

# BLUE CRANE ROUTE MUNICIPALITY (EC102)



## COST ESTIMATION POLICY

Financial Year 2019/2020

**No. 5**

**TO BE REVIEWED BY COUNCIL**

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## 1. Introduction

The Municipality provides goods and services to consumers within its area for which they are expected to pay directly, by means of consumer charges, or indirectly by means of property rates. It is essential that the Municipality determine the cost of supplying these goods and services reasonably accurately in order to ensure that its tariffs are set at such a level that the relevant services are financially sustainable.

From time to time the Municipality also provides services to residents on request and on a cost recovery basis, e.g. the renting of the Municipality's grader or front-end loader. It is essential that the cost of providing these services are accurately determined as these types of services should be conducted on a business basis.

The different departments of the Municipality further provide services to each other. The charge out costs for these services must be accurately determined to ensure that the Municipality receives the best value possible for the money it expends at all times.

## 2. Policy objectives

The Municipality needs to have an appropriate methodology of cost estimation in order to ensure that –

- 👉 The cost of producing and supplying goods and services to consumers is accurately determined in order to ensure that consumer charges and tariffs reflect the cost involved in their supply;
- 👉 The Municipality is able to quantify savings **and /or losses** that it may bring about;
- 👉 Expenditure budgets are realistic;
- 👉 When it executes work for third parties the cost incurred is recovered; and
- 👉 The cost of inter-departmental service provision is accurately determined and charged out.

👉 **Bench marking???**

👉 **User related – measured where possible????**

### **3. Cost estimation methodology**

The Municipality shall utilize the activity-based costing (ABC) methodology to determine the cost of providing services.

### **4. Roles in activity based costing (ABC)**

4.1. The Municipal Manager shall –

- (a) make appropriate arrangements to ensure that relevant personnel in the Budget and Treasury Office and other relevant departments receive and complete appropriate training in the application of ABC. Such training may include establishing partnership arrangements with other municipalities, **e.g. Buffalo City**, to assist the Municipality in this regard;
- (b) develop a strategy which provides for a phased approach to the implementation of ABC over a period not exceeding **four** years. Such strategy must prioritise the services provided by the Municipality, commencing with water and electricity provision; and
- (c) together with relevant departmental heads identify the various activities that are performed to supply a specific service, e.g. potable water, to residents in the Municipality.

4.2. The finance portfolio committee shall –

- (a) review and facilitate implementation of the strategy referred to in paragraph 4.1(b); and
- (b) review the analysis of activities referred to in paragraph 4.1(c).

## 5. Provision of services on a request basis/work for third parties

5.1. Whenever a request for the provision of a service or the execution of work in respect of which the Municipality did not determine a tariff (except an emergency service) is received the relevant departmental head shall forthwith prepare and submit a quotation for providing the service or executing the work to the requester.

5.2. No material may be acquired or provided and no work executed for a third party unless

–

- (a) the requester has accepted the quotation in terms of paragraph 5.1 in writing;  
and
- (b) the Chief Financial Officer notified the departmental head concerned that the amount of the estimated costs of the material or work has been paid or provided for in another manner.
- (c) **Provision is made for unforeseen expenses to be reimbursed to the municipality where relevant**

5.3. If payment has been made in advance and it becomes clear to the Chief Financial Officer or the departmental head concerned that the cost of the work or material will exceed the amount of such payment, the departmental head must cease performing the work or providing the material until permission to continue had been received from the Chief Financial Officer.

## 6. Work done by one department for another

6.1. No work the estimated cost of which will probably exceed R 2,000 may be carried out by one department for another unless the departmental head concerned has obtained a written quotation **(at a fixed price???)** from the department who will execute the work. A department who has been requested by another department to submit a quotation for work to be done shall promptly prepare and submit such quotation to the requesting department.

- 6.2. A departmental head shall have the right, if the quotation in terms of paragraph 6.1 exceeds R 2,000, subject to the Municipality's supply chain management policy, to invite written quotations for executing the work from suppliers registered in the Municipality's database of accredited suppliers and, upon receipt of such quotations, to award the contract to the supplier who submitted the most advantageous quotation or the relevant department. **SCM policy???**
- 6.3. No work may be carried out departmentally if the departmental head is of the opinion that the estimated cost thereof will exceed R 2,000 unless an official work order has been issued in respect of such work.
- 6.4. An application for the issue of a work order (**internal services order**) is submitted on a form prescribed by the Chief Financial Officer and the budget allocation in respect of which the expenditure is to be incurred, must be stated thereon. **Amount still available????**
- 6.5. No department may perform work for, or render services to, another department unless such work or services have been requested on an official work order and signed by an authorised official. The work order must contain-
- (a) a description of the work or service to be performed,
  - (b) the authorisation for incurring the expenditure,
  - (c) the budget allocation or item to which such expenditure should be charged; and
  - (d) the estimated cost of the work or service.

## 7. Inter-departmental charges

Charges levied by one department on another in respect of work or services must be submitted for approval to the latter department and thereafter delivered to the Chief Financial Officer to be charged. Any objection to a levy must be referred to the Chief Financial Officer for adjudication.

## **8. Transfer of stock items between jobs**

No stock items are transferred from one job to another unless it had been sent back to the store or such place as the Chief Financial Officer may determine.

## **9. Completion of work**

The departmental head concerned must inform the Chief Financial Officer and the responsible departmental head immediately after work in respect of which a work order had been issued had been completed. If the difference between the actual and estimated costs of such work exceeds 10 %, the responsible departmental head must submit the reasons therefore in writing to the Chief Financial Officer.

## **10. Council resolution**

**The Cost Estimation Policy to be reviewed.**