



Supply Chain Management Implementation Report

APPENDIX A

June 2012

To Stellenbosch Municipality's Council

In accordance with Regulation 6(2)(a)(i) and 6(3) of the Municipal Supply Chain Management Regulations, I submit the required report on the implementation of Stellenbosch Municipality's Supply Chain Management Policy for the period: 01 July 2011 to 30 June 2012.

A handwritten signature in black ink, appearing to read 'D Beretti', with a long horizontal stroke extending to the right.

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D Beretti
Acting Municipal Manager
13 July 2012

Executive Summary

Introduction

This report is a summary of the implementation of the Supply Chain Management Policy at the Municipality, in order to give effect to paragraph 6 (2) (a) (i) of the Supply Chain Management Regulations. Regulation 6(2) (a) (i) of the SCM Regulations requires that the Municipality report on the implementation of the Supply Chain Management Policy to Council within 30 days of the end of each financial year, in a bid to give effect to Council's oversight role.

Implementation of Supply Chain Management Policy

The Supply Chain Management Policy was revised and adopted by Council in 2011/2012 financial year, attached as APPENDIX 6, part of the budget approval process in terms of section 17 (1) – (3) of the MFMA (Act 56 of 2003).

The Supply Chain Management Policy was revised and adopted by Council in 2011, to cater for the legislative and statutory amendments brought about by the revised Preferential Procurement Regulations (PPR) of 2011, promulgated on 08th of June 2011, with an effective date of 01st of July 2011.

The Supply Chain Management Policy applied for the 2012/2013 financial year was revised and adopted by Council on the 31th of May 2012, attached as APPENDIX 8 of the budget related documents. It is noted that the policies in APPENDIX 8 of the budget related documents are reviewed to be in line with legislative and regulatory requirements.

The Supply Chain Management Policies were reviewed to be in line with legislative and regulatory requirements. The findings during the 2010/2011 regulatory audit of the Supply Chain Management Unit (SCMU) has the requirement to incorporate the recommendations raised in a regulatory audit report. The changes will ensure that the Supply Chain Management Unit (SCMU) has the regulatory authority to further streamline procedures and processes in order to promote more efficient and effective service delivery to all our internal and external stakeholders.

Legislation

The newly promulgated Preferential Procurement Regulations of 2011 with its associated impact and National Treasury only issuing an implementation guide on the 01st of December 2011 (associated with the 2011/2012 financial year) however, the Municipality has endeavoured to do everything in its power to ensure the least disruption to service delivery by the Supply Chain Management Unit (SCMU) in terms of its responsibility as a service department.

of the Supply Chain Management Policy at the Municipality, in order to give effect to paragraph 6 (2) (a) (i) as well as paragraph 6 (2) (a) (ii) of the Supply Chain Management Regulations. Regulation 6(2) (a) (i) of the SCM Regulations requires that the Municipality report on the implementation of the Supply Chain Management Policy to Council within 30 days of the end of each financial year, in a bid to give effect to Council's oversight role.

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The revised Preferential Procurement Regulations have been aligned with the following legislation:

- Aims of the Broad based Black Economic Empowerment Act and its associated Codes of Good Practices
- Industrial Policy Action Plan.

The **main changes** contained in the revised regulations are as follows:

- Previously bidders scored a maximum of 80 or 90 points for price, and 20 or 10 points for black ownership and for promoting specified RDP goals. The points for price remains unchanged but bidders can now score up to 20 or 10 points depending on their **BBEE status level of contribution**.
- All bidders will have to submit BEE rating certificates, issued by either verification agencies accredited by the South African Accreditation System (SANAS) or by registered auditors approved by the Independent Regulatory Board for Auditors (IRBA).
- Previously, the threshold value for the distinction between the 80/20 and the 90/10 point system was R 500 000. This has now been increased to R1 million to stimulate the development of small enterprises and to create a platform for access to more government procurement.

The Supply Chain Management Unit is still waiting on the Departments of Trade and Industry, Economic Development and National Treasury to finalize refining instructions, circulars and guidelines for the implementation of the prescripts in respect of the designations and the determination of the value of local content in accordance with the National Treasury Circular issued on the 20th of January 2012.

The Supply Chain Management Unit had successfully implemented all subsequent circulars issued by National Treasury after the 07th of December 2011. The issuing of the circulars by National Treasury was an attempt to assist municipalities with the implementation of the Preferential Procurement Regulations of 2011 but failed dismally with the many revised and retracted communications.

Committees

The below mentioned committees are established and are functioning well according to Council's Supply Chain Management Policy and the Supply Chain Management Regulations. The committees are listed below:

- Bid Specifications Committee (BSC)
- Bid Evaluation Committee (BEC)
- Bid Adjudication Committee (BAC)

During the 4th quarter, the BAC met **6 times**. The number of meetings that the BAC had within the 2011/2012 financial year amounts to **19**. The number of bids/ tenders that were approved by the BAC within the 2011/2012 financial year amounts to **49 with a total value of R 179 517 521.81 excluding annual tenders awarded on rates**.

Staffing Issues

The staff complement of the Supply Chain Management unit is as follows:

- 1x Head: Supply Chain Management,
- 1x SCM Accountant,
- 2x SCM Practitioners,
- 4x SCM Buyers,
- 1x Database Administrator and,
- 1x Administrative Assistant: Committee Administration and Reporting.

The current employees of the unit have been equipped with the necessary skills in order to meet the demands of the positions currently occupied.

Please refer to the approved Staff Establishment List of 2011, for the list of additional posts required on an urgent basis, subject to the funding thereof; in order to provide a better quality of service and turnaround delivery to our internal and external stakeholders.

Systems

- Supplier Database

The database for suppliers is currently operated on the Collaborator system. The number of suppliers registered within the financial year ending June 2012 amounted to **499**. The number of new registered suppliers for each quarter is as follows:

Quarter 1 (1 July 2011 – 30 September 2011) = 107

Quarter 2 (1 October 2011 – 31 December 2011) = 100

Quarter 3 (1 January 2012 – 31 March 2012) = 144

Quarter 4 (1 April 2012 – 30 June 2012) = 148

The total number of registered suppliers amounts to **1778**.

Stellenbosch Municipality had embarked on a process, whereby it invited new prospective service providers to register on its supplier database in July 2011. This approach will also be followed for the 2012/2013 financial year, in accordance with paragraph 14 (1) (ii) of the Supply Chain Management Regulations, which requires the Accounting Officer to invite prospective providers of goods and services to apply for evaluation and listing as accredited potential providers.

- **Collaborator Electronic Requisition System**
The integration required between the Collaborator system and the SAMRAS system is currently still in the process of undertaking training and development.

NB: It must be noted that due to the legislative and statutory amendments brought about by the newly promulgated Preferential Procurement Regulations of 2011, the implementation, envisaged to have been followed across all the directorates, that a staggered approach would be the most feasible management conclusion. It is cognisant of the need to map the Electronic Requisition System accordingly. If cognizant of the amendment of the organisational macrostructure at the end of March 2012, the subsequent impact on the microstructure, it thus speaks volumes why management has decided to follow a staggered approach to ensure that time and resources are utilised efficiently and effectively.

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External Relations

- Regular interventions in the education of external stakeholders have been held to ensure a greater and better understanding of processes and procedures.
- Provincial Treasury has preliminarily identified Stellenbosch Municipality as a candidate for an Asset management assessment with the envisaged engagement to be conducted, in the last week of November 2012.
- The most notable audit finding that was raised at most municipalities in the country is the non-compliance in respect of SCM Regulations. Provincial Treasury, relating to the following: "The supply chain management policy must, irrespective of the procurement process followed, state that the municipality may not award any award to a person who is an advisor or consultant contracted with the municipality."

The lead from Provincial Treasury with regards to the way forward was that municipalities should apply the aforesaid regulations as far as its system (Financial and Human Resources) allows.

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Reporting

- Please find attached the following annexures in terms of reporting on SCM matters for the financial year ending 30 June 2012.
 - **Annexure A** – Procurement Summary for the financial year ending 30 June 2012
(Number and rand value of commitments per monetary trench hold within the financial year ending 30 June 2012)
 - **Annexure B** – List of all Bids and Formal Quotations awarded within the financial year ending 30 June 2012.
 - **Annexure C** – List of all Deviations and certificates of emergency for the financial year ending 30 June 2012
 - **Annexure D** - Bids Cancelled within the financial year 2011/2012
 - **Annexure E** - MFMA Procurement and contract management – Frequently asked questions

- The number of **formal quotations** approved by the Head: Supply Chain Management are depicted in the table below:

DESCRIPTION	FINANCIAL YEARS		
	2011/2012	2010/2011	2009/2010
Number of Awarded Formal Quotations	194	201	166
Total Formal Quotations Advertised	308	299	272

- The number of **certificates of emergencies and deviations** approved in terms of section 4.36 of the SCM Policy by the respective directors and the Accounting Officer are depicted below:

DESCRIPTION	FINANCIAL YEARS			PERCENTAGE INCREASE / DECREASES 2010/2011 – 2011/2012	PERCENTAGE INCREASE / DECREASES 2009/2010 – 2010/2011
	2011/2012	2010/2011	2009/2010		
<u>Certificate of Emergencies:</u> Approved by the Directors i.t.o. section 4.36.4 of the SCM Policy	64	109	185	-41.28%	-41.08%
<u>Deviations:</u> Approved by the Accounting Officer i.t.o. section 4.36.1 of the SCM Policy	99	130	108	-23.85%	+20.37%
TOTAL	163	239	293	-31.80%	-18.43%

- Cognisance must be taken of the **declining trend** as depicted in the abovementioned table with regards to instances where the municipality have dispensed with official procurement processes. This improvement/success can be attributed to the following factors:
 - Greater understanding of internal procurement processes by the internal stakeholders eg. Utilization of Annual Tenders, etc.;
 - Buy-in from Top Management in ensuring **proper planning** is enforced with regards to all projects implemented in accordance with the Service Delivery and Budget Implementation Plan (SDBIP).
 - Recent Stability within the Top Management and Organisation
 - CFO and SCM being more rigorous in evaluating the merit attached to each deviation request in compliance with the SCM Regulations

It has been noted that **more than 50% of the certificate of emergencies** occurred within the last 2 months of the 2011/2012 financial year, which leaves room for improvement insofar management oversight is concerned.

Conclusion

The Supply Chain Management Unit is continuously improving its processes and procedures to ensure that Council receives value for money in terms of demand and acquisition management. We note with pleasure that the Stellenbosch Municipality received an unqualified audit opinion from the Auditor General (AG) for the period 2010/2011, thereby giving reasonable assurance to the Council and communities of the Greater Stellenbosch Area that due process has been followed in accordance with the Constitution and the regulatory framework and that the matters raised did not materially affect the opinion expressed by the AG.

The Supply Chain Management Unit wants to bring the following worrying factors to the attention of Council management namely:

- The sheer volume of transactions expedited during the last two months of the financial year is putting enormous pressure on the limited capacity of the unit. *Please refer to the Procurement Summary for 2011/2012 (Annexure A) for the figures for the months of May and June.* Importantly it has a multiplier effect planning for the new financial year not being completed before the start of the new year, and;
- Although the **number of transactions above a value of R 30 000 (VAT inclusive)** for 3.04% of the total number of procurement transactions concluded, the **value of these transactions is to more than 85.41%** of the total procurement expensed for the 2011/2012 financial year. Therefore recommended that management on an urgent basis apply their management skills to fill the critical vacant unfunded post of 1x Supply chain management practitioner in a bid to increase the efficiency and effectiveness of the unit in servicing Council. This will ultimately result in value for money procurement.