



REPORT TO : EXECUTIVE MAYOR

DATE : 31 March 2017

1. ITEM NUMBER

SUPPLY CHAIN MANAGEMENT:

REPORT FOR THE PERIOD 1 JANUARY 2017 TO 31 MARCH 2017

VERSKAFFINGSKETTINGBESTUUR:

VERSLAG VIR DIE TYDPERK 1 JANUARIE 2017 TOT 31 MAART 2017

ULAWULO LOBONELELO NGENKONZO YOKUTHENGA NOKUTHENGISA
IIMPAHLA ZEZIKO:

INGXELO ESUSELA KWISITHUBA SOMHLA

WOKU-1 EYOMQUNGU 2017 UKUYA KOWAMA-31 EYEKWINDLA 2017

[LSU: 4878]

2. SUBJECT

SUPPLY CHAIN MANAGEMENT QUARTERLY REPORT

3. DELEGATED AUTHORITY

In terms of delegation

This report is

☐ Committee name:

☒ The Executive Mayor ito Delegated authority

☐ The Executive Mayor together with the Mayoral Committee (MAYCO)

☐ Council

4. DISCUSSION: WHAT, WHY, HOW

Clause 9 of the City's Supply Chain Management Policy (SCM Policy) relates to Section 117 of the Municipal Finance Management Act (MFMA), which provides that a City Councillor may not be a member of a bid committee or any other committee evaluating or approving quotations or bids (tenders), nor may a City Councillor attend any such meeting as an observer.

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However, Clause 10 of this policy mentions that Council has an oversight role to ensure that the City Manager implements the City's Supply Chain Management Policy.

Clause 11 records that the Executive Mayor must provide general political guidance over the fiscal and financial affairs of the City and must monitor and oversee the exercise of responsibilities assigned to the City Manager and the Chief Financial Officer in terms of the MFMA.

In accordance with Clause 12 of our SCM policy, the City Manager must submit quarterly reports to the Executive Mayor on the implementation of this policy, and these matters are reported annually to council.

☐ Financial implications

☐ Opex

☐ Capex

☐ Legal Compliance

☐ Staff Implications

☐ Yes

☒ No

5. OUTCOMES OF DISCUSSIONS WITH MAYCO MEMBER

The report briefly analyses the on-going implementation of the City's Supply Chain Management Policy for oversight purposes.

6. RECOMMENDATIONS

It is recommended that the contents of the report entitled **SUPPLY CHAIN MANAGEMENT: REPORT FOR THE PERIOD 1 JANUARY 2017 TO 31 MARCH 2017** be noted.

AANBEVELING

Daar word aanbeveel dat daar kennis geneem word van die inhoud van die verslag getiteld **VERSLAG VIR DIE TYDPERK 1 JANUARIE 2017 TOT 31 MAART 2017**.

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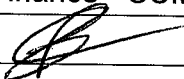
ISINDULULO

Kundululwe ukuba makuqatshelwe ulwazi oluqulethwe kule ngxelo isihloko sithi:
**ULAWULO LOBONELELO NGENKONZO YOKUTHENGA NOKUTHENGISA
IIMPAHLA ZEZIKO: INGXELO ESUSELA KWISITHUBA SOMHLA WOKU-1
EYOMQUNGU 2017 UKUYA KOWAMA-31 EYEKWINDLA 2017**

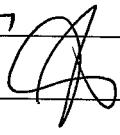
ANNEXURES

ANNEXURE 1: SUPPLY CHAIN MANAGEMENT REPORT FOR THE PERIOD 1 JANUARY 2017 TO 31 MARCH 2017.

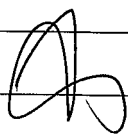
FOR FURTHER DETAILS CONTACT

NAME	Basil Chinasamy	CONTACT NUMBER	021 400 3007
E-MAIL ADDRESS	basil.chinasamy@capetown.gov.za		
DIRECTORATE	Finance - SCM	FILE REF No	
SIGNATURE : DIRECTOR			

EXECUTIVE DIRECTOR

NAME	<u>KEVIN JACOBY</u>	COMMENT:
DATE	<u>13.04.2017</u>	
SIGNATURE		

EXECUTIVE DIRECTOR: FINANCE

NAME	<u>KEVIN JACOBY</u>	COMMENT:
DATE	<u>13.04.2017</u>	
SIGNATURE		

Making progress possible. Together.

NW

LEGAL COMPLIANCE

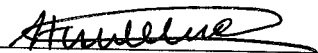
☐ REPORT COMPLIANT WITH THE PROVISIONS OF COUNCIL'S DELEGATIONS, POLICIES, BY-LAWS AND ALL LEGISLATION RELATING TO THE MATTER UNDER CONSIDERATION.

☐ NON-COMPLIANT

NAME Ncumisa willie

COMMENT:

DATE 20 April 2017

SIGNATURE 

For Information. Kindly note that
it is s12 of the Supply Chain Management
Policy the report ought to have been
submitted to the Executive Mayor,
within 10 (ten) days of the end of each
quarter.

EXECUTIVE MAYOR

☒ SUPPORTED

☐ NOT SUPPORTED

NAME P. Ob Lille

COMMENT:

DATE 20.4.2017

SIGNATURE _____

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ANNEXURE 1

1. STRATEGIC INTENT

- ☐ - Opportunity City
- ☐ - Safe City
- ☐ - Caring City
- ☐ - Inclusive City
- ☒ - Well-run City

2. PURPOSE

Compliance with clause 12 of the City's Supply Chain Management Policy

3. FOR NOTING BY THE EXECUTIVE MAYOR

For information of the Executive Mayor.

4. EXECUTIVE SUMMARY

This report briefly analyses the on-going implementation of the City's Supply Chain Management Policy, for oversight purposes.

4.1. Other Services Consulted

Not applicable

5. Salient Details of Supply Chain Management Activities

Major SCM activities are summarised below, for information.

5.1 Demand and Risk Management

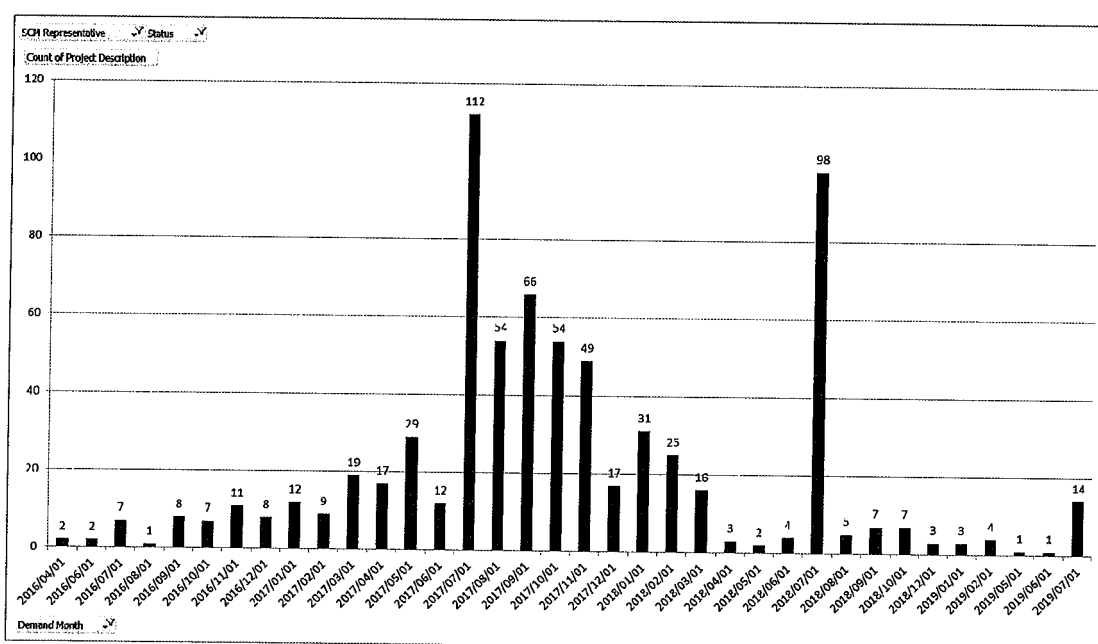
5.1.1 Risk Management

The past quarter has seen no change in the SCM risk profile. SCM remains satisfied that risks are thoroughly identified and adequately managed.

5.1.2 Demand Management

The demand plan of the City again shows an improvement in the number of tenders planned for the future, albeit a marginal increase when compared to the previous report.

Graph 1:



It is noted that 23 of the outstanding tenders for the period ending December 2016 have now been awarded. The majority of the remainder for the same period are very close to award. It is these tenders which are negatively impacting on the average turnaround time for tenders, and this is receiving close attention by the Tender and Contracts team.

The capital budget (including the adjustment budget) is in the process of being analysed in order to verify that all items listed for the MTREF period are catered for by means of either existing contracts, tenders in the SCM pipeline, future planned contracts or other means of procurement.

The capital budget contains 2122 line items (WBS Numbers), of which 464 are still awaiting feedback from Line Departments as to how they have been catered for from an SCM procurement perspective.

Meetings have been scheduled with the relevant Executive Directors in order to obtain the outstanding information. This exercise together with the analysis of the existing term tenders has contributed to the increased number of planned tenders and will reflect a more complete demand plan.

It is again clear that there is work to be done by line departments to flatten the spike of 98 tenders required in July 2018.

5.2 Database of Accredited Suppliers

The purpose of the Supplier Database, and as required by the Supply Chain Management policy, is to provide the City with a list of accredited suppliers that must be maintained in order to adhere to regulations. This department continues to offer ongoing support to its internal and external customers by ensuring the information is as accurate as supplied by the supplier and that the due diligence is done to maintain the compliant status of the supplier.

For this Quarter 619 new applications were received of which 567 were compliant and therefore approved. The new applications are an indication that vendors want to engage the City to access procurement opportunities.

Table 1: Registration of Suppliers for the period January 2017 – March 2017

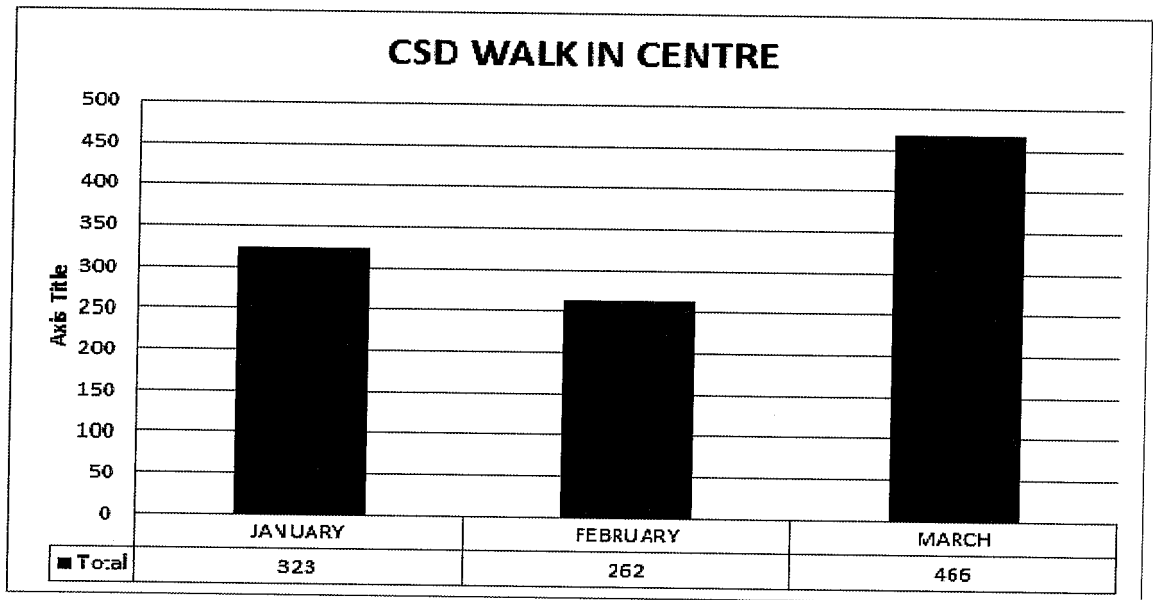
	Jan-17	Feb-17	Mar-2017	Total
Applications received	183	200	236	619
Rejected applications due to:				
-incorrect/incomplete documentation	16	18	12	46
-fraudulent tax clearance certificate	0	0	0	0
-person's in service of the state	1	3	2	6
Applications confirmed and approved	166	179	222	567

5.2.1 List of Accredited Prospective Suppliers

The City of Cape Town's Supplier Database is maintained in parallel with the National Treasury Central Supplier Database (CSD). A walk-in CSD support office was established on the second floor of the Cape Town Civic Centre to assist suppliers with their CSD registration and as a result visitors and registrations have increased dramatically. There are 15 232 active suppliers on the database of which 10 010 have been successfully registered on the CSD database.

This is a great achievement as the City remains the only municipality who have a CSD walk-in-centre in the Western Cape and the highest number of registered vendors. To this end we have increased the physical and human resource capacity to process to support CSD registrations.

Graph 2: Statistics on Central Supplier Database Registration Walk-in CSD office



Current Daily Average	13
Current Monthly Average	266

5.2.2 e-Procurement

The e-Procurement project started in April 2017 will allow for the online supplier registration process and the automation of the quotations and purchase order cycle for work below R200 000. The system design and development is currently underway with the expected 'go-live' date of 1 June 2017 for certain categories of procurement.

5.2.3 Supplier Due Diligence

Continuous due diligence checks are being performed to ensure compliance pertaining to regulation 44 and 45 by not doing business with any person in the service of the state. The "Red List" or supplier default list is updated regularly as an internal monitoring tool of suppliers to ensure that the City only contracts with compliant and performing suppliers. These suppliers have to be performance managed by project managers.

Table 2: Defaulting and Poor performing suppliers

	January	February	March	Total
False DOI	32	2	2	36
Non- Delivery of Goods/ Services	8	3	0	11
Poor Performance	7	5	10	22
Repeat of Withdrawal of RFQ	1	0	0	1
Collusion	0	2	0	2
Abuse of SCM Policy	0	1	0	1
Total	48	13	12	73
Matters sent to Legal (of 73 above)	36	5	2	43
Matters sent to National Treasury for restriction	0	10	3	13

Of the 73 defaulting suppliers, Supplier Management has submitted 43 matters to the Legal Services Department and 13 matters were sent to National Treasury for restriction.

SCM also engaged with Forensic, Ethics and Integrity Departments to institute an awareness campaign to educate staff on the requirements of regulations 44 and 45 in order to reduce the risk of doing business with persons in service of the state and specifically, City employees.

5.2.4 Community Based Supplier Program

The community-based supplier program applies to quotations less than R30 000 for goods and services which are allocated in a specific ward. Sub council managers will identify and confirm the locality and domicile of all community-based suppliers within their jurisdiction and will invite them to submit their application to become vendors. These vendors are verified and maintained by the Supply Chain Management Department.

It is envisaged that procurement of general services, such as area cleaning, general maintenance, laundry services, waste removal, and the provision of hygienic services and other general services, will be especially suitable to these emerging micro-enterprises.

SCM will also be concentrating on driving education and awareness about this initiative over the coming weeks.

5.3 Inventory and Stores Management (ISM)

The main purpose of the Inventory and Stores section is to provide the right quality of materials at the right time and in the correct quantities to the other departments in the City. This is done to enable all departments to deliver services effectively to the citizens of Cape Town. At the same time the section strives to keep the stock levels as low as possible in order to reduce the City's financial investment in stock.

There are currently 38 operational SAP stores in the City and 18 fuel sites.

During the quarter in review the average stock value was approximately R283 million with a stock usage value of approximately R258 million and approximately 214 000 goods movement transactions.

The stock usage value during the past 12 months was approximately R995 million with approximately 861 000 goods movement transactions.

There are more than 12 000 different materials and 21 500 bins maintained within these 38 stores.

There is a continuous focus on the improvement of Customer Service, Material Availability, Quality, Stock Accuracy, Employee Safety, Facilities, Business Processes and Training. There is also a drive to increase the percentage of stock materials that are on contract.

The Inventory and Stores section is also responsible for the sale of movable assets that are redundant, obsolete or scrapped.

5.3.1 Achievements and Challenges

Some achievements and focus areas during the quarter under review were:

- Stock availability has improved from 94% in November/December 2016 to 96 % in February/March 2017.
- Returns to stock were less than 0.02% of goods issues during this period. This means that the users are satisfied with the quality of materials that they received and that the quality management system is performing well.
- Stock materials on tender/contract increased from 19% in November 2016 to 27% in March 2017.
- The alterations and renovations of the Hillstar store is nearing final completion.
- The year to date income from the sale of movable assets was approximately R22.5 million at the end of the second quarter.

5.3.2 Results

Some comparative results for the second quarter of the 2015/16 and 2016/17 financial years are indicated in the tables below.

Table 3: Stock

3rd Quarter	Stock Value at end of Quarter (Rands)	Ave Stock Value during Quarter (Rands)	Usage Value during Quarter (Rands)	Annualised Stock Turns	No of Transactions during Quarter
2015/16	R237 924 397	R235 721 048	R158 734 955	2.69	189 511
2016/17	R299 043 464	R283 444 682	R257 815 573	3.64	213 571
% Change	26%	20%	62%	35%	13%

The target stock turns of 3.5 was exceeded due to a significant increase in the stock usage value (i.e. throughput) compared to the same period in the previous financial year.

5.3.3 Income from Assets Sold

The breakdown by asset class and source of the income from the sale of redundant, obsolete and scrapped movable assets is indicated in the table below.

Table 4: Sale of Assets

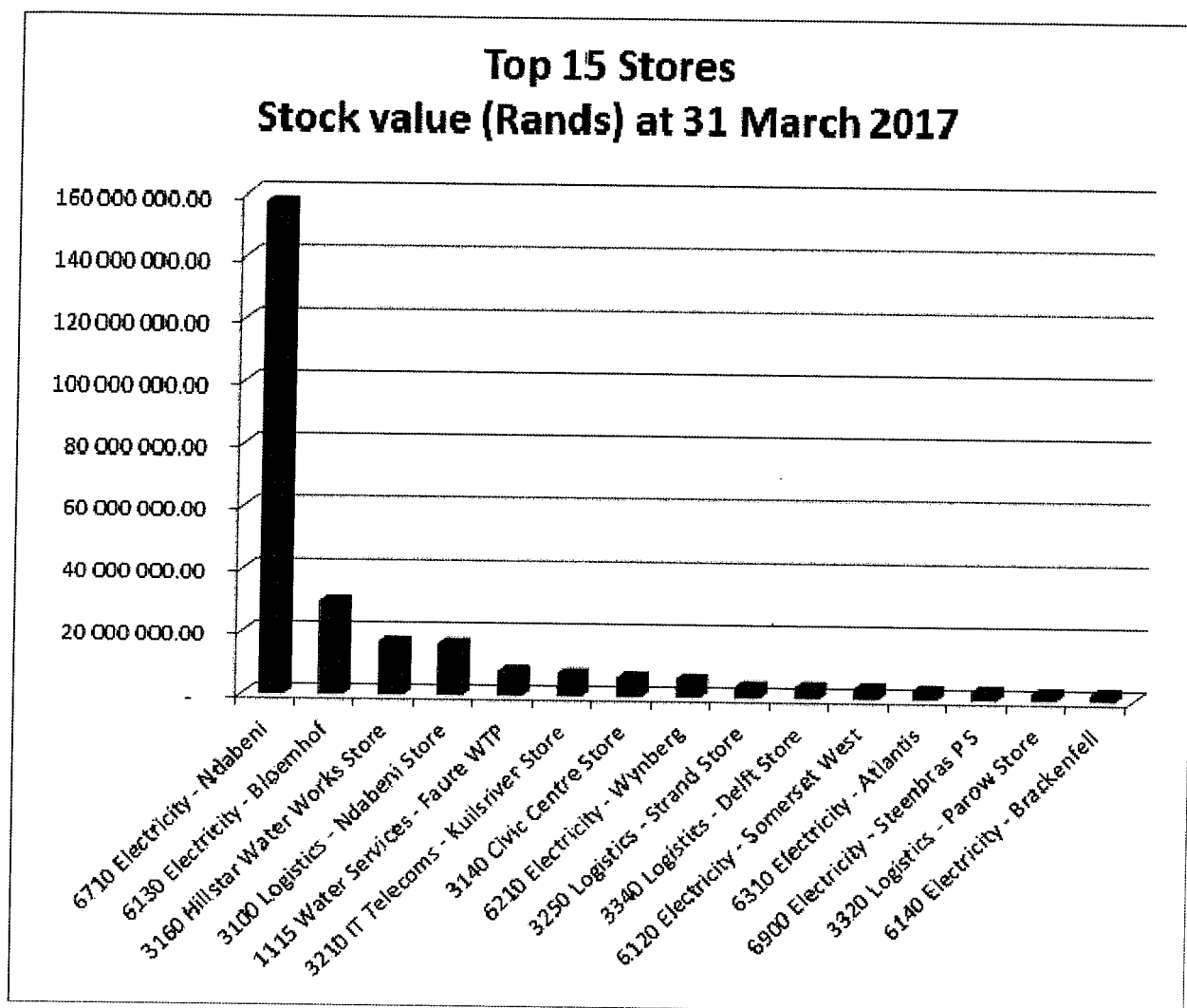
Asset Class	Source	YTD Income for 2016/17 (Rands)
Movable Assets	Public Auctions	11 514 000
Scrap Metal	Tender/Contract	7 633 820
Electrical Distribution Equipment	Tender/Contract	2 672 887
Used Transformer Oil	Tender/Contract	518 367
Used Lubricants	Tender/Contract	138 463
Waste Paper	Tender/Contract	32 334
Total		22 509 871

A detailed list of the movable assets sold by means of public auction is available on request.

5.3.4 Top 15 Stores and Material Groups

The two graphs below provide an analysis of the top 15 stores and stock material groups as at the end of the second quarter of 2016/17.

Graph 2: Top 15 Stores (Stock Value)



This graph indicates the relative importance of the top 15 SAP stores in term of stock value at the end of the third quarter of 2016/17.

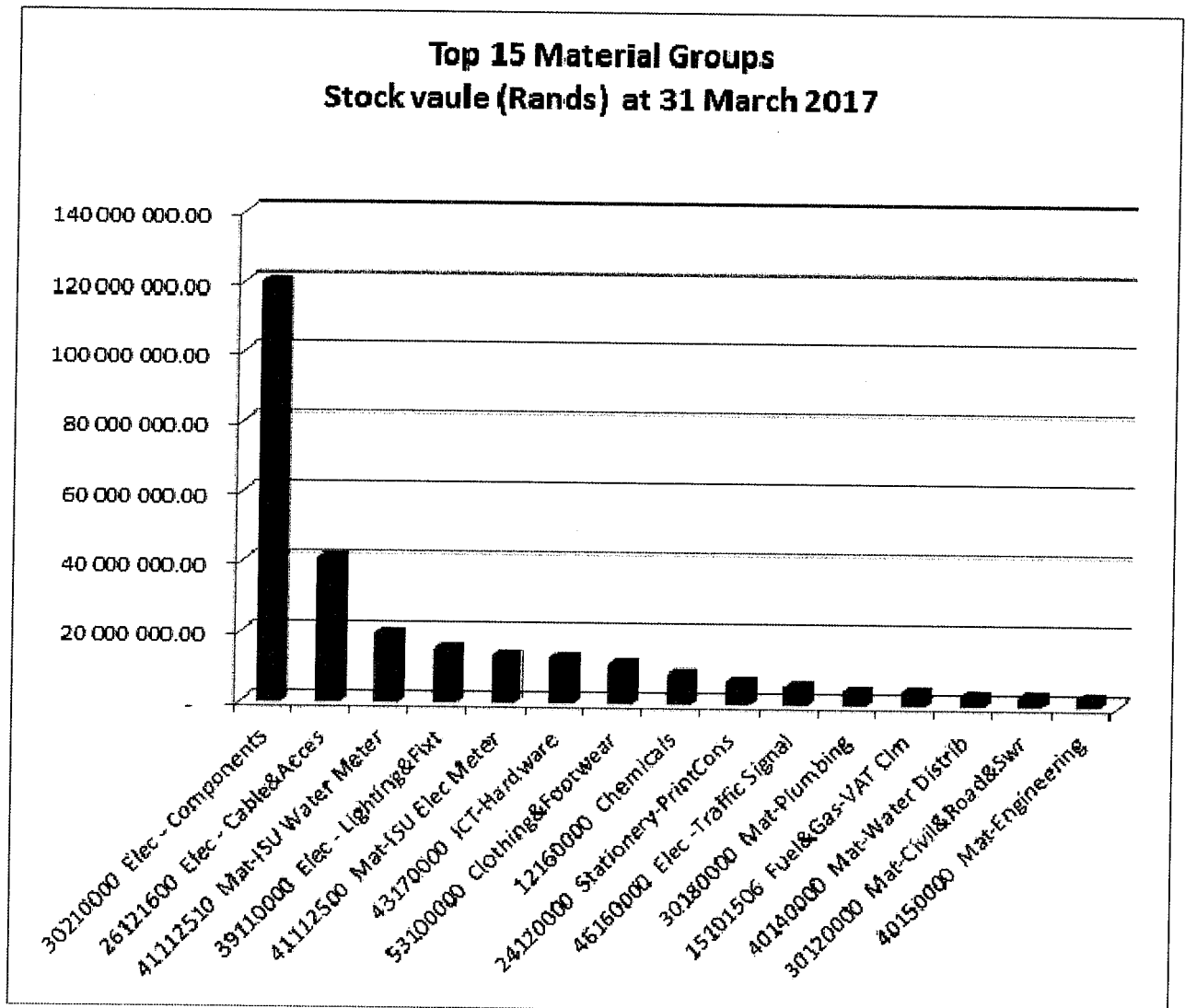
It must be noted that the Faure Water Treatment Plant and IT Telecoms stores are managed by the user departments themselves.

Graph 3: Top 15 Material Groups (Stock Value)

This graph indicates the relative importance of the top 15 Material Groups for stock materials in terms of stock value at the end of the second quarter of 2016/17.

5.4 Procurement

SCM is continuously trying to keep the various Line Departments up to date on all new procedures and working instructions in order to update and



educate the City Officials on SCM matters. For this reason, a Quick Guide was developed which will assist all officials on procurement matters and can be found on the City Web Home page.

5.4.1 Engagements with Internal Customers

This quarter has seen Procurement measures improve as a result of the presentations to various departments, thereby continuously updating and educating the City officials on SCM matters and this has led to a better understanding of the SCM processes and procedures. As a result of this there has been a vast improvement in the quality of the specifications and scoring criteria ultimately resulting in an improvement of service delivery as

well as enhancing the transparency and competitiveness, and resulted in the City receiving more cost-effective price quotations.

5.4.2 Community Based Procurement

In order to aide and facilitate local economic development (specifically the economics of communities, wards etc.) and facilitate job creation in communities SCM have developed & and implemented Community Based Procurement. It required a review and revision of the Community Based Projects work instruction to afford new businesses within communities to compete for business within their respective communities, for projects less than R30 000,00.

This initiative was unveiled in Sub-Council 11 by the Mayor and will be rolled out in phases to all the Sub-Councils. More workshops and training sessions have been identified and SCM has initiated the following:

- Developed a standard operating procedure (SOP): Targeted procurement of Community Based Suppliers (CBS's)
- Sent list of all CBS's on the SAP database to Sub-councils to vet
- Developed a new simplified supplier registration form for CBS's
- Met with Sub-Council Managers and Sub-council Programme Managers to promote CBS procurement and to collaborate on process
- Met with Sub-Council Managers to establish roles and responsibilities
- Procured special quotation boxes and placed them in the Sub-council offices
- Developed a work instruction for the Procurement of Community Based Projects Under R30 000.00
- Developed a work instruction for the opening and closing for quotation boxes.
- Presentations to various committees and forums such as the Finance Portfolio Committee and the caucus meetings.

Planned SCM Actions

- Each Sub-Council to appoint CBV champion
- Training of CBV champions
- On boarding of Line Departments in CBV initiative
- Line departments to identify of CBV opportunities
- Collaborate with the Area Base directors to promote CBV procurement.
- Re-invigorate the registration process with the Sub-councils' to get CBV's on the vendor database.
- Drive CBV procurement at Business Support roadshows of Economic Development.
- Provide Vendor Support to CBV's

5.4.3 RFQ Advert vs Responses for January to March 2017

This quarter has seen us place 4922 Requests for Quotes on the City's website and received 23 727 responses to our advertised requests for quotations and we have produced 56 861 Purchase Orders to the value of R2 800 698 529,64.

Table 5: QIF Advert vs Responses for January to March 2017

	GOODS		Services	
	RFQ Advertised	RFQ Responses	RFQ Advertised	RFQ Responses
Jan'17	1090	5528	301	525
Feb'17	1273	4218	297	1643
Mar'17	1582	10515	379	1298
Total	3945	20261	977	3466

Comparative Analysis			
RFQ Activity	2015/ 2016 Quarter 3	2016/ 2017 Quarter 3	Change %
Total Advertised	3 883	4 922	22
Total Responses	14 882	23 727	37

The statistics reflect a more robust and competitive procurement system with a 22 % increase in the number of quotes advertised and a strong increase in the number of responses received by 37%.

5.4.4 Volume and Value of Purchase Orders for B-BBEE Spend

The number B-BBEE service providers who have conducted business with the City in this quarter (1 January 2017 to 31 March 2017) were **1769** and this equates to **89.80%** of the overall number of service providers used.

A total of **53 358** purchase orders were issued to the B-BBEE vendors which equates to **93.84%** of the total and, the spend is **R2 681 322 591, 68** which is equivalent to **95.74%** of our total expenditure for this period.

B-BBEE vs PO spend for the Quarter Jan 2017 to March 2017

B-BBEE Level	Vendors	Vendors %	PO's	PO's %	PO Value R	PO Value %
1	801	40.66	31147	54.78	918 795 808.29	32.81
2	262	13.30	7440	13.08	753 111 468.47	26.89
3	259	13.15	6321	11.12	447 206 663.37	15.97
4	345	17.51	6685	11.76	434 553 948.91	15.52
5	41	2.08	346	0.61	56 477 648.24	2.02
6	26	1.32	1069	1.88	28 774 558.82	1.03

7	14	0.71	108	0.19	33 535 933.10	1.20
8	21	1.07	242	0.43	8 866 562.48	0.32
9	5	0.25	31	0.05	1 298 689.37	0.05
0	197	9.95	3472	6.11	118 077 248.59	4.22

Grand Total	1971	100.00%	56861	100.00	2 800 698 529.64	100.00
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B-BBEE	1769	89.80%	53358	93.84%	R2 681 322 591.68	95.74%
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5.5 Tenders and Contract Administration

5.5.1 Tender Statistics

Table 7: Tender Statistics for 1 January 2017 to 31 March 2017 – Comparison

	1 Jan 2016 – 31 Mar 2016	Previous Quarter	1 Jan 2017 – 31 Mar 2017
Advertised	104	113	119
Submissions received	567	1002	347
Awarded	74	115	51
Cancelled	11	6	8

The awards for the quarter are lower than the previous quarter, but consistent given that the SCMBAC does not meet during the first weeks of January every year.

5.5.2 Turnaround times

Table 8: Overall Tender Turnaround times

Tender	2014/15	2015/16	2016/17	Average
Average weeks to award	23.47	21.88	13.30	19.55

As can be seen from above, there is an improvement in the turnaround time for the awarding of tenders as compared to previous financial cycles.

5.5.3 Achievements and Challenges

Some achievements and focus areas during the quarter under review were:

- The tender teams' capacities have been optimised during this quarter by changing the teams to be directorate based. This means that each directorate has a designated team and single contact point for all their tender requirements.

- TTS was enhanced to clear show fields confirming what the next step in the tender is, what official must complete the action and by when the action must be completed. Senior professional officers in SCM are able to monitor the action due dates to ensure all necessary actions are completed by the due date thereby assisting in early detection of tender slippages.
- The 2017 regulations promulgated under the Preferential Procurement Policy Framework Act, took effect on 1 April 2017 as well as the revised SCM Policy.

5.6 Supply Chain Management Bid Adjudication Committee & Support Services

The SCM Bid Adjudication Committee (SCM BAC) and the SCM Immovable Property Adjudication Committee (SCM IPAC) continue to consider reports including tender recommendations and final awards. The BAC continues to meet weekly and remains instrumental in achieving maximum awards within a quick turn-around time. The BAC operates well as a whole and provides sound advice to the Bid Evaluation Chairpersons and the Office of the City Manager who advises on deviation recommendations from the SCM BAC. The BAC meeting is open to the public as part of good governance.

5.6.1 Current Interventions

5.6.1.1 Training and Development

The SCM department has undertaken a series of training interventions with the National School of Government. Training interventions such as Demand management, Municipal SCM, Promoting Anti -Corruption in the Public Service, Strategic Sourcing, Contract Management, and MFMA Bid Committees are some of the training interventions already undertaken since July 2016. Training interventions will continue for the next year. It is also anticipated for Bid Committee Chairpersons and members to attend the MFMA Bid Committees training to ensure compliance. Eight internal training sessions were conducted regarding materials planning, reservations and stores operations (these sessions included ISM staff as well as staff from user managed stores).

5.6.1.2 Management and Change Interventions

An assessment of SCM was undertaken and an business improvement plan has been developed to address areas of capacity, upskilling, turnaround times, policy and processes as well as staff morale. This improvement plan has been unpacked with all the staff and is currently being implemented. Six roadshows were held with 341 SCM staff during February and March as part of SCM's change journey.

5.6.2 SCM Capacitation

The SCM department has made a number of resource changes. In the Tenders and Contracts branch we have recruited an additional three (3) Senior SCM Specialists which increases the number of Senior SCM Specialists to six (6). We have advertised, assessed and are about to interview for seven shared services Senior SCM Specialists for each directorate to support the line departments with their SCM needs.

Shortlisting for three (3) Demand Specialists posts has been completed for appointment in June/July 2017 in the Demand Management section. We are confident that this process will result in the appointment of these resources in order to enhance the Demand Management function in the City.

In support of the SCM Centre of Excellence the post of Manager: Procurement Excellence and Head: SCM and Governance will be submitted to Mayco for approval in April 2017. To this end a Head: Procurement, Head Data Integrity and Senior Procurement Specialist job descriptions have been drafted and submitted to job evaluation for appointment processing.

The appointment of an Inventory Accountant is underway and this role will ensure financial management controls and processes for inventory to prevent loss of stock and managing processes of stock disposals.

FOR FURTHER DETAILS CONTACT:

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