



# LEPELLE-NKUMPI LOCAL MUNICIPALITY

## DRAFT REVIEWED RETENTION POLICY FOR 2026/2027 FINANCIAL YEAR

# TABLE OF CONTENTS

1. DEFINITIONS
2. INTRODUCTION
3. OBJECTIVES OF THE POLICY
4. APPLICABLE LEGISLATIVE FRAMEWORK
5. RETENTION OF FUNDS
6. PAYMENT OF RETENTION FUNDS
7. DEFECTS LIABILITY PERIOD
8. RETENTION REGISTER
9. UNCLAIMED RETENTION
10. EFFECTIVE DATE OF THE POLICY
11. REVIEW OF THE POLICY

## 1. DEFINITIONS

**Council** means a municipal council established in accordance with Section 18 of the Municipal Structures Act and Section 157(1) of the Constitution of the Republic of South Africa.

**Municipality** means the Lepelle-Nkumpi Local Municipality established in terms of Section 155 of the Constitution of the Republic of South Africa.

**Contract** means a written agreement entered into between the Municipality and Contractor or Consultant signed by both parties

**Retention** means the percentage of funds for management fees and work done withheld by the municipality

## 2. INTRODUCTION

The purpose of the policy is to ensure sound, uniform, and proper administration of the retention funds retained by the municipality.

## 3. OBJECTIVE

To provide a framework for the management of retention funds and to reduce the retention liability of the municipality

## 4. APPLICABLE LEGISLATIVE FRAMEWORK

- 4.1. The Approved Supply Chain Management Policy of Lepelle-Nkumpi Local Municipality.
- 4.2. The Construction Industry Development Board Act 38 of 2000.
- 4.3. The General Conditions of Contract [GCC Latest Edition] for construction works
- 4.4. Joint Building Contracts Committee
- 4.5. New Engineering Contracts

## 5. RETENTION OF FUNDS

The municipality shall retain 5% of the funds for management fees for consultants and 10% of funds for the work done by the contractors.

## 6. PAYMENT OF RETENTION FUNDS

- 6.1. The first half (50%) of the amount retained shall be paid upon submission of completion certificate by the contractor, signed off by the municipal project manager and the consulting engineer(if applicable)
- 6.2. The last half of the retained amount shall be paid at the end of the defects liability period.

## 7. DEFECTS LIABILITY PERIOD

The defects liability period starts when the completion certificate is issued. During the defects liability period, the contractor shall remain responsible for any material defects related to quality of the works or workmanship. The engineer shall oversee the process of managing the defects that arise. If either the contractor fails to rectify the defective works, or the engineer fails to oversee the process of rectifying defects, their respective retention shall be utilized to procure services to rectify the works.

## 8. RETENTION REGISTER

The Expenditure section shall keep and update the register as and when retention is withheld and paid-out.

- 8.1. Retention money is withheld to ensure work quality and completion; payment of retention shall not be paid if:
  - a) **Defects are not rectified:** The primary reason for withholding retention is to provide security for making good any defects (snagging issues) discovered during the defects liability period (DLP). If the contractor

fails to correct these defects to the engineer's satisfaction, the retention funds may be used by the client to get the work done by someone else.

- b) Should there be defects identified, a letter instructing the contractor to rectify the defects will be issued with timelines that may be deemed necessary to rectify the defects.
- c) If the contractor fails to fix the defects, the municipality reserves the right to appoint another contractor to correct the defects and offset the costs from the retention amount.

**d) Completion is not achieved**

÷

e) **Contract terms are not met:** Payment of retention is strictly governed by the specific terms and conditions of the contract. If the contract stipulates certain milestones or quality standards that have not been reached, payment can be withheld.

f) **Lack of proper documentation or claim:** The contractor must submit a proper final payment claim within the stipulated timeframes to receive the retention. Failure to follow the correct administrative procedure may result in delays or non-payment.

8.2. Where any of the conditions stated above is applicable, the municipality shall:

- 8.2.1. formally notify the consultant(s) and contractor(s) of the intention to terminate the contract and give notice of fourteen (14) days to finalise the works.
- 8.2.2. Failure to finalise the works within the fourteen (14) days the contract shall be terminated.
- 8.2.3. The list of retention forfeited shall be submitted to council within sixty (60) days from the date of termination (lapse of the allocated time) for write-off of the retention amount.
- 8.2.4. The retention amounts written-off shall be utilised to complete the incomplete project(s)

## **9. UNCLAIMED RETENTION**

- 9.1. It is the responsibility of the contractors/consultants to submit final retention claim once the defects liability period has lapsed.
- 9.2. Unclaimed retention amounts which are two (02) years after the defects liability period shall be written off and reported to council.

9.3. Failure to claim the retention amount within two (02) years, the municipality shall:

9.3.1. Send individual letters to the contractors and consultants to submit claims within thirty (30) days from the date of issuing the letters.

9.3.2. Should the service providers fail to respond to the notice letter issued, the municipality shall reserve the right to write off the said retention and as such, the service provider shall have no further claim against the municipality.

## **10. EFFECTIVE DATE OF THE POLICY**

The policy shall be effective from the date of approval by council

## **11. REVIEW OF THE POLICY**

The policy shall be reviewed as and when it is required.