND PENALTY PAYMENT PROTOCOL

12.1 Only interest resulting from a negotiated *contract* eligible for *payment*. The authority to make such *payment* is delegated to the *Chief Financial Officer* by the *Accounting Officer*.

12.2 In cases where penalty interest must be paid to a *creditor* due to delayed *payment* for goods, works, and/or services, the *payment* will be subjected to an internal investigation. This investigation will adhere to the stipulations outlined in Section 32 of the Local Government: Municipal Finance Management Act 56 of 2003, the *Municipality's* Policy Governing Unauthorised, Irregular, Fruitless & Wasteful Expenditure (UIFW-E), and relevant *Treasury Guidelines*.

12.3 Should an investigation into the payment of penalty interest to a *Municipality creditor* uncover indications of potential *fruitless and wasteful expenditure*, disciplinary proceedings will be initiated against the responsible official(s) in accordance with the *Municipality's* Policy Governing Unauthorised, Irregular, Fruitless & Wasteful Expenditure (UIFW-E), and applicable *Treasury Guidelines*.

13. SIGNING AUTHORITY FOR CREDITOR PAYMENTS

13.1 The authority to sign off on all payments to the *Municipality's creditors* will align with the delegated authority of the *Chief Financial Officer*. These powers will be conferred periodically to a designated Budget and Treasury official.

14. RECONCILIATION OF CREDITOR STATEMENTS

14.1 The reconciliation of *creditor* monthly statements will be undertaken by the *Municipality's* Creditors Section. This reconciliation process will adhere to the

approved SOPs. The reconciliation activity will commence promptly upon receipt of the *creditor* statement and will be concluded no later than the twelfth (12th) working day of the subsequent month.

15. IMPLEMENTATION PROCEDURES

- 15.1 The disbursement of payments to the *Municipality's creditors* will be executed in strict accordance with the policies and the approved SOPs governing the payment of *creditors*.

16. MONITORING AND EVALUATION

- 16.1 The Creditors Section is responsible for the daily monitoring and evaluation of the *Municipality's creditors'* payments.
- 16.2 Informal reports detailing the volume and value of all unpaid *invoices* are compiled on a weekly basis. These reports are then submitted to the *Accounting Officer, Chief Financial Officer*, all Executive Directors, and Accountants.
- 16.3 Formal reports outlining the *payment* duration for settling the *Municipality's creditors'* payments are submitted on a weekly basis to the Office of the Executive Mayor.
- 16.4 Formal reporting on the payment periods for the *Municipality's creditors'* payments is presented on a monthly, quarterly, and annual basis to the *Municipality's Budget and Treasury Standing Committee*.
- 16.5 Comprehensive formal reporting on the payment periods for the *Municipality's creditors'* payments is provided on a monthly, quarterly, mid-year, and annual basis to the *Municipality's Council*.

17. POLICY APPLICATION AND REVIEW

- 17.1 This policy will be called the Payment of Creditors Policy and will be officially implemented upon its adoption by *Council*.
- 17.2 This policy holds precedence over any previously adopted *accounts payable (creditors)* policies sanctioned by the *Council*.
- 17.3 Regular review of this policy is mandated, with assessments occurring at intervals of every three (3) years or sooner, as necessitated by legislative changes, strategic considerations, or operational needs.