

ANNEXURE O

COSTING POLICY



Draft

Costing Management Policy Framework

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ANNEXURE “A” - HIGH LEVEL COST ALLOCATION FRAMEWORK

ANNEXURE “B” - INTERDEPARTMENTAL COST ALLOCATION “SERVICE LEVEL AGREEMENT” (SLA) FRAMEWORK

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1. PURPOSE

The main purpose for this “Costing Management Policy Framework” is to establish a structured approach for managing, allocating, and controlling costs within the municipality in alignment with National Treasury’s costing methodology guidelines issued for local government whereby the relevance of cost accounting, the methodologies and the application thereof within the mSCOA context been explained.

A well-structured “Costing Management Policy Framework” is essential for the municipality to maintain financial discipline, optimize resources, and achieve long-term sustainability and it also ensures that costs are distributed fairly and accurately across various departments / cost centres, projects, or funding sources.

Cost accounting can therefore be defined as a system for tracking and reporting costs associated with the municipality’s business operations and it is used to manage budgets, evaluate performance, improve efficiency and provide detailed cost-related information to assist in decision-making relevant to financial planning & resource allocation.

This cost management policy & procedure framework will set guidelines that outline how the municipality will calculate the cost of services, ensuring efficient use of resources and transparent pricing to all its stakeholders, typically adhering to regulations set by the Local Government: Municipal Finance Management Act (MFMA) (Act No. 56 of 2003).

2. DEFINITIONS

In this policy, a word or expression to which a meaning has been assigned in the act and / or National Treasury guidelines for costing methodology has the same meaning as in the Act and / or National Treasury guidelines for costing methodology, unless the context indicates otherwise, and-

“Act” means the Local Government: Municipal Finance Management Act (No. 56 of 2003);

“Accounting Officer” means the Municipal Manager appointed as such by the Council of Garden Route District Municipality in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) and as contemplated in Chapter 8 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003);

“Activity based costing method” means a methodology for allocating costs to products and services which seek to identify cause and effect relationships to objectively assign costs;

“Activity-based recoveries” refers to the actual allocation of resources (usage or benefit method) used by various departments;

“Avoidable costs” means costs that would be avoided if a particular activity was no longer undertaken;

“Municipality” means the Garden Route District Municipality established by Government Notice No PN 495/2000 issued in terms of section 12 of the Local Government: Municipal Structures Act (Act

No. 117 of 1998), or any structure or employee of Garden Route District Municipality acting in terms of delegated authority;

"Municipal Structures Act" means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

"Municipal Systems Act" means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

"Business processes" means the set of activities taking place from the initiation of a process within a municipality or municipal entity to the completion thereof;

"Classification framework" means the classification framework provided for in the standard chart of accounts;

"Chief Financial Officer" means a person designated in terms of section 80(2) (a) of the MFMA;

"Council" means the Council of Garden Route District Municipality;

"Cost recovery" means the recuperation of the costs of government provided or -funded products or services;

"Delegated Authority" means any person or committee delegated with authority by the Council or Municipal Manager in terms of the provisions of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003);

"Departmental charges" refers to the allocation of overheads from a cost pool used by multiple functions;

"Direct costs" means costs that can be readily and unequivocally attributed exclusively to a product or activity;

"Efficiency" In the context of cost recovery, efficiency tends to mean the allocation of resources to the most valuable uses;

"Equity" In general, the term equity reflects to concepts of fairness or justice;

"General ledger" means the central depository of accounting data transferred from all sub-ledgers;

"Financial year" means a twelve month period commencing on 1 July and ending on 30 June each year;

“Full cost recovery” means the recuperation of all costs associated with specific activities or products;

“Incremental costs” means the increase in costs attributable to the production of a particular type of activity;

“Indirect costs” means costs that are not directly attributable to an activity – often referred to as overheads;

“Inflated costs” means where costs are artificially inflated above efficient levels;

“Internal billing” refers to departmental use of internal services such as electricity, water, etc.

“Horizontal equity” refers to treating people in similar situations in similar ways;

“Manager” means an employee of Garden Route District responsible for the management of a cost centre and the carrying out of a duty or function or exercising any power in terms of this policy and includes any other employee delegated to carry out or exercise the duty, function or power;

“Municipal service” has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

“National Treasury” means the National Treasury established by section 5 of the Public Finance Management Act;

“Political Office Bearer” means the Speaker, Executive Mayor, Deputy Mayor or Member of the Executive Committee as referred to in the Municipal Structures Act;

“Pro rata approach” means a method for allocating indirect costs on a proportionate basis by using measures that are easily available;

“Quarter” means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

“Standard chart of accounts” means a multi-dimensional classification framework providing the method and format for recording and classifying financial transaction information in the general ledger forming part of the books of account containing a standard list of all available accounts;

“Usage or benefit cost” means a method for allocating indirect costs by measuring or estimating the actual usage of resources;

“Regulations” means the Local Government: Municipal Finance Management Act, 2003: Municipal Regulations on Standard Chart of Accounts, 2014;

“Vertical equity” refers to those with greater means contributing proportionately more than those with lesser means; and

"Vote" means-

(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional cost areas of the municipality; and

(b) which specifies the total amount that is appropriate for the purposes of the department or functional cost area concerned.

3. SCOPE OF THE POLICY

This policy applies to all departments / cost centres, agencies, and public service units according to the division of functions and powers allocated to a district municipality in terms of section 84 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) which locate under the jurisdiction of the municipality.

Furthermore, the policy covers all financial transactions in the general ledger related to service delivery, infrastructure projects, and operational expenses of the municipality.

4. OBJECTIVES

The main objective of this policy framework is to establish structured guidelines for cost control, efficiency, and financial sustainability within the municipality and the key objectives include:

- ***Fiscal Responsibility & Budget Discipline*** – Ensuring that expenditures align with budgetary constraints and financial management & cost containment policies of the municipality.
- ***Efficient Resource Utilization*** – Optimizing the use of financial, human, and material resources to maximize service delivery.
- ***Cost Control & Reduction*** – Ensuring efficient resource utilization and minimizing unnecessary expenses. Identifying cost-saving opportunities while maintaining quality public services.

- **Standardization** – Establishing consistent cost structures across departments / cost centres and projects while applying uniformed methods for cost recording, allocation, and reporting.
- **Budgeting & Forecasting** – Facilitating accurate financial planning and future cost estimations to supporting long-term financial sustainability for local development initiatives.
- **Profitability & Performance Analysis** – Evaluating the cost-effectiveness of the municipality's programs and services through the assessment of cost efficiency to improve decision-making.
- **Compliance & Transparency** – Ensuring adherence to accounting standards, national financial regulations, procurement policies, and auditing standard requirements.
- **Decision Support** – Providing cost insights for pricing, investment, and operational decisions.
- **Cost Allocation & Accountability** – Assigning costs accurately to departments / cost centres, projects, or processes. Also enhancing financial reporting and ensuring responsible spending of allocated funding in the approved budget of the municipality.

As mentioned, cost is an important element of the decision-making process for setting municipal tariffs and it is relevant even when the municipality only provides goods and services. Therefore, the aim of this policy is to create awareness and understanding through the municipality's performance management systems, to enforce a culture with managers to analyse cost behaviour. Every manager should after careful consideration of all the consequences of their cost behaviour, take appropriate action. Unless the initiative is taken by managers to analyse cost behaviour, inefficiencies may emerge, continue, and grow for a long time before the need for action becomes obvious. With appropriate cost information, managers may be able to:

compare costs with known or assumed benefits of activities, identify value-added and non-value-added activities, and make decisions to reduce resources devoted to activities that are not cost-effective;

compare cost changes over time, identify their causes and take appropriate action, for example, take steps to improve efficiency;

identify and reduce excess capacity costs;

compare costs with similar benchmark activities, find the causes for cost differences, and take appropriate action, for example, revise and improve business processes; and

If Managers of departments, cost centres and programs understand the managerial advantages of measuring their performance, they are likely to put pressure in the organisation for increased performance monitoring. Program managers can improve their operational performance from three perspectives — quality/productivity, cycle time, and cost. If a manager brings cost (in balance with the other measures) into the decision-making processes better decisions can be made.

The cost of services combined with appropriate performance measurement can allow the municipality to evaluate its service deliverables based on the costing service efforts and accomplishments. For example, the municipality can combine cost with an effectiveness measure to assess the cost-effectiveness of its service/ goods. A municipality can also use the following measures:

- Measures of service efforts — these are resource costs and other measures of the inputs used to provide the services.
- Measures of accomplishments — these are outputs (the services provided) and outcomes (the effects of those services).
- Measures that relate efforts to accomplishments — these are, for example, the cost per unit of the various outputs.

Whether or not the actual cost of services is reported, the cost of services is a factor in making policy decisions related to program authorisation, modification and / or discontinuation.

In short, this cost allocation framework for the municipality should aim to:

- Ensure fair and consistent distribution of direct and indirect costs;
- Improve budgeting and financial planning accuracy;
- Support performance-based decision-making for cost efficiency; and to
- Comply with Generally Recognised Accounting Practice (GRAP) & National Treasury's Financial Reporting Framework for Local Government - Municipal Standard Chart of Accounts (mSCOA) guidelines.

5. REGULATORY FRAMEWORK & GUIDELINES

This policy will be implemented within the legal framework of the constitution, relevant national legislation & regulations applicable, National Treasury guidelines issued for a costing methodology framework and other relevant finance related policies of the municipality as outlined hereunder:

- Constitution of the RSA, (Act 108 of 1996)
- Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);
- The Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000)
- The Local Government Municipal Finance Management Act 2003(Act 56 of 2003)
- Local Government: Municipal Finance Management Act, 2003: Municipal Regulations on Standard Chart of Accounts, 2014
- Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003): Municipal Cost Containment Regulations, 2019
- National Treasury Guidelines: Methodology Costing for Local Government Guideline, 2016
- National Treasury Guidelines: mSCOA Project Summary Document – Costing Segment V16, 2016

- National Treasury Guidelines: mSCOA Chart – Costing Segment V16, 2016
- Garden Route District Municipality: Budgeting and other finance related policies

6. COST ACCOUNTING PRINCIPLES

Cost allocation principles are essential within the local government environment whereby financial accountability and efficient resource allocation are critical because it:

- Ensure fair distribution of costs across departments;
- Improve budgeting and cost control;
- Enhance transparency, accountability, and compliance;
- Support informed decision-making and service optimization;
- Enable cost recovery, grant management, and financial sustainability.

By applying proper cost allocation, the municipality can maximize efficiency, ensure equitable financial management, and enhance public trust in the municipal spending.

The cost accounting policy framework must define clear cost allocation principles to ensure fairness, transparency, and accountability in distributing costs across departments and programs. Following some of the key cost allocation principles to apply in this cost accounting policy framework:

a. *Fairness and Reasonableness*

- Costs should be allocated based on actual usage or benefits received. Costs should be distributed fairly across services and functions.
- Allocation methods should be justifiable and equitable across the departments.

b. *Cause-and-Effect Relationship*

- Costs should be assigned to the department that caused or benefited from the cost.
- Example: IT service costs should be allocated based on the number of devices per department, etc.

c. *Consistency and Standardization*

- Cost allocation methods must be applied consistently across all periods and departments / cost centres, agencies and entities. Cost allocation methods should remain uniform across the financial period.
- Standard allocation bases should be defined and documented in the cost accounting policy.

d. *Transparency and Auditability*

- All cost-related transactions must be recorded and reported accurately. Cost allocation methodologies should be clearly documented and auditable.
- Regular reviews ensure compliance with financial regulations and accounting standards.

e. *Simplicity and Practicality*

- Allocation methods should be simple to apply and cost-effective to administer aligned with the

National Treasury guideline recommendations.

- Overly complex models should be avoided if they do not provide significant financial insight.

f. **Accountability**

- Departments / cost centres and agencies must *justify* their cost allocations and expenditures.

g. **Materiality**

- *Insignificant* costs may be treated differently to simplify reporting.

h. **Accrual Basis**

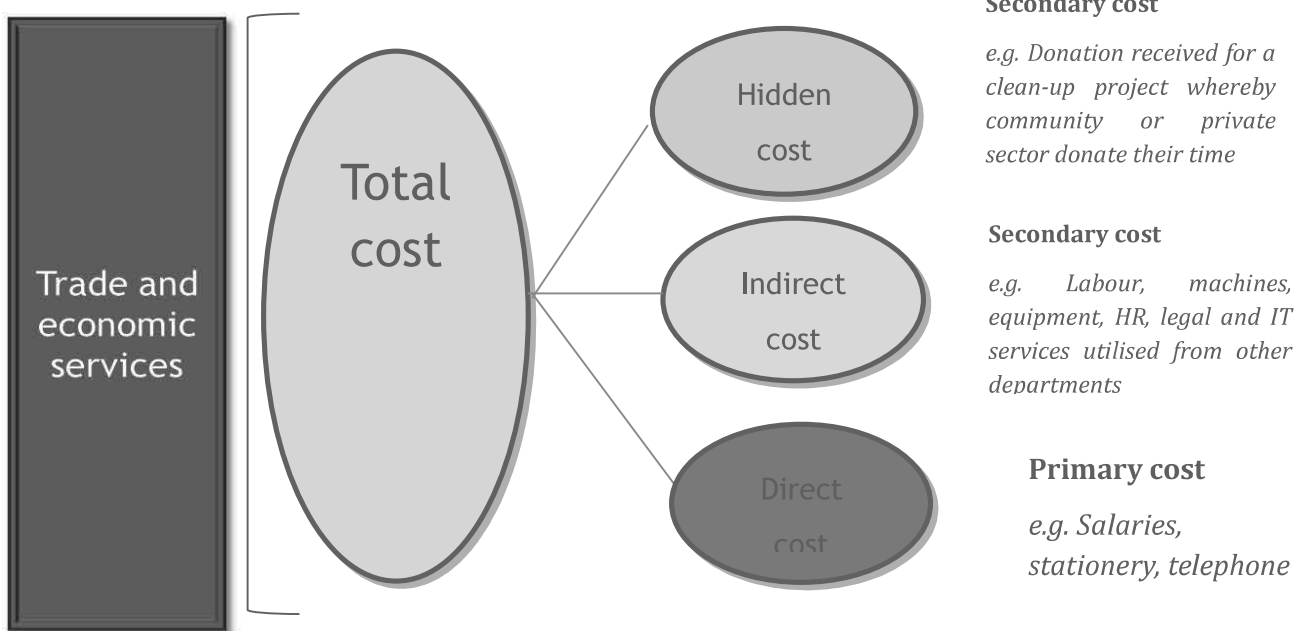
- Costs should be recorded when *incurred, not when paid*, in accordance with GRAP principles as well as the municipality's accounting policy directive part of the annual financial statements.

7. COST CLASSIFICATION

The intention of cost allocation is to provide the most accurate allocation of costs possible to determine the full cost of rendering a service. Importantly, the cost of allocating such costs should never outweigh the benefits received, and secondly, the allocation should be performed in a manner that is consistent with the purpose of the cost analysis

The allocation of cost is a fundamental step in determining the full cost of service delivery. The full cost of a service is the total of all costs directly attributed to a service plus the indirect costs used to render the service. This classification framework will enable the municipality to compare service costs by clarifying the actual cost drivers in the whole chain of events for the provision of a particular service.

Primary elements of accounting for cost:



In the table above "hidden costs" are also reflected as these are typical costs whereby a donation or free time from the community is received to render a particular service. Should this goodwill gesture from the community cease then these costs to render the service should be factored in the tariffs to ensure continuity of the service.

A cost objective is an activity for which a separate measurement of cost is desired and all resources consumed to produce that activity forms part of the total cost of the activity.

Costs assigned to cost objectives can be classified as either direct or indirect costs. Before any allocating costs, all support services of the municipality should be identified inclusive a framework indicating all stakeholders (sender and receiver departments) involved in the process for proper classification:

a. **Direct Costs (Primary Costs)**

A direct cost is one that can be specifically related to a particular service, function or activity based on actual consumption; in other words it is directly related to the cost objective. In order to improve the accuracy of costing a service, it is essential to assign as many direct costs as necessary for full cost recovery to the service as this will improve the accuracy and relevance of total cost by reducing arbitrary cost allocations.

The following list, although not complete, includes examples of direct costs:- Salaries; Stationery; Telephone costs; Materials; Consultant fees; Bulk purchases; Debt impairment; Depreciation; Interest - external borrowing; Contribution to reserves; Fuel; Training; Insurance; Office rental; Printing; Legal fees; Conference fees; Traveling and subsistence; Plant hire; Vehicle hire; Audit fees; Marketing; Security; etc.

The mentioned costs can only be categorised as direct costs if they are under the control and management of the head of department of the specific service. Direct Costs is therefore directly attributable to a department / cost centre, service, project or program.

Care should also be taken that costs such as debt impairment, depreciation, interest on external borrowing and contributions to reserves, which are often budgeted for in the Office of the CFO, are included under the relevant service.

Many municipalities do not provide for full cost recovery, and indirect costs are therefore ignored as a cost to render the service.

b. **Indirect Costs (Secondary Costs)**

Indirect costs are those which are not directly attributable to the output, are often referred to as overheads and are normally incurred for multiple programmes or services. Indirect costs need to be assigned to the cost objective and are therefore less precise. Indirect costs is therefore shared among multiple departments / cost centres and require allocation.

The fact that indirect costs need to be assigned to the cost objective does not make them any less relevant. They frequently make a significant contribution to the full cost of an output and are often underestimated by the services and user departments / cost centres who rely on them. These costs cannot be directly related to a particular service or project, yet without the support of these costs, most services would break down immediately. The method used to allocate indirect costs needs to be a rational and consistent method that approximates the proportional benefit derived from the activity.

The identification and inclusion of indirect costs will involve a trade-off between accuracy and the cost of producing the cost information. Care should be taken to avoid devoting resources to the allocation of trivial costs at the expense of the analysis of more significant costs.

Following a list of a *few cost pools*, together with their *basis of calculation* as an example and is essential to note that these costs must be allocated based on rational cost drivers (e.g., labour hours, square footage, etc.):

Cost pool (overhead costs)	Allocation base (basis of calculation)
IT services	Number of users
Office rental	Floor space occupied (square metres)
Cleaning services	Floor space occupied (square metres)
Asset management	Value of assets
Procurement services	Number of purchase orders
Finance services	Proportion of budget allocation and / or budget usage
HR services	Number of personnel

The municipality's identified support services and the cost allocation framework, inclusive of all stakeholders (sender and receiver departments) involved in the process, for the redistribution of indirect costs / overheads to the various service (User) departments / cost centres within the municipality is attached as **ANNEXURE A** to this policy.

c. Fixed vs. Variable Costs

- **Fixed Costs**: Fixed costs refer to expenditures that do not change with variations in service levels or the volume of activities in a municipality. These costs remain constant over a financial period, regardless of changes in population growth, economic activity, or service demand. (e.g., building leases and rent, depreciation of assets, interest of municipal loans, contract services with fixed agreements, etc.).
- **Variable Costs**: Variable costs are expenditures that change in proportion to the level of services delivered or the volume of municipal activities. Unlike fixed costs, which remain constant, variable costs fluctuate depending on operational needs and external factors like population growth, service demand, and economic conditions. (e.g., water & electricity usage, fuel costs, maintenance & repair supplies, overtime wages, procurement of supplies, etc.).

8. COST ALLOCATION METHODOLOGY

National Treasury at present is not concerned nor prescriptive with which method or even a combination of methods the municipality adopts but suggest that the municipality uses a hybrid approach, or if the municipality has the capacity and it is cost efficient, a simplified activity based (charges and recoveries) costing method (usage or benefit approach) is recommended.

Numerous theoretical costing methodologies can be applied to determine the cost of a service with each its own advantages and disadvantages, and it is highly unlikely that there will be one technique that will apply to all municipalities in the country or to all services within the municipality.

It is the view of National Treasury where the municipality has the sophistication and the capacity to implement activity-based costing they may do so, but for those who do not have such capacity, traditional costing methodologies should be applied.

What is important to note for the municipality is that a cost accounting methodology is used to identify and assign overheads as well as other indirect costs required to produce services. Costs are then determined for each service.

Cost accounting is intended to increase the accuracy of cost information by assigning overheads and other indirect costs to specific municipal services. Cost accounting is more than just collecting cost data; it is also a tool that provides the municipal manager with information that can be used to improve management decisions.

The manner in which activities are costed is very important, as inappropriate costing can distort decision-making and therefore if the costing of activities is incorrectly defined, this may lead to:

- Inappropriate allocation of internal resources
- Underfunding / overfunding of a service
- Inability to identify inefficiencies
- Inability to benchmark against other municipalities.

The following two methods of estimating the indirect costs associated with an activity may be consider by the municipality aligned with the summary of the content contained in the National Treasury Guideline on Costing Methodology and / or typical “cost recovery approach”:

- A pro rata approach
- A ‘usage’ or ‘benefit’ approach

Classification	Definitions
“Pro Rata” Approach	<p>This approach where it is <u>not possible</u> or <u>too costly</u> to identify actual resource usage.</p> <p>The approach starts with the <u>cost data</u> as found in the municipality’s general ledger.</p>

	<p>In the context of mSCOA the <u>function</u> in combination with the <u>primary cost</u> depicted in the “Item” segment: Expenditure Component.</p> <p>The costs are allocated on a <u>proportionate allocation basis</u> to outputs by using measures such as:</p> <ul style="list-style-type: none"> • staff involved in production of the output as percentage of total staff; • direct resource use in the production of the output as a percentage of total resource use; and • the budgets for the output as a percentage of the total budget.
<p style="text-align: center;">The “Usage” or “Benefit” Approach</p>	<p>The “usage” or “benefit” approach looks <u>to build</u> from the <u>bottom up</u>, starting with the <u>activities</u> themselves (for example, processing a service requirement) and calculating the resources they consume.</p> <p>Costs are then <u>attributed</u> to these activities, which in turn can be assumed to calculate the cost to serve an end-to-end process. Actual resource usage may be estimated in several ways.</p> <p>Examples of methods of apportioning indirect cost pool are direct observation, time (in the case of indirect staff costs) and log sheets (in the case of vehicle and plant and equipment).</p> <p>The method used must be <u>well documented</u>, <u>verifiable</u> and <u>efficient</u>.</p> <p>This type of indirect cost measurement can in practice be linked to an <u>activity based costing</u></p>

	<u>method</u> , but it needs to be adjusted for practical reasons.
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The primary focus of this policy is to establish a culture of cost accounting within the municipality and to promote financial stability by recovering all the costs associated with the rendering of a particular service. Using cost accounting principles to manage the full cost of providing services enables the municipality to determine appropriate tariffs and ensures that the community and other stakeholders receive fair value for the tariffs and services they pay.

Although it is important to achieve full cost recovery, adjusting prices to achieve equity considerations are important factors impacting municipal pricing decisions and for determining the appropriate level of cost recovery for given services. This involves balancing the desire to distribute costs equally to all users who

benefit from the service with ensuring equal access to those with less capacity to pay. To give effect to these pricing principles, and to make informed, rational decisions about the allocation of resources, councils need to be able to answer the following questions:

- Which costs should be recovered?
- Are these costs promoting the efficient allocation of resources?
- Are these costs allocated in a reasonable and equitable manner?
- How should these charges be structured?
- Are the cost recovery charges based on actual costs?
- Does the allocation method reasonably link to the level of service and / or benefit received?

It is assumed by many municipalities that the development and maintenance of a costing model requires significant resources, but it is not necessary the case as there are various options that can be used for full cost recovery calculation, ranging from a simple Excel spreadsheet to something more complex such as a full costing module (specialist software). The complexity of the design will solely depend on the following factors:

- The size of the municipality
- The staff capacity
- The level of information required
- The frequency at which costs are required
- The complexity and diversity of cost objects
- The reporting structure within departments
- The cost of maintaining the system.

The design of a costing system and costing methodology approach should focus on the magnitude, desired outputs, affordability and maintenance requirements of the system and approach, as well as which

information is useful, to whom and when. The latter again raises the question about frequency and how often information should be provided. It is also important to balance the cost of obtaining information with the benefits the information provides, as costs increase with increasing complexity of the system. A more complex system will yield more accurate results; however, a more granular approach may be more suitable. The argument between accuracy and complexity needs to be balanced by adopting an approach that is manageable, not overly complicated and fit for purpose. Ideally the operation must be as simple as possible, while providing maximum accuracy.

It is important to understand that a costing system is a tool to translate general ledger information (direct / primary costs) into usable management information and that the outcome thereof will always be equal to the general ledger amount as it simply involves a redistribution of costs (indirect / secondary costs).

The costing model should be transparent enough to show which costs were incurred in the process for each activity, must be consistent and provide a common method for allocating costs to products and

services. The model should be easy to use to ensure that all relevant stakeholders are able to engage with and use it. It may become necessary from time-to-time to update the costing model and the costing methodology approach as and when the municipal environment changes. Such changes may be due to organisational restructuring, new departments or services being created, or a function that no longer exists.

It is therefore essential that the municipality adopt a costing methodology that reflects as accurately as possible the circumstances in which its outputs are provided. The “usage” or “benefit” approach will always be the preferred method as it will point out inefficiencies while the “pro rata” method will tend to hide such inefficiencies. The “pro rata” allocation approach can be useful for indirect cost pools of different types, however, the more disaggregated the approach (that is, the greater the number of indirect cost pools used), the more likely it is that the pro-rata method will yield results similar to those achieved under the ‘usage’ or ‘benefit’ approach. Where the nature of the output’s production process is reasonably straightforward, the pro rata approach may represent a reasonable allocation of indirect costs.

As reflecting in this policy various cost accounting methodologies exist to measure the full cost of a service and therefore based on limited human resource capacity available the municipality opted as an introduction to costing to keep it simple and cost effective by taking a step-by-step approach to apply cost accounting across the municipality aligned with the National Treasury guidelines issued as well as the directives provided from a mSCOA Costing Segment compliance perspective.

The framework for implementing cost accounting at the municipality will mainly focus on the following principles:

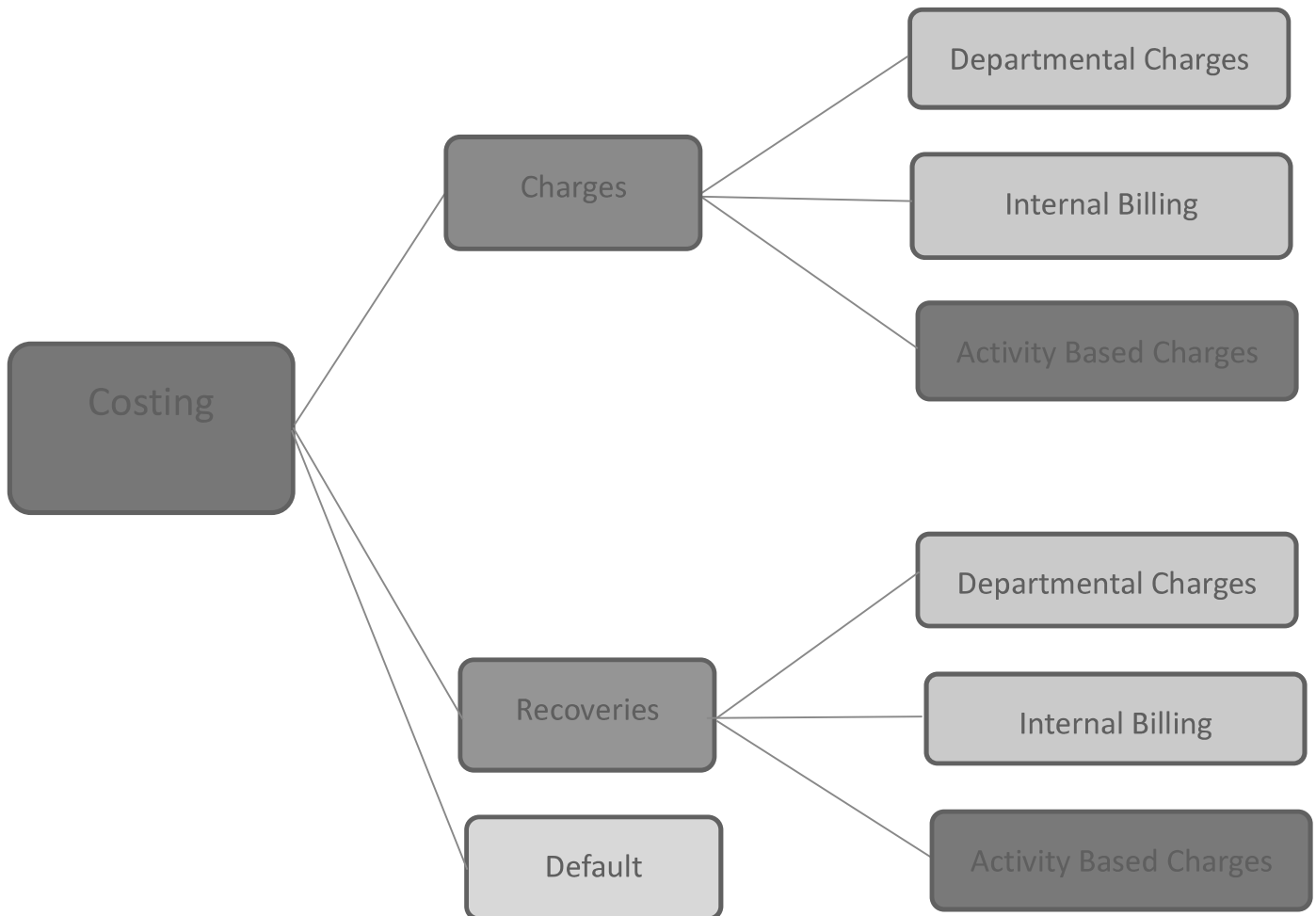
- Supporting Departments / Cost Centres been identified;
- All stakeholders (sender and receiver departments / cost centres) involved in the cost allocation process been identified;
- Costing methodology to apply is based on the “pro rata” approach with the only focus on the

“departmental charges” for the redistribution as overheads cost to the service (user) departments / cost centres to reflect the full cost of the service.

“Pro-Rata” approach whereby the costs be allocated on a proportionate allocation basis to outputs by using the budget consumed for the output as a percentage of the total budget”

- An inter departmental service level agreement (SLA’s) framework been develop on who will render the service, how the service will be rendered and by when the service the will be rendered - **ANNEXURE B** to this policy have reference to the SLA framework for refinement and implementation.
- Written procedures and / or standing operating procedures (SOP’s) for cost allocation within the municipality be attached as **ANNEXURE C** to this policy document.
- Annual review & update of the policy been required to include any changes and / or additions that might become relevant and / or applicable to this developed costing allocation framework.

Illustration: mSCOA Costing Segment – High-level Classification

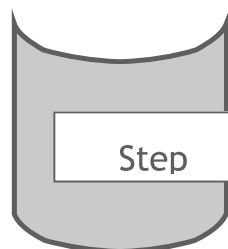


At the highest level the mSCOA costing segment structure distinguishes between “Charges” and “Recoveries” followed by accounts groups for “Departmental Charges (Support Services), Internal Billing and Activity Based Recoveries which can be defined as follows:

Costing Structure: - High-level classification	Definition
Charges	Distinction is made at this level between "charges to receiving departments and recoveries made by sending departments". This specific is for <u>charges to receiving departments</u> .
Recoveries	Distinction is made at this level between "charges to receiving departments and recoveries made by sending departments". This specific is for <u>recoveries by sender departments</u> .
Departmental charges (support services)	This refers to the allocation of overheads from a cost pool used by multiple functions, such as Information Technology; for example, pro rata allocation based on the number of service points or users such as the electricity department. Some applications refer to <u>assessment charges</u> .
Internal billing	This refers to departmental use of internal services such as electricity, water, waste water management and waste management; for example, cost allocation for the electricity department's water consumption.
Activity-based recoveries	This refers to the actual allocation of resources (usage or benefit method) used by various departments; for example, allocation of labour is based on time sheets, and the allocation of vehicles and plant equipment is based on log sheets.

9. PROCESS TO IMPLEMENT FULL COST RECOVERY

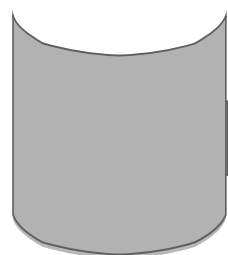
There are a number of steps that the municipality needs to follow to implement full cost recovery within the municipality and these steps followed should be used as a guideline to annually review the costing allocation policy framework of the municipality aligned with this guideline checklist provided by National Treasury to assist in the process.



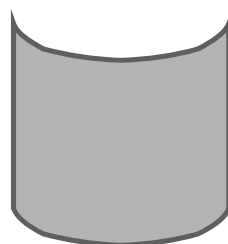
Develop a preliminary cost allocation plan

- Identify all support services
- Identify all stakeholders (sender & receiver departments)
- Develop roadmap indicating steps, tasks and time frames
- Define tasks and a responsibility hierarchy
- Identify resources and allocate
- Allocation methods should be identified and establish

- Assess and determine the costing capability – financial systems
- Financial system should be use for allocating costs and the chart of accounts will need to be reviewed to

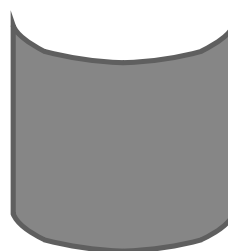


Analyse the current position



Decide on a costing methodology to be applied

- Determine an appropriate methodology
- Determine gaps in skills, systems and chart of accounts and develop a plan to overcome these gaps
- Implement a transparent process with clear accountability
- Decide on timing of cost allocation (example - monthly or quarterly)

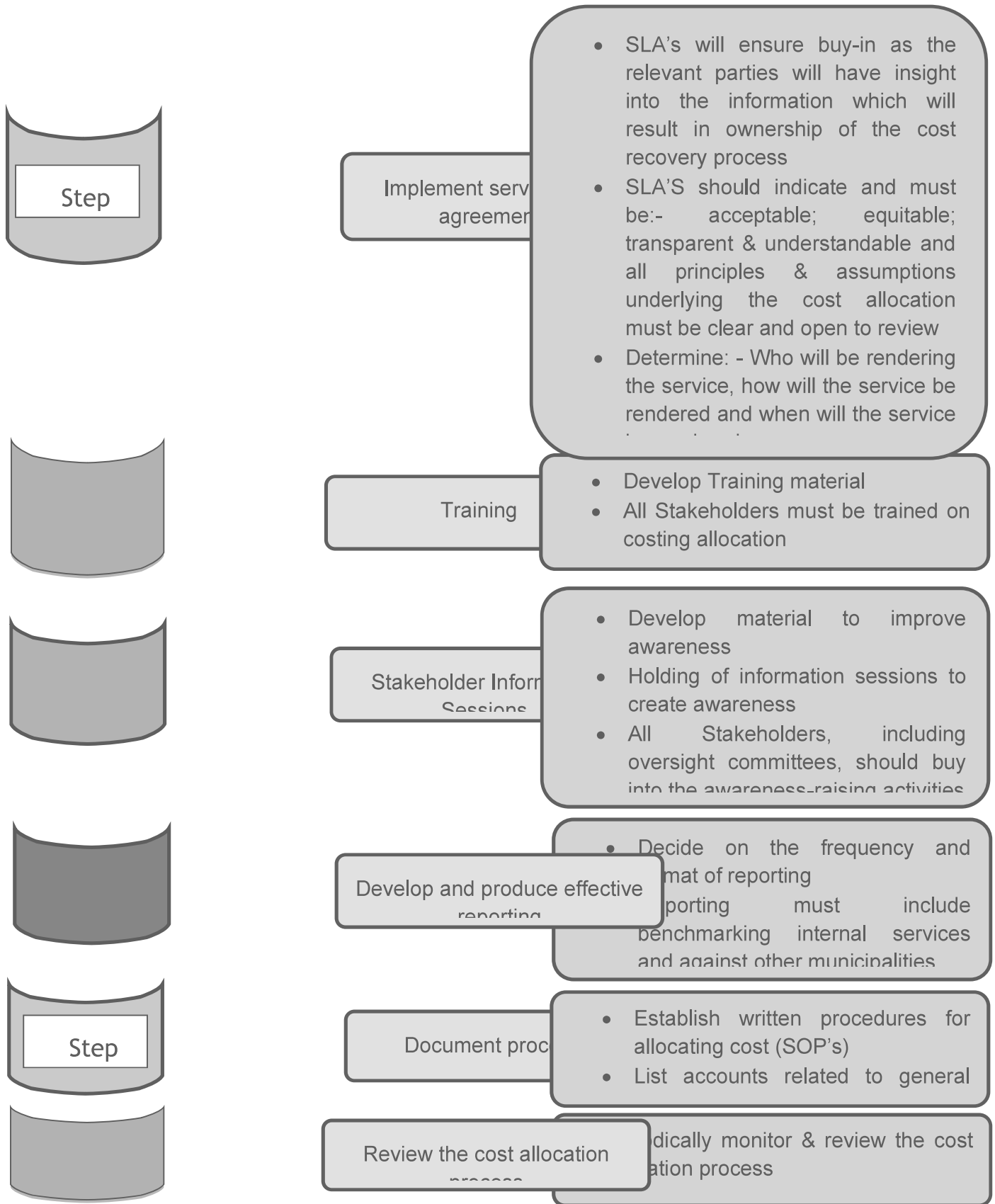


Determine the principles for setting fees and charges

- Determine which services should be charged for
- Identify departments / cost centres / cost pools from where cost items are to be allocated to the relevant services
- Basis of allocation must be determined for each support service

- Allocation of costs must be effective, practical, transparent and the basis thereof reliable / consistent
- Determine whether these cost are appropriate and eliminate costs where services are being rendered at unnecessarily high levels
- Eliminate inefficient costs
- Compile record of total costs related to the indirect services
- Use allocation measures that reasonably link the cost to the level of service and / or benefit received
- Implement a phased approach for full cost recovery

Principles should be easily



10. COST MEASUREMENT & REPORTING FRAMEWORK

Cost measurement and reporting are critical components of the cost allocation plan to ensure that financial resources are allocated fairly and transparently while complying with the prescribed accounting standards in terms of GRAP (Generally Recognized Accounting Practice), MFMA (Municipal Finance Management Act, 2003) and the Municipal Regulations on Standard Chart of Accounts, 2014 (mSCOA).

The frequency and format of reporting will take place in terms of the MFMA's prescribed budgeting and financial reporting time frames and in the format as stipulated by the MSCOA regulations promulgated.

11. COST REPORTING & ANALYSIS

The cost allocation estimates for the recovery of full costs from the various service (user) departments / cost centres shall be dealt with annually aligned with the budget implementation process plan and reviewed for any adjustments in terms of section 72 of the Municipal Finance Management Act, 2003 during the mid-year financial assessment process.

Actual cost allocation performance aligned with the approved budget estimates shall take place on a quarterly and / or monthly basis as part of the financial reporting in terms of section 54 & 71 of the Municipal Finance Management Act, 2003 to all internal and external stakeholders.

During the monthly / quarterly reporting to stakeholders the municipality should monitor and review the cost allocation process to ensure that all the re-charges are still applicable and based on the relevant costs.

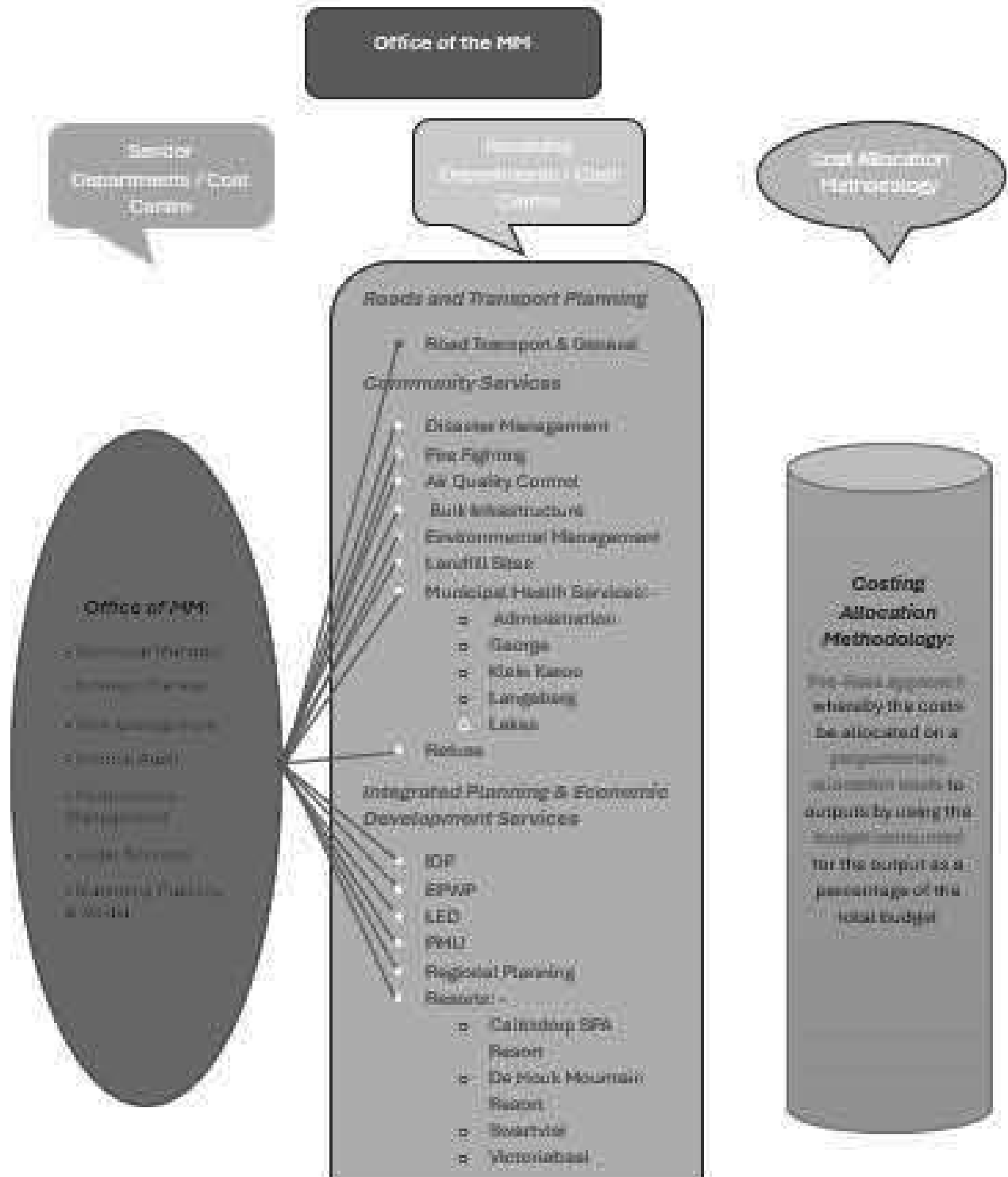
The cost allocation process is not a separate and /or stand-alone process but forms an integral part of the municipality's budgeting and financial reporting process as one of the seven mSCOA segments. (Costing Segments).

12. REVIEW & UPDATES

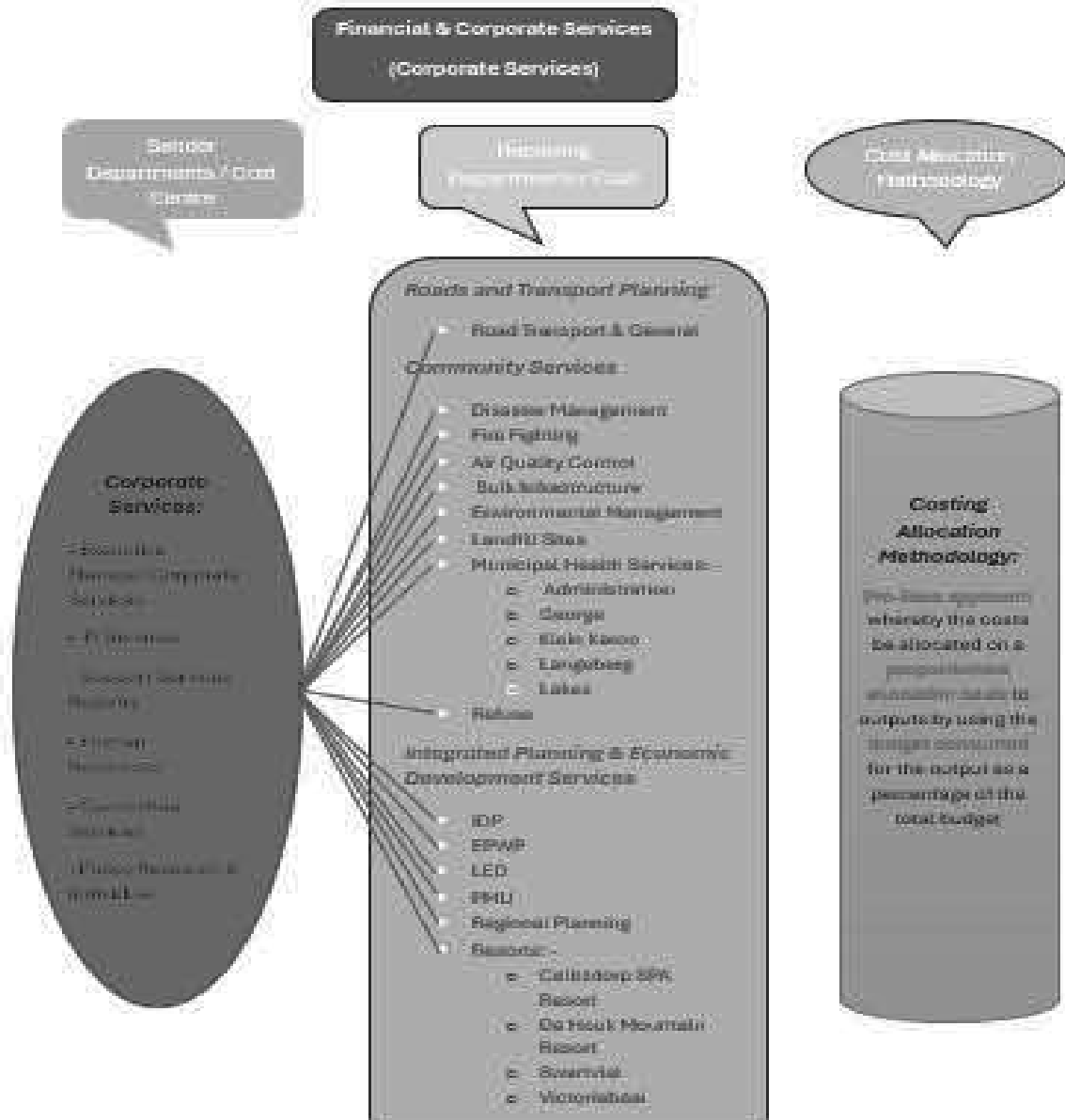
This Costing Management Policy Framework will be reviewed and updated on an annual basis during the budget process by the Accounting Officer in concurrence with any new legislation and / or National Treasury guidelines which might become applicable. The reviewed and updated policy will be implemented at the start of each financial year.

This policy is called the Garden Route District Municipality – Costing Management Policy Framework and takes effect once council approved have approved the policy.

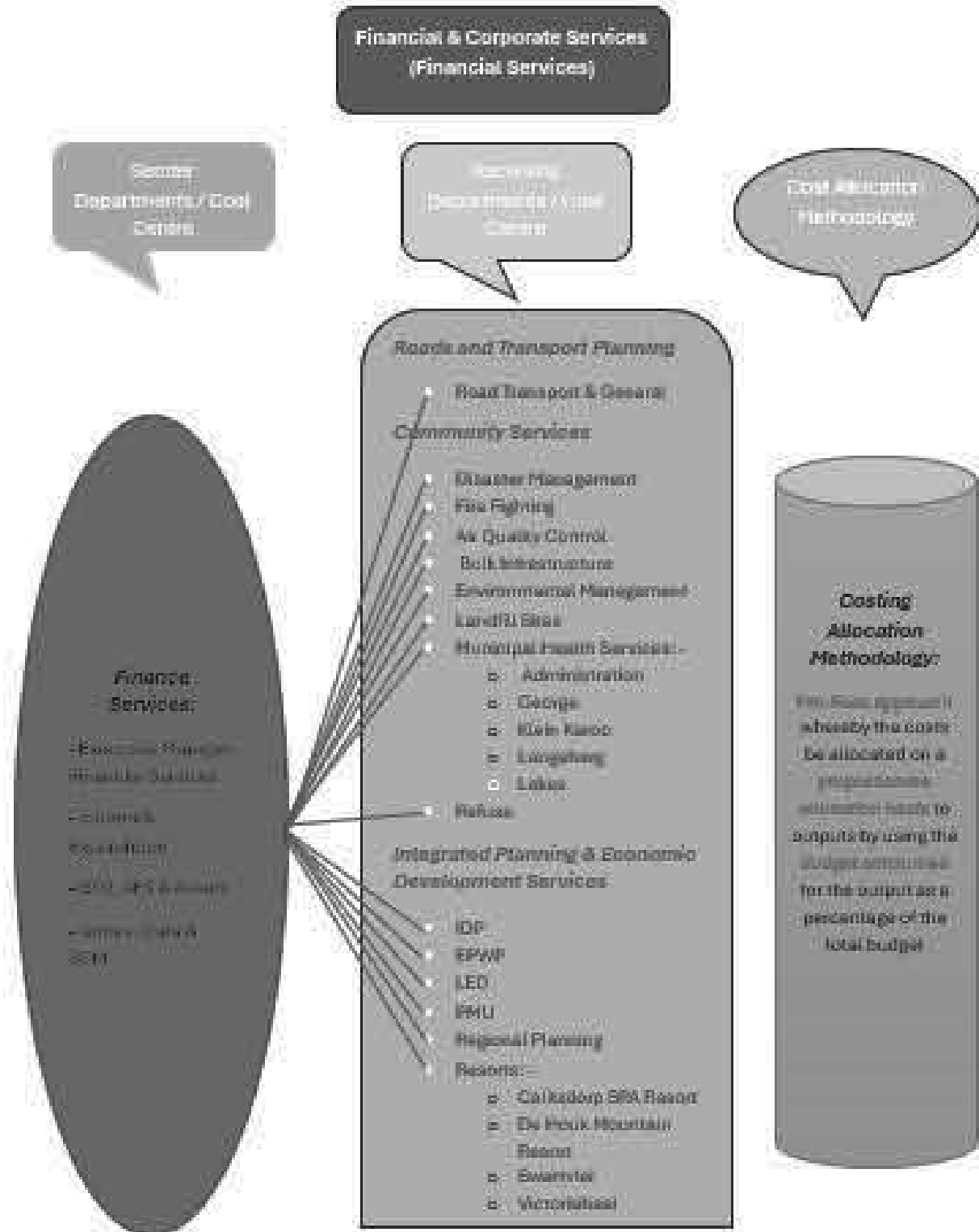
ANNEXURE A: - Departmental Cost Allocation Framework



Departmental Cost Allocation Framework



Departmental Cost Allocation Framework





DRAFT

**INTERDEPARTMENTAL
“SERVICE LEVEL AGREEMENT”
FOR
COST ALLOCATION**

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1. INTRODUCTION

This is a Service Level Agreement (SLA) for cost allocation between the sender departments

Directorate Financial & Corporate Services

and the receiving departments and / or cost centres

Office of the Municipal Manager

Directorate Community Services

Directorate Integrated Planning & Economic Development Services

Directorate Roads and Transport Planning

for the rendering of administrative services at a specified service level standard

for the financial year period 1st July 2025 to 30 June 2026.

By signing this agreement, all parties acknowledge and agree to the terms contained in this service level agreement.

Name	Position	Department	Date	Signature
	Municipal Manager	Office of the Municipal Manager	01/07/2025	
	Chief Financial Officer	Financial Services	01/07/2025	
	Executive Manager: Community Services	Community Services	01/07/2025	
	Executive Manager: Integrated Planning & Economic Development Services	Integrated Planning & Economic Development Services	01/07/2025	
	Executive Manager: Roads and Transport Planning	Roads and Transport Planning	01/07/2025	

2. PURPOSE

This Service Level Agreement (SLA) establishes a framework for cost accounting between the various internal departments / cost centres to ensure efficient cost allocation, financial accountability, and service delivery. The framework also defines the cost allocation expectations, responsibilities, performance standards and dispute resolution processes to ensure:

- effective financial management and accountability;
- accurate cost allocation and budgeting;
- transparency in inter-departmental financial transactions;
- compliance with accounting & mSCOA standards, government regulations and related municipal policies; and
- the efficient use of public resources.

3. DEFINITIONS

In this services level agreement, a word or expression to which a meaning has been assigned in the approved costing management policy framework of the municipality has the same meaning as in the approved costing management policy framework, unless the context indicates otherwise, and-

“Accounting Officer” means the Municipal Manager appointed as such by the Council of Garden Route District Municipality in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) and as contemplated in Chapter 8 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003);

“Activity based costing method” means a methodology for allocating costs to products and services which seek to identify cause and effect relationships to objectively assign costs;

“Activity-based recoveries” refers to the actual allocation of resources (usage or benefit method) used by various departments;

“Business processes” means the set of activities taking place from the initiation of a process within a municipality or municipal entity to the completion thereof;

“Chief Financial Officer” means a person designated in terms of section 80(2) (a) of the MFMA;

“Cost recovery” means the recuperation of the costs of government provided or -funded products or services;

“Departmental charges” refers to the allocation of overheads from a cost pool used by multiple functions;

“Direct costs” means costs that can be readily and unequivocally attributed exclusively to a product or activity;

“Efficiency” In the context of cost recovery, efficiency tends to mean the allocation of resources to the most valuable uses;

“Equity” In general, the term equity reflects to concepts of fairness or justice;

“General ledger” means the central depository of accounting data transferred from all sub-ledgers;

“Financial year” means a twelve month period commencing on 1 July and ending on 30 June each year;

“Full cost recovery” means the recuperation of all costs associated with specific activities or products;

“Head of Department” an executive manager responsible for the management of a department and appointed i.t.o section 57 of the Municipal Structures Act, 1998 with the line of reporting directly to the Accounting Officer;

“Indirect costs” means costs that are not directly attributable to an activity – often referred to as overheads;

“Internal billing” refers to departmental use of internal services such as electricity, water, etc.

“Manager” means an employee of Garden Route District responsible for the management of a cost centre and the carrying out of a duty or function or exercising any power in terms of this policy and includes any other employee delegated to carry out or exercise the duty, function or power;

“Municipal service” has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

“Pro rata approach” means a method for allocating indirect costs on a proportionate basis by using measures that are easily available;

“Receiver Departments / Cost Centres” distinction is made between *“charges”* to receiving departments and “recoveries” made by sending departments”. This specific is for charges to receiving departments;

“Roleplayers” in context of the SLA have mainly reference to the supporting (sender) departments and the service (receiver) departments;

“Sender Departments / Cost Centres” distinction is made between "charges" to receiving departments and "recoveries" made by sending departments". This specific is for recoveries by sender departments;

"Quarter" means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

“Usage or benefit cost” means a method for allocating indirect costs by measuring or estimating the actual usage of resources; and

"Vote" means-

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional cost areas of the municipality; and
- (b) which specifies the total amount that is appropriate for the purposes of the department or functional cost area concerned.

4. ABBREVIATIONS

A list of abbreviations contained in this service level agreement for clarity and reference:

AFS	Annual Financial Statements
BTO	Budget & Treasury Office
CFO	Chief Financial Officer
EAP	Employee Assistance Programme
EE	Employee Equity
FMG	Financial Management Grant
HOD	Head of Department
HR	Human Resource
IA	Internal Audit
IDP	integrated Development Plan
IT	Information Technology
LED	Local Economic Development
MFMA	Municipal Finance Management Act
MM	Municipal Manager
OHS	Occupation and Health Safety
SCM	Supply Chain Management

SLA Service Level Agreement

5. SCOPE

This service level agreement applies to all departments, cost centres and agencies within the municipality which provide or receive financial, corporate, operational and / or administrative support services. Following a list of the departments & cost centres involved in cost allocation and who be covered in terms of this service level agreement:

Sender Departments / Cost Centres

The following sender departments / cost centres providing a support services to the receiving departments / cost centres and the indirect cost / overheads incurred should be recovered in terms of the principles contain in this service level agreement:

Sender Department	Sender Cost Centres
Office of the MM	Municipal Manager; Strategic Manager; Risk Management; Internal Audit; Performance Management; Legal services and Manager Communications, Marketing & Brand Management
Financial & Corporate Services	Executive Manager Financial Services; Expenditure; Income; Assets & Asset Management; BTO & AFS; Data and SCM
	IT Section; Support Services Registry; HR Manager; Basic Condition of Services; EAP; Labour Relations; OHS; Recruitment & Selection; Training & Development; Support Services Committee; TASK Unit and Individual Performance & policy

Receiver Departments / Cost Centres

The following receiving departments / cost centres received support services from the sender departments / cost centres and the indirect cost / overheads will be charge out to the respective receiver departments / cost centres in terms of this service level agreement:

Receiver Department	Receiver Cost Centres
Community Services	Disaster Management; Fire Fighting; Fire Services Kannaland & Riversdal; Air Quality Control; Bulk Infrastructure; Environmental Management; Landfill Sites, Municipal Health Services:- Administration, George, Klein Karoo, Langeberg & Lakes and Refuse
Integrated Planning & Economic Development Services	IDP; EPWP:- Manager, Own Funding & Projects; LED; PMU; Regional Planning (Municipal Buildings) and Resorts:- Calitzdorp SPA Kiosk, Calitzdorp SPA Resort, De Hoek Mountain Resort, Swartvlei & Victoriabaai
Roads and Transport Planning	Road Transport & General

The “indirect cost” and “overheads” in respect of the various support services to be recovered from the receiving departments / cost centre as a charge out, can be summarised as follows and forms an integral part of this service level agreement of which cost to be redistributed on the principle of full cost recovery as defined in the approved “costing management policy framework”:

Department / Cost Centre	Support Services Covered in the SLA	Frequency
Office of the Municipal Manager:		
Municipal Manager	Monitoring, Oversight & Compliance	Daily
Strategic Manager	Monitor & Oversight – Risk, Communication, Internal Audit, Performance and legal matters	Monthly
Risk Management	Annual Risk Assessment & Update of the risk register and action plans	Annually
	Reporting to Risk Committee / Council	Quarterly
Internal Audit	Develop and implement Risk-Base Audit Plan	Annually
	Reporting to the Audit Committee	Quarterly
Performance Management	Develop, implement and manage individual & organisational performance	Quarterly
Legal Services	Perform legal services – review / input on contracts and provide advice on legal matters, delegated PAIA & Ethics Officer and compile council’s delegation register	Monthly
Communications, Marketing & Brand Management	Develop the municipality’s communication policy, strategy, plan and corporate brand standards guide. Manage and coordinate the implementation of the communication policy.	Daily
Financial Services:		
Executive Manager: Financial Services (CFO)	Monitoring, Oversight & Compliance i.r.o finance related responsibilities	Monthly
Expenditure	Manage the expenditure creditor payments, remuneration, perform bank reconciliation.	Daily
	Reporting to internal & external stakeholders	Monthly / Quarterly
Income	Manage income billing, debt collection, tariff setting, etc.	Daily
	Reporting to internal & external stakeholders	Monthly / Quarterly
Assets	Manage and control records within the asset register	Monthly
	Keep asset register up-to-date with all the transaction movement and perform asset reconciliation	Monthly / Annually

Asset Management	Monitor & Oversight – asset management	Monthly
	Reporting on asset management performance – acquisition of assets, etc.	Monthly / Annually
BTO & AFS	Preparation of budgeting and reporting	Annually
	Reporting in terms of the MFMA requirements	Monthly / Quarterly
	Financial accounting, compliance and reconciliations	Monthly
	Preparation of AFS & audit working file	Annually
Data	Financial System batch updates and perform month / year-ends on the financial system as well as control the integrations of creditor and ledger	Monthly / Annually
SCM	Implement effective demand management system	Daily
	Coordinate and control the acquisition management processes	Daily
	Execute control processes associated with the procurement of goods & services	Monthly
	Reporting to internal & external stakeholders	Monthly / Quarterly / Annually
Corporate Services:		
IT Section	Manage and maintain the ICT Strategy	Monthly
	Manage systems, licensing and ICT support services	Daily
	Research, develop and maintain ICT systems	Daily
	Reporting to internal stakeholders	Monthly
Support Services Registry	Manage records, archives, reproduction, fleet and auxiliary services.	Daily
	Designated records manager of the municipality	Daily
	Reporting to internal stakeholders i.t.o delegated responsibility and function to perform	Monthly
HR Manager	Monitor & Oversight i.r.o.HR related responsibilities and functions	Monthly

Basic Condition of Services	Manage the condition of service unit and processes	Daily
	Align the organogram structure	Annually
	Implement annual salary and wage adjustments	Annually
	Responsible for the management of leave system, procedures and stats	Daily
	Manage internal job descriptions and evaluations	Daily
	Reporting to internal stakeholders i.t.o HR related matters	Monthly
EAP	Arrange and coordinate the Employee Assistance Programme (EAP) services	Daily
	Report to internal stakeholders – Management / Labour Forum	Monthly
Labour Relations	Interpret and advise on labour related agreements and legislation	Daily
	Manage and perform the administration functions for labour relations, EE and policies	Daily
	Monitor and analyses labour related trends and develop strategic response / interventions	Daily
	Record and report on labour related matters - Labour Forums	Monthly
OHS	Coordinate the OHS function of the municipality and conduct incident investigations	Daily
	Coordinate, facilitate and monitor all contract appointments	Daily
	Reporting to internal & external stakeholders	Monthly
Recruitment & Selection	Coordinate the recruitment and selection processes within the municipality for employees as well as Snr Management	Daily
	Reporting to internal & external stakeholders	Monthly / Quarterly

Training & Development	Provide and accelerate skills development	Annually
	Coordinate learning & development plans on improving people's ability to perform and achieve organisational needs	Daily
	Administer bursaries process	Daily
	Review of Job descriptions (JD'S)	Daily
	Maintain and keep track of training budget and spending	Monthly
	Reporting to internal & external stakeholders	Monthly
Support Services Committee	Manage the secretariate service to Council, Executive Mayoral committee, portfolio committees and to the various departments.	Daily
	Manage administrative support services as well as councillor support services	Daily
TASK Unit	Administer the TASK job evaluation system and record keeping	Daily
	Prepare and submission of reports related to TASK	Monthly
Individual Performance & policy	Manage and coordinate individual performance across the municipality	Quarterly
	Reporting to internal stakeholders relating to performance	Quarterly / Annually

6. SERVICE AGREEMENT PRINCIPLES

This service level agreement defines the following key cost allocation principles to apply in this agreement:

- Accountability:** the departments / cost centres and agencies must justify their cost allocations and expenditures.
- Equity:** Fair distribution of costs among service receiving departments / cost centres.
- Fairness:** Equitable distribution costs based on actual usage or a reasonable allocation method.
- Transparency:** All cost-related transactions must be recorded and reported accurately. Cost allocation methodologies should be clearly documented and auditable.
- Efficiency:** Optimizing service delivery to minimize waste and disputes through predefined cost allocation methodology.
- Compliance:** Adherence to applicable financial legislation, regulations and relevant policy prescripts.

7. KEY ROLE-PLAYERS

It is fundamental to acknowledge the vital role that each role-player plays within the context of this service level agreement in maintaining financial efficiency, accountability, and compliance within the municipal setup. It is therefore important to have clear responsibilities and well-defined functions to ensure smooth service delivery, effective cost management and adherence to applicable financial legislation, regulations and policies. Following an outline of the roles and responsibilities in respect of each identified role-player:

- **SLA Service Provider: Finance - BTO & AFS Section**

The finance department will be the custodian of driving the cost accounting process in the municipality and therefore be regarded as the service provider within the service level agreement context. In terms of the defined role and responsibility the service provider will be responsible for implementing and delivering a cost accounting service to other sender / receiver departments, ensuring financial compliance and maintaining accurate

financial records.

The responsibilities of the service provider will entail to:

- Provide timely and accurate financial reports, including cost allocations and budget analysis;
- Ensure compliance with prescribed legislation and applicable financial policies in the municipality;
- Process and track departmental expenditures efficiently;
- Maintain and keep proper supporting documentation for audit purpose and financial reviews;
- Address financial related queries i.r.o cost allocation and provide advisory support to departments / cost centres per the needs requirement; and
- Regularly review and update the costing allocation framework procedures and policy directive.

- **SLA Recipient Departments / Cost Centres (Service Beneficiaries)**

The role of the recipient departments / cost centres is to use the financial data provided by the responsible cost accounting section to manage their budgets, planned expenditures and to ensure compliance with the financial related policy directive.

Some of key responsibilities in respect of the recipient departments / cost centres is to:

- Submit financial data and expenditure reports promptly to the service provider section department as and when required;
- Follow cost accounting procedures and adhere to budget constraints;
- Ensure proper documentation of financial transactions for audit purposes;
- Communicate financial needs, budget adjustments, and any concerns to the service provider section;
- Participate in financial review meetings and provide feedback on services received;
- Cooperate with the service provider section in resolving any possible discrepancies.

- **SLA Owner (Chief Financial Officer or an appointed SLA coordinator)**

The role of the SLA Owner is to ensure that the agreement is implemented effectively, oversees performance monitoring and resolves any conflicts which might exist between the various departments and / or cost centres.

The responsibilities attached to the SLA owner is mainly to:

- Ensure that all SLA terms and service expectations are met;
- Monitor service performance and compliance with prescribed financial related regulations and / or policy directives issued;
- Act as a mediator in case of disputes between departments regarding financial and cost allocation matters;
- Conduct periodic reviews of the SLA and update if need requires;

- Ensure that financial reporting standards and data integrity been maintained with in the cost allocation framework; and
- Provide strategic direction for improving financial service efficiency.

The important role of the following role-players is not disregarded although their roles and responsibilities does not have a direct impact on the day-to-day management of this cost allocation service level agreement, namely:

- **Senior Management/Executive Leadership (e.g., Municipal Manager, Finance Committee, Mayor)** as they provide governance and oversight by ensuring that cost accounting aligns with the strategic objectives of the municipality.
- **Internal Audit** with the main focus to review financial records and processes to ensure compliance, transparency, and efficiency in cost accounting within the municipality.
- **IT Section** supports the financial systems and ensures that the cost accounting model, software and data management tools function effectively.
- **Legal Services** ensures that financial procedures comply with regulatory prescripts and to review the cost allocation service level agreement to ensure.

8. COSTING & ALLOCATION TERMS

The cost components have reference to a cost objective which is an activity whereby a separate measurement of cost is desired and all resources consumed to produce that activity forms part of the total cost of the activity.

Costs assigned to cost objectives can be classified as either direct or indirect cost and can be defined as follows:

- **Direct costs** mean costs that can be readily and unequivocally attributed exclusively to a product or activity; whilst
- **Indirect costs** mean costs that are not directly attributable to an activity – often referred to as overheads;

The costing methodology to be applied in the this service level agreement is based on the “pro rata” approach with the only focus on the “departmental charges” for the redistribution as overheads cost to the receiver departments / cost centres to reflect the full cost of the service.

“Pro-Rata” approach whereby the costs be allocated on a proportionate allocation basis to outputs by using the budget consumed for the output as a percentage of the total budget”

9. SERVICES COVERED

The services to be covered in terms of this service level agreement purely have reference to the outputs and deliverables by the department of finance – BTO & AFS section as the dedicated “service provider” and custodiam of the cost accounting implementor in the municipality.

9.1 DESCRIPTION OF SERVICES

Service	Description	Frequency	Delivery Method
---------	-------------	-----------	-----------------

Cost Allocation	Allocation of indirect / overheads costs across departments	Monthly / Quarterly	Financial Reports as prescribed in the MFMA
Budget & In-year monitoring and reporting	Prepare cost allocation budget based on historic actual expenditure trends – budget process	Annually	Approved Budget
	Perform a mid-year budget performance assessment and forecast i.r.o cost allocations	Mid-year	Mid-year report to Executive Mayor & Adjustment Budget
	Review and report departmental expenditures	Monthly	Financial report as prescribed in MFMA
Financial Reporting	Prepare and submit cost-related financial reports to internal & external stakeholders as prescribe in the MFMA	Monthly / Quarterly / Annually	Printed Reports & AFS
Audit Support	Assistance with internal and external audits	As needed	On Request – Risk Based Audit Plan
Compliance	Ensuring adherence to financial regulations	Ongoing	Compliance Reports

9.2 SERVICE AVAILABILITY

Operating Hours: Monday – Friday, 07h30 – 16h30

Response Time: Aligned to the prescribed “service level standards” of the municipality. (Within 3 business days for standard requests)

Urgent Requests: Addressed within 24 hours if deemed critical by the Finance Department

10. SERVICE PERFORMANCE STANDARDS

10.1 KEY PERFORMANCE INDICATORS (KPI's)

KPI	Target	Measurement Method
Budget Reports Accuracy	99% error-free reports	Internal Audit
Timeliness of Reports	95% of reports submitted on time	Report Submission Logs
Compliance with Regulations	100% adherence to government finance policies	External Audit Reports
Response Time to Queries	90% of queries responded to within 3 business days	Ticketing System

10.2 REPORTING AND REVIEW

Monthly financial reports to be available and shared with all sender / receiver departments / cost centres.

Quarterly performance reviews will assess service efficiency and areas for improvement.

Mid-Year Performance and budget assessment review the actual performance versus the approved budget for possible adjustment budgets or not.

Annual SLA review meetings will be conducted with key role-players during the annual budget process with timelines.

11. ROLES AND RESPONSIBILITIES

Role	Responsibility
Finance Department: - BTO & AFS Section	Provide cost accounting services, ensure compliance, monitor financial health
Recipient Department / Cost Centres	Provide accurate financial data, comply with financial policies, request services on time
SLA Owner:- Chief Financial Officer	Oversee service performance, mediate disputes, update SLA as needed

12. COMMUNICATION PROTOCOL

The formal communication and / or escalation processes relating to cost accounting shall take place in writing whether it had reference to a query, enquiry, request or a dispute involving finance: Following the levels of communication protocol to follow:

- **Levels of Escalation**

1st Level of communication via the office of the Chief Accountant BTO & AFS for initial support

2nd Level of communication escalate to the Manager BTO, AFS & Assets if no response and /or still unresolved

3rd Level of communication is to the Chief Financial Officer (CFO) to address your query and / or dispute if critical delays might occur

4th Level of communication to the Municipal Manager for final ruling i.r.o the unresolved issue

- **Communication Protocol**

All service queries, enquiries, requests and escalations must be logged via an e-mail as the only recognised form of formal communication.

Escalations will be responded to within 48 hours for standard issues and 24 hours for more urgent related matters.

13. REVIEW & TERMINATION

This agreement terminates automatically by the end of the financial year period 30 June of each year.

The annual service level agreement (SLA) review and / or renewal will be conducted aligned with the budget process timetable and approval of the reviewed costing management policy framework before the start of the new financial year 1st July by the respective finance and recipient departments.

Any amendments to the service level agreement will require consent and approval by the responsible executive or senior manager and the chief financial officer.

Standing Operating Procedures – Cost Accounting

	Procedure	Accountant Data	Chief Accountant BTO & AFS	Manager BTO & AFS	Chief Financial Officer	Municipal Manager	Council	Legislation	GRAP Standard	GRAP Line Item	Proposed mSCOA Item	KPI
1.	Development of a cost allocation plan – “Costing Management Policy Framework”.				PA	VA						
2.	Workshop draft "Costing Allocation Policy Framework" with role-players before submission for approval		PA		VA	VA		MFMA & mSCOA Regulations	GRAP 18 – Segment Reporting	Segment reporting not on the face of income & expenditure statement (under the line item reporting)	Costing Segment: - Charges & Recoveries	Approved - "Cost Allocation Policy Framework"
3.	Approval of policy of Cost Management Policy Framework.				PA	VA	RA					
4.	Annual review of the cost allocation policy framework during the budget process period in consultation with stakeholder departments.		PA		VA	VA	RA					
5.	Development of a interdepartmental service level agreement (SLA) for cost allocation.				PA	VA						
6.	Annual review of the SLA's in consultation with all role-players during the budget process period.		PA		VA	RA						

18.	Monthly, quarterly, mid-year & annual reporting to internal & external stakeholders aligned with MFMA & mSCOA prescripts			PM	VM	RM												
19.	Apply monitoring and oversight on the cost allocation charged outs and recovery form the sender to the receiver departments / cost centres aligned with budget estimates and report any deviations to implement corrective steps, if need be.			PM	VM	VM	RM											

Role-players involved in procedures

AD	Accountant: Data
CA BTO & AFS	Chief Accountant BTO & AFS
M BTO & AFS	Manager BTO & AFS
CFO	Chief Financial Officer
MM	Municipal Manager
HOD	Heads of Departments within Municipality
FC	Finance Committee (can also be Executive Committee)
C	Council

The level of involvement of each official is indicated at each procedure and are summarised as follows:

PD	Perform Daily
PW	Perform Weekly
PM	Perform Monthly
PQ	Perform Quarterly
PBI	Perform Bi-Annually
PA	Perform Annually
VD	Verify Daily
VW	Verify Weekly
VM	Verify Monthly
VQ	Verify Quarterly
VBI	Verify Bi-Annually
VA	Verify Annually
RD	Review Daily
RW	Review Weekly
RM	Review Monthly
RQ	Review Quarterly
RBI	Review Bi-Annually
RA	Review Annually

Procedures for development and implementation of "Costing Manage Policy Framework" accepted by:

	Employee	Signature	Date
AD			
CA BTO & AFS			
M BTO & AFS			
CFO			
MM			

Procedures for development and implementation of "Costing Manage Policy Framework" policy approved by:

	Signature	Date
Chief Financial Officer		
Municipal Manager		