

Section 2: Finance

ITEM C/6/ /07 /17

Mayoral Committee Meeting for recommendation to Council

**ANNUAL REPORT ON THE IMPLEMENTATION OF THE SUPPLY CHAIN
MANAGEMENT POLICY FOR THE FINANCIAL YEAR ENDING 30 JUNE 2017 IN
TERMS OF SECTION 6(2) (a)(i) OF THE POLICY**

Department: Financial Services **Demarcation:** All Wards
File Ref: 9/1/3/4
Attachments None
Report From: Chief Financial Officer
Author: Manager: Supply Chain Management
Date: 10 July 2017

1. PURPOSE OF THE REPORT

The purpose of this report is to provide an overview of the SCM process in terms of Council's Supply Chain Management Policy (as amended) for the financial year ending on 30 June 2017.

2. BACKGROUND AND DISCUSSION

2.1. BACKGROUND

- 2.1.1. All officials and other role players in the supply chain management system of the municipality must implement the SCM Policy in a way that gives effect to Section 217 of the Constitution, which requires processes to be fair, equitable, transparent, competitive and cost effective.
- 2.1.2. Council's mandate is to maintain oversight over the implementation of the SCM Policy and for the purposes of such oversight the Accounting Officer must within 30 days of the end of each financial year, submit a report on the Implementation of the Supply Chain Management Policy of the Bitou Municipality, to the Council of the municipality in terms of Section 6(2) of the Policy (Annexure A)
- 2.1.3. The report will reference the following sub sections:
 - (i) Institutional Arrangements
 - (ii) Demand Management
 - (iii) Acquisition Management
 - (iv) Logistics Management
 - (v) Disposal Management
- 2.1.4. The availability of this report must be made public in accordance with Section 21A of the Local Government Municipal Systems Act 32, 2002.

2.2. INSTITUTIONAL ARRANGEMENTS

2.2.1. The SCM Policy

- 2.2.2. The Bitou Municipality Supply Chain Management Policy Incorporating Preferential Procurement was adopted in adherence to the SCM Regulations and is in line with the Model Policy issued by National Treasury (NT).
- 2.2.3. The SCM Policy was reviewed during the 2016/17 financial year and the main amendments seek to separate the Preferential Procurement Policy from the SCM Policy as an incorporation. The Preferential Procurement Policy (PPP) have also been amended in terms of the Preferential Procurement Regulations of 2017. The PPP will become the main driver of procurement in the organization in terms of Council's strategic goal to increase localized procurement to emerging enterprises.
- 2.2.4. The amended Bitou Municipality Supply Chain Management Policy for 2017/18 was approved on 31 May 2017. The SCM Policy will in future focus on the procurement of Goods and Services, whilst Council has also approved a policy on the Procurement of Construction-Related Services, the Infrastructure Procurement and Delivery Management Policy, on 31 May 2017.
- 2.2.5. The definition of "in the service of the state" was amended in terms of a Government Gazette, which removed the ambiguities related to Non-Executive Directors serving on the board of government entities and excluded this category of directors from the definition.
- 2.2.6. Clarification of the term "long term nature" in Section 22(1)(b)(i). To be interpreted as contracts longer than 3 years vs long term contracts, which are for longer than 1 year. Therefore, advertisements for tenders with implementation periods of less than 3 years do not have to be advertised for 30 days.
- 2.2.7. The Provincial Treasury regularly reviews the supply chain management policies of municipalities within the province in order to ensure compliance with all relevant amendments to legislation.

2.2.8. Delegation of SCM Powers and Duties

- 2.2.8.1. Council has delegated the SCM powers and duties to the Municipal Manager in order to ensure that the Municipal Manager adheres to Section 115 of the MFMA to:
- discharge the responsibilities conferred by the SCM Policy;
 - maximise the administrative and operational efficiency in the implementation of the Policy; as well as
 - enforce reasonable cost-effective measures to prevent fraud, corruption, favouritism and unfair and irregular practices.
- 2.2.8.2. The Municipal Manager may in terms of Section 79 of the MFMA, sub-delegate certain of these powers and duties in writing.
- 2.2.8.3. Sub-delegations have been conferred in writing to the members of Bid Committees and financial delegations were issued to all Heads of Departments for the procurement of goods and services for a value up to R 200 000, subject to compliance with the requirements of the SCM Policy as recommended by the SCM Manager.
- 2.2.8.4. The further sub-delegation has been limited to officials ranked not lower than a TASK-Level 11.

2.2.9. Supply Chain Management Unit

- 2.2.9.1. In terms of Section 7 of the SCM Policy the Municipality must establish a Supply Chain Management Unit (SCMU) to implement its Supply Chain Management Policy.
- 2.2.9.2. The SCMU must operate under the direct supervision of the Chief Financial Officer and may be delegated to an official reporting to the CFO, in terms of Section 82 of the MFMA, viz, the Manager: Supply Chain Management.
- 2.2.9.3. The organisational structure of the SCM Unit comprises 13 posts and the year kicked off with no vacancies on 01 July 2016. Unfortunately, we lost a Procurement Officer (Buyer) who left

for greener pastures. As at 30 June 2017, we therefore had one vacancy with a vacancy rate of 8% (also 8% in 15/16) existed in the SCM Unit, just above the norm of 5%. A moratorium have been placed on recruitment processes and the Municipality is undergoing an organisational review.

- 2.2.9.4. Job Descriptions have been developed, evaluated and audited for 11 positions, with only another 2 to be finalised (SCM Manager & Senior Practitioner: Demand, Acquisition & Compliance). However, we foresee amendments to these job descriptions as a result of the organisational design.
- 2.2.9.5. SCM Officials are continuously developed through regular training opportunities, with specialised SCM Training by the Provincial Treasury, Local Content Procurement and SCM Forum Meetings. The focus on training and development of officials will be improved and supplemented by the retention of skilled SCM officials and succession planning.

2.3. DEMAND MANAGEMENT

- 2.3.1. In terms of Section 10(1), the Accounting Officer must establish and implement an appropriate demand management system in order to ensure that the resources required by the municipality to support its operational commitments and its strategic goals outlined in the Integrated Development Plan, are delivered at the right time, place and price.
- 2.3.2. The demand management system must –
 - 2.3.2.1. include timely planning and management processes to ensure that all goods and services required by the municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost;
 - 2.3.2.2. take into account any benefits of economies of scale that may be derived in the case of acquisitions of a repetitive nature;
 - 2.3.2.3. provide for the compilation of the required specifications to ensure that its needs are met;
 - 2.3.2.4. undertake appropriate industry analysis and research to ensure that innovations and technological benefits are maximized; and
 - 2.3.2.5. include the following demand management considerations –
 - 2.3.2.5.1. understanding of future and current needs;
 - 2.3.2.5.2. requirements are linked to the budget;
 - 2.3.2.5.3. specifications are determined;
 - 2.3.2.5.4. needs form part of the strategic plan and Integrated Development Plan of the Municipality;
 - 2.3.2.5.5. analysis of past and current expenditure;
 - 2.3.2.5.6. optimum methods to satisfy needs;
 - 2.3.2.5.7. frequency of requirements are specified;
 - 2.3.2.5.8. calculation of economic order quantity; and
 - 2.3.2.5.9. conducting of industry and market analysis.
- 2.3.3. These processes have been implemented with relative success over the 2016/17 financial year and resulted in a documented plan. However, a lack of monitoring implementation have reduced the efficacy of the plan.
- 2.3.4. The shortcoming will be addressed and the 2017/18 financial year will see the development of a comprehensive Demand Management Plan, which takes into account all procurement processes required to spend the capital budget for the year and timeous planning for any contracts, which might end. The analysis of ad hoc expenditure will follow as a third phase.
- 2.3.5. With the advent of centralised procurement, we envision a radical shift in the focus of SCM as the “Buying” arm of the organisation. The vision is that SCM will become the strategic driver in

the provision of services in the Municipality, that will leave technical managers to focus on planning service delivery and SCM responsible to provide an end-to-end procurement "SERVICE". Details are currently being fleshed out and will be communicated in due course.

2.4. ACQUISITION MANAGEMENT

2.4.1. The municipality's system of acquisition management must ensure:

- (i) That goods and services are procured in accordance with authorized processes only;
- (ii) That expenditure on goods and services is incurred in terms of an approved budget in terms of Section 15 of the MFMA;
- (iii) That the threshold values for different procurement processes are complied with;
- (iv) That bid documentation, evaluation and adjudication criteria and general conditions of a contract are in accordance with any applicable legislation; and
- (v) That any Treasury guidelines on acquisition management are properly taken into account.

2.4.2. Goods and service are procured in accordance with authorized processes and approved delegations. Expenditure that has been incurred was budgeted for in the approved budget of Council. The bid documentation that is utilized is in accordance with the guidelines issued by National and Provincial Treasury, the general conditions of contract and applicable legislation such as the Construction Industry Development Board Act (Act 38 of 2000) and we are continuously improving the documents in order to improve access and ease of use.

2.4.3. Accredited Prospective Providers

2.4.3.1. In terms of Section 14 (1) the Accounting Officer must keep a list of accredited prospective providers of goods and services that must be used for the procurement requirements through written or verbal quotations and formal written price quotations.

2.4.3.2. The Municipality has and maintains an Accredited Suppliers Database on the SAMRAS DB4 Financial Management System. The National Treasury implemented a national verification platform, the Central Suppliers Database (CSD), from 01 July 2016. The Bitou Municipality SCM Policy has been amended in order to allow for the application of the platform and all new database applications are referred to the CSD. Integration are currently performed manually and we envisage an automated integration between the CSD and the SAMRAS FMS to be implemented during the 2017/18 financial year. The service provider have performed a comprehensive data cleansing and validation exercise and reconciled data to the CSD. The SAMRAS FMS have been improved to include automatic update from the CSD and the project implementation is on-going.

2.4.3.3. The Municipality must at least once a year through newspapers commonly circulating locally, the website and any other appropriate ways, invite prospective providers of goods or services to apply for evaluation and listing as accredited prospective providers and we duly complied with the requirement with a formal advertisement process during June 2017.

2.4.3.4. The list must be updated at least quarterly to include any additional prospective providers and any new commodities or types of services. Prospective providers are allowed to submit applications for listing at any time and the list is updated daily.

2.4.4. Competitive Bidding for Contracts valued more than R 30 000

2.4.4.1. The competitive bidding process and bid committee structures are functioning effectively. Members of the bid committees are required to complete the attendance register and declare to undertake the following:

2.4.4.2. That all information, documentation and decisions regarding any matter before the committee is confidential and undertakes not to make known anything in this regard;

2.4.4.3. To treat all service providers and potential service providers equitably and will not purposefully favour or prejudice anybody; and

- 2.4.4.4. To make known details of any private or business interest he or she or any close family member, partner or associate may have in any proposed procurement or disposal of, or in any award or contract that they will immediately withdraw from participating in any matter whatsoever.
- 2.4.4.5. The bid committees have been conducted regularly through the year with attendance closely monitored in compliance with Council's SCM Policy:

#	Committee	Number of Meetings 2016/17 (2015/16)	Attendance for Quorum
1	Specifications	47 (42)	100%
2	Evaluation	44 (44)	100%
3	Adjudication	28 (30)	100%

- 2.4.4.6. The bid committees processed 67 tenders for awards valued in excess of R 210 million (R 256 million for 87 during 2015/16):

#	Tenders processed	2016/17	2015/16	2014/15
1	Tenders Awarded	67	87	67
2	Contracts Awarded	122	132	123
3	Value of Tenders Awarded	R 210 390 m	R 256, 192m	R 206m
4	Number of Appeals Received	1	1	3
5	Number of successful appeals	0 (4 unresolved)	0 (3 unresolved)	0 (2 unresolved)

- 2.4.4.7. The ten highest bids awarded by the bid adjudication committee were as follows:

TENDER NUMBER	TENDER DESCRIPTION	AWARDED TO	ESTIMATED TOTAL AMOUNT (VAT INCLUDED)
SCM/2017/07/FIN	Supply & Delivery of Reticulation Materials	Incedon (Pty) Ltd	R 9 999 999.99
SCM/2017/07/FIN	Supply & Delivery of Reticulation Materials	Joat Sales and Services (Pty) Ltd	R 9 999 999.99
SCM/2017/76/COMM	Provision of Security Services	Shelf Plett 40 CC t/a Isolomzi Security	R 9 950 137.92
SCM/2017/07/FIN	Supply & Delivery of Reticulation Materials	Plumblink SA (Pty) Ltd	R 7 342 469.14
SCM/2017/18/ENG	Upgrading of Bulk Infrastructure of Kwanokuthula (Phase 2B)	VE Reticulation (Pty)Ltd	R 6 537 613.86
SCM/2017/04/ENG	Supply & delivery of Vehicles: Item: 6; 7; 8	Short's Nissan CC	R 4 826 985.72
SCM/2017/12/ENG	Construction of a Driver's License Testing Centre in Plettenberg Bay	Hyman Masterfence CC	R 4 790 277.49
SCM/2017/129/ENG	Operation & Maintenance of 2ML Per Day Desalination Plant	Veolia Water Solutions & Technologies SA (Pty) Ltd	R 4 527 592.41
SCM/2017/74/ENG	Supply & delivery of Vehicles: Item 1 - Hook-lift Trucks	Short's Nissan CC t/a Shorts Nissan	R 4 041 359.28
SCM/2017/14/ENG	Supply & Delivery of Prepaid Split Meters	Conlog (Pty) Ltd t/a Conlog	R 3 922 432.20

2.4.4.8. The awards in excess of R10 million, was made by the Accounting Officer upon recommendation of the Bid Adjudication Committee. Bids awarded by the Municipal Manager are as follows:

TENDER NUMBER	TENDER DESCRIPTION	AWARDED TO	ESTIMATED TOTAL AMOUNT (VAT INCLUDED)
SCM/2017/1 28/FIN	Provision of External Loans : Long Term Debt – R 24,998,191.00	ABSA Bank Ltd	R 41 015 994.00
SCM/2017/2 8/FIN	The Provision of Operational ICT Maintenance & Support Services & Goods	Dimension Data (Pty) Ltd	R 14 475 719.03
SCM/2017/5 6/ENG	Resurfacing of Roads	Entsha Henra CC	R 11 897 991.97

2.4.4.9. We also report in terms of all contracts awarded as follows:

B-BBEE compliant enterprises

Enterprises within the Bitou Municipality Area

B-BBEE Enterprises within the Bitou Municipality Area

2.4.4.10. The schedule compares the results with the comparative previous financial year as follows:

#	Description	2016/17	2015/16
1.	Tenders Awarded	67	85
2.	Contracts concluded resulting from the tenders. (Individual suppliers or service providers appointed as a result of the tenders awarded)	122	132
3.	Estimated Value of Tenders Awarded	R 210,390 million	R 256,192 million
4.	Number of Appeals Received	1	1
5.	Number of Appeals in Progress	4 (2 of Q2- 2014/15 still in progress)	
6.	Number of successful appeals	0	0
7.	Number of Contracts Awarded to B-BBEE Enterprises	111	114
8.	Value of Contracts Awarded to B-BBEE Enterprises	R 190,527 million	R 226,181 million
9.	% of Contracts Awarded to B-BBEE Enterprises	90.56%	88%
10.	Number of Contracts Awarded to Enterprises based in the Bitou Municipality Area	58	48
11.	Value of Contracts Awarded to Enterprises based in the Bitou Municipality Area	R 82,009 million	R 72,790 million
12.	% of Contracts Awarded to Enterprises based in the Bitou Municipality Area vs All Contracts	38.98%	28.41%

#	Description	2016/17	2015/16
13.	Number of Contracts Awarded to B-BBEE Enterprises based in the Bitou Municipality Area	55	42
14.	Value of Contracts Awarded to B-BBEE Enterprises based in the Bitou Municipality Area vs All Contracts	R 79,701 million	R 69,573 million
15.	% of Contracts Awarded to B-BBEE Enterprises based in the Bitou Municipality Area vs All Contracts	37.88%	27%

2.4.4.11. The value of contracts awarded to enterprises situated within the Bitou Municipality borders, with B-BBEE credentials, have increased sharply to almost 38% (from 27%) of all awards, with a value of more than R 79, 701 million.

2.4.5. Deviations from the SCM Policy

2.4.5.1. Section 36 of Council's Supply Chain Management Policy allows the Accounting Officer to dispense with the official procurement processes. Deviations to the value of R 7 412 717 were considered and approved and compares as follows to the previous financial years:

	2016/17	2015/16	2014/15	2013/14
Value of Deviations	R 7 412 717	R 12 174 620	R 15 873 803	R 17 381 548
Number of Deviations	109	155	170	307

2.4.5.2. The decrease in the value of deviations and in the number of deviations are both indications of the improved diligence exercised in managing procurement in the municipality.

2.4.5.3. Unfortunately there is also a direct correlation between the reduction of deviations and the higher number of transactions classified as Irregular Expenditure, partly due to the outcome of the Auditor-General report for the 2015/16 audit.

2.4.5.4. SCM Officials continuously monitored user-departments closely, with all procurement transactions being subject to scrutiny, in order to ensure correct reporting to Council. The motivation for deviations, however, remains a huge concern.

2.4.5.5. Deviations from the SCM Policy were approved in the following categories as per Section 36 of the SCM Policy for the 2016/17 financial year:

#	REASON FOR DEVIATION	Number of Applications Considered and Approved 2016/17 (2015/16)		Value of Applications Approved 2016/17 (2015/16)	
1	Section 36(1)(a)(i)- In an emergency which is considered an unforeseeable and sudden event with materially harmful or potentially materially harmful consequences for the municipality which requires urgent action to address	12 (14)	11.01% (9.03%)	R 1 217 620 (R 1 334 998)	16.43% (10.97%)
2	Section 36(1)(a)(ii)- Where it can be demonstrated that goods or services are produced or available from a single provider only	10 (27)	9.17% (17.42%)	R 1 981 459 (R 763 411.97)	26.73% (6.27%)

#	REASON FOR DEVIATION	Number of Applications Considered and Approved 2016/17 (2015/16)		Value of Applications Approved 2016/17 (2015/16)	
3	Section 36(1)(a)(iii)- For the acquisition of special works of art or historical objects where specifications are difficult to compile	0 (3)	0 (1.94%)	0 (R 32 100)	0 (0.47%)
4	Section 36(1)(a)(v)- Exceptional case and it is impractical or impossible to follow the official procurement processes	87 (111)	79.82% (71.61%)	R 4 213 638.53 (R 10 018 810)	56.84% (82.29%)
		109 (155)	100%	R 7 412 717 (R 12 174 620)	100%

2.4.5.6. Most deviations may be addressed via competitive bidding processes and this office is continuing to pro-actively assist user-departments with the sourcing of specifications in order to attempt to further reduce the occurrence or re-occurrence of some deviations.

2.5. LOGISTICS MANAGEMENT

2.5.1. The system of logistics management must ensure the following:

- (i) the monitoring of spending patterns on types or classes of goods and services incorporating, where practical, the coding of items to ensure that each item has a unique number;
- (ii) the setting of inventory levels that includes minimum and maximum levels and lead times wherever goods are placed in stock;
- (iii) the placing of orders for all acquisitions other than those from petty cash;
- (iv) before payment is approved , certification by the responsible officer that the goods and services are received or rendered on time and is in accordance with the order, the general conditions of contract and specifications where applicable and that the price charged is as quoted in terms of a contract;
- (v) appropriate standards of internal control and warehouse management to ensure that goods placed in stores are secure and only used for the purpose for which they were purchased; and
- (vi) monitoring and review of the supply vendor performance to ensure compliance with specifications and contract conditions for particular goods or services.

2.5.2. Each stock item at the municipal stores is coded and listed on the financial management system. Monthly monitoring of patterns of issues and receipts are performed by the Senior Logistics Officer.

2.5.3. Inventory levels are set at the start of each financial year. These levels are set for normal operations. In the event that special projects are being launched by departments, such information is communicated timely to the Stores Section in order for them to prepare to order stock in excess of the normal levels.

2.5.4. Internal controls are in place to ensure that goods and service that are received are certified by the responsible person in line with the general conditions of contract.

2.5.5. Regular monitoring of the condition of inventory is performed and damaged stock has been identified.

2.6. DISPOSAL MANAGEMENT

2.6.1. Assets may be disposed of by –

- (i) transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
 - (ii) transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
 - (iii) selling the asset; or
 - (iv) destroying the asset
- 2.6.2. Immovable property is sold only at market related prices except when the public interest or the plight of the poor demands otherwise. Immovable property is let at market-related rates except when the public interest or the plight of the poor demands otherwise.
- 2.6.3. Movable assets must be sold either by way of written price quotations, a competitive bidding process, and auction or at market related prices, whichever is the most advantageous. A public auction was deemed to be the most advantageous process for goods written off by Council during the 2016/17 financial year. The auction was relatively successful and all redundant goods were cleared and sold for R 785 000.

2.7. FINANCIAL IMPLICATIONS

This is a financial oversight report with inherent implications for the spending of the budget.

2.8. CONCLUSION

- 2.8.1. The Bitou Municipality has been implementing the Supply Chain Management Policy diligently in terms of the Supply Chain Management Regulations.
- 2.8.2. Contract Management and the centralisation of procurement have been identified as areas of particular focus and will be addressed over the next financial year. Council will be updated regularly on the progress in this regard. Demand Management will once again be another focus area and progress will also be reported regularly.
- 2.8.3. Projects and procurement are being planned with cognisance of the requirements of the Supply Chain Management legislative framework to ensure that the process of the municipality are fair, equitable, transparent, competitive and cost-effective and comply with the prescripts of the Municipal Finance Management Act in order to give effect to Section 217 of the Constitution.

3. EXECUTIVE SUMMARY

- 3.1. The Local Government: Municipal Finance Management Act, No 56 of 2003, requires the municipality to have and implement a Supply Chain Management Policy which gives effect to the provisions of Part 1 of Chapter 11 of the Act that deals with 'Supply Chain Management'.
- 3.2. On 30 May 2005 the Municipal Supply Chain Management Regulations were promulgated. The Bitou Municipality Supply Chain Management Policy was approved in terms of these Regulations, by Council on December 14, 2005 at a legally constituted Council meeting.
- 3.3. Although the MFMA prohibits, in Section 117, a Councillor from being a member of a bid committee or any other committee evaluating or approving quotations or tenders, the SCM Policy requires per Section 6 that Council has an oversight role to ensure that the Accounting Officer implements all supply chain management activities in accordance with the SCM Regulations.
- 3.4. The purpose of this report is to provide an overview of the SCM process in terms of Council's Supply Chain Management Policy (as amended), Section **6(2)(a)(i)** that the Accounting Officer must within 30 days of the end of each financial year, submit a report on the implementation of the policy to the Council.
- 3.5. That Council takes note of the implementation of the SCM policy for the period 1 July 2016 to 30 June 2017.

- 3.6. That the report be made available to the public in terms of Section 21A of the Municipal Systems Act (Act 32 of 2000) after serving before Council.

4. LEGAL REQUIREMENTS

- 4.1. The Constitution of the Republic of South Africa (No. 108 of 1996), Section 217
- 4.2. Local Government: Municipal Finance Management Act (No. 56 of 2003) (MFMA)
- 4.3. Municipal Systems Act (Act 32 of 2000), Section 21A (MSA)
- 4.4. Municipal Supply Chain Management Regulations (Government Gazette 27636 dated 30 May 2005) (SCM Regulations)
- 4.5. Bitou Municipality Supply Chain Management Policy Incorporating Preferential Procurement (SCM Policy), Paragraph 6(2)(a)(i).

Comments: Head Corporate Services

The recommendations are supported.

Comments: Head Community Services

The recommendations are supported.

Comments: Head Engineering Services

The recommendations are supported.

Comments: Head Strategic Services

The recommendations are supported.

Comments: Manager: Legal Services

The recommendations are supported.

5. RECOMMENDATION BY THE MUNICIPAL MANAGER:

- 5.1. That Council takes note of the implementation of the Supply Chain Management Policy for the period 1 July 2016 to 30 June 2017.
- 5.2. That the report be made available to the public in terms of Section 21A of the Municipal Systems Act (Act 32 of 2000) after serving before Council.