



DATE:

REPORT TO: EXECUTIVE MAYOR

1. ITEM NUMBER

2. SUBJECT

SUPPLY CHAIN MANAGEMENT:

**REPORT FOR THE PERIOD 1 APRIL 2020 TO 30 JUNE 2020 AND ANNUAL
REPORT FOR 2019/20**

VERSKAFFINGSKETTINGBESTUUR:

**VERSLAG VIR DIE TYDPERK 1 APRIL 2020 TOT 30 JUNIE 2020 EN
JAARVERSLAG VIR 2019/20**

**ULAWULO LOBONELELO NGENKONZO YOKUTHENGA NOKUTHENGISA
IIMPAHLA ZEZIKO:**

**INGXELO YESITHUBA ESISUSELA KWO-1 KUTSHAZIIMPUZI UKUYA KOWAMA-
30 KWEYESILIMELA 2020
NEYONYAKA KA-2019/20**

3. DELEGATED AUTHORITY

In terms of delegation

This report is

☐ **Committee name :**

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

☒ Council

4. DISCUSSION

Clause 9 of the City's Supply Chain Management Policy (SCM Policy) related 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 such a 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 SCM 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 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 and, within 30 days of the end of each financial year submit a report to Council, on the implementation of this policy.

- 4.1. Financial Implications ☒ None ☐ Opex ☐ Capex
- ☐ Capex: New Projects
 - ☐ Capex: Existing projects requiring additional funding
 - ☐ Capex: Existing projects with no additional funding requirements

Policy and Strategy ☐ Yes ☐ No

Legislative Vetting ☐ Yes ☐ No

Legal Compliance ☐

4.2. Staff Implications ☐ Yes ☒ No

4.3. Risk Implications ☐ Yes ☒ No

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5. RECOMMENDATIONS

IT IS RECOMMENDED THAT THE CONTENTS OF THE REPORT ENTITLED "SUPPLY CHAIN MANAGEMENT REPORT FOR THE PERIOD 1 APRIL 2020 TO 30 JUNE 2020 AND ANNUAL REPORT 2019/20' BE NOTED

AANBEVELING

DAAR WORD AANBEVEEL DAT DAAR KENNIS GENEEM WORD VAN DIE INHOUD VAN DIE VERSLAG GETITELD 'VOORSIENINGSKANAALBESTUUR: VERSLAG VIR DIE TYDPERK 1 APRIL 2020 TOT 30 JUNIE 2020 EN JAARSVERSLAG VIR 2019/20'.

IZINDULULO

KUNDULULWE UKUBE MAKUQWALASELWE IZIQULATHO ZENGXELO ESIHLOKO 'INGXELO ENGOLAWULO LOBONELELO NGEMPAHLA EKWIZIKO' YESITHUBA ESISUSELA KOWO-1 KUTSHAZIIMPUZI UKUYA KOWAMA-30 KWEYESILIMELA 2019/20.

ANNEXURES

FOR FURTHER DETAILS CONTACT

NAME	Basil Chinasamy	CONTACT NUMBER	021 400 3190
E-MAIL ADDRESS	BasilJoseph.Chinasamy@capetown.gov.za		
DIRECTORATE	Finance	FILE REF No	
SIGNATURE : DIRECTOR	<div style="border: 1px solid black; padding: 2px; display: inline-block;"><div style="display: flex; align-items: center;"><div style="margin-right: 5px;">Basil Chinasamy</div><div style="font-size: 0.8em; line-height: 1;">Digitally signed by Basil Chinasamy Date: 2020.07.23 14:01:51 +0200</div></div></div>		

CHIEF FINANCIAL OFFICER

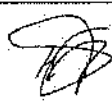
NAME: KEVIN JACOBY

COMMENT:

DATE: _____

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SIGNATURE

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Kevin Jacoby
Date: 2020.07.27
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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

COMMENT:

DATE

SIGNATURE

Joan-Mari
Holt

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Mari Holt
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For information.

CITY MANAGER

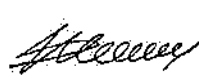
NAME

LUNGELO MBANDAZAYO

COMMENT:

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Lungelo Mbandazayo
Date: 2020.07.30
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EXECUTIVE MAYOR

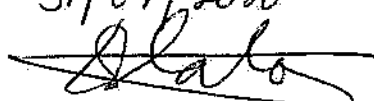
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ALD DAN PLATO

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31/07/2020


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ANNEXURES

FOR FURTHER DETAILS CONTACT

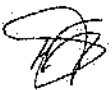
NAME	Basil Chinasamy	CONTACT NUMBER	021 400 3190
E-MAIL ADDRESS	BasilJoseph.Chinasamy@capetown.gov.za		
DIRECTORATE	Finance	FILE REF No	
SIGNATURE : DIRECTOR	<div><div>Basil Chinasamy</div><div>Digitally signed by Basil Chinasamy Date: 2020.07.23 14:01:51 +02'00'</div></div>		

CHIEF FINANCIAL OFFICER

NAME KEVIN JACOBY COMMENT:

DATE _____

SIGNATURE

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Kevin Jacoby
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Joan-Mari
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Digitally signed by Joan-
Mari Holt
Date: 2020.07.29.16:10:20
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For information.

CITY MANAGER


NAME

LUNGELO MBANDAZAYO

COMMENT:

DATE

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Date: 2020.07.30
09:02:06 +02'00'

EXECUTIVE MAYOR

NAME

ALD DAN PLATO

COMMENT:

DATE

SIGNATURE

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CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

Making progress possible. Together.

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 (SCM) Policy

3. FOR NOTING BY COUNCIL

For information of Council

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.

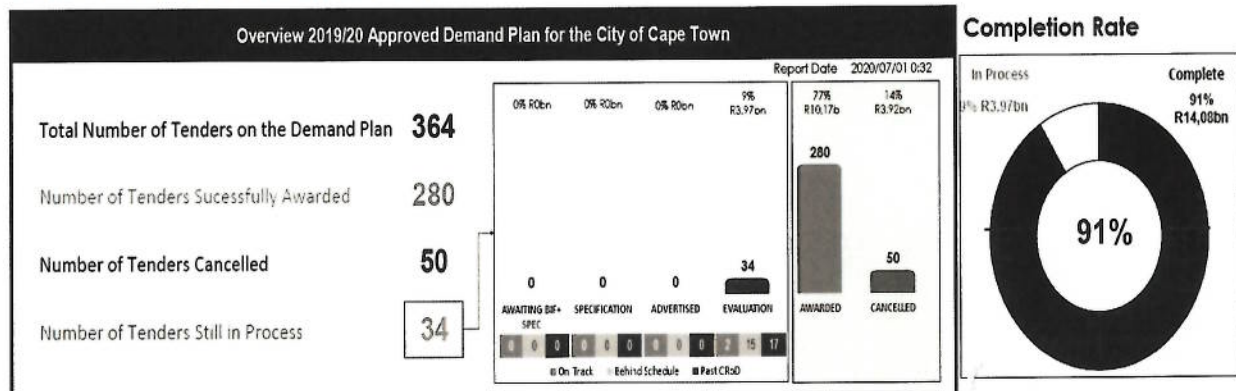
5.1 Demand and Acquisition Management

The Demand Management unit has been successful in highlighting the importance of demand planning as a feature on the agendas of all Executive Directors. This drives the execution of the demand plan throughout the organization and also exposes instances of over-commitment as well as risks of underspending.

5.1.1 Implementation of the 2019/20 Demand Plan

The implementation of the 2019/20 demand plan has progressed very well despite the lockdown.

Table 1: 2019/20 Demand Plan for Tenders



The final completion rate of 91% for tenders processed is 91% which is much higher than previous years and is indicative of an improvement in procurement planning processes. The number of tenders cancelled (50) has also reduced from the 86 of last financial year. The cancellations were due to high prices received, PPPFA non-compliances, goods and services no longer needed and no responsive bids. The 34 remaining tenders which have not been awarded are much lower compared to prior years. The level 5 lockdown due to COVID-19 had an impact on tender closing dates which had to be extended and most of these will be processed in the first quarter of the new financial year.

5.1.2 Tender completion rate per Directorate (2019/20 Demand Plan)

The completion rate is broken down to Directorate level as tabled below.

Table 2: Completion rate per Directorate

Demand Plan Overview					Successful Award Rate	Completion Rate
	Evaluation	Awarded	Cancelled	Grand Total		
Community Services & Health	1	22	2	25	88%	96%
Corporate Services	4	26	6	36	72%	89%
Economic Opportunities & Asset Management	6	18	2	26	69%	77%
Energy & Climate Change	6	44	6	56	79%	89%
Finance	1	19	6	26	73%	96%
Human Settlements	1	8	9	18	44%	94%
Office of the City Manager		1		1	100%	100%
Safety & Security	2	21	2	25	84%	92%
Spatial Planning & Environment		7		7	100%	100%
Transport	7	25	8	40	63%	83%
Urban Management		1		1	100%	100%
Water & Waste	6	88	9	103	85%	94%
Grand Total	34	280	50	364	77%	91%

Overall most of the directorates performed well and have started to come on board with the changes introduced in respect of proper tender planning, submitting bid specifications in time. Specific challenges being experienced are taken up with the relevant Executive Director and the City Manager's SCM Forum.

5.1.3 Tender statistics

Table 3: Year-on-year comparison and trend analysis

Year on Year Comparison	2017/18	2018/19	2019/20	% Growth or Increase / (Decrease)	Status
Completion rate (%)	60%	77%	91%	14%	Improvement
Award rate (%)	48%	58%	77%	19%	Improvement
Cancelled (number)	58	86	50	(36)	Improvement

- The tender completion rate for the 2019/20 financial year increased by 14% from the previous financial year;
- The successful award rate for 2019/20 financial year increased by 19% from the previous financial year; and
- There was a decrease of 36 bids / tenders cancelled since the previous (2018/19) financial year.

Efficiencies realized within tender processes and as depicted above are, *inter alia*, as a result of the establishment of a dedicated Scheduling Unit, a dedicated Contract Price Adjustment (CPA) unit which continued to focus on CPA related matters, as well as increased due diligence assurance on all tenders above R10 million. Other interventions included SCM Director's Top 300 Project Manager workshops, issuing directives around demand and tender planning, CFO's Monthly Collaboration Meetings, City Manager's SCM Forum.

5.1.4 Appeals 2019/20 financial year

Appeals received in terms of section 62 of the Municipal Systems Act (Act 32 of 2000) are handled by the Appeals Authority. The outcome of the appeals is implemented by the SCM unit. There were 153 appeals received against tenders, of which 103 (67%) were dismissed and 20 appeals constituting 13% upheld. The balance of 30 appeals are still pending an outcome.

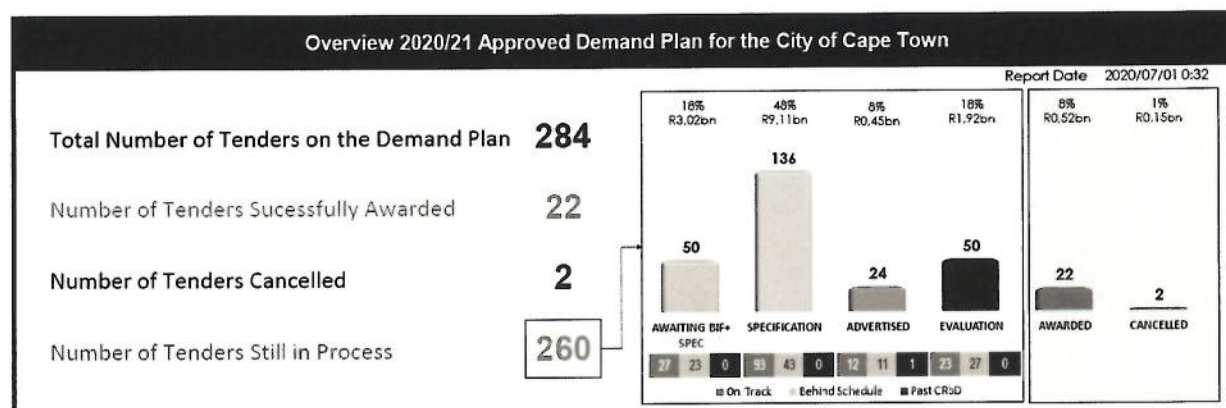
Due to the COVID-19 lockdown a more comprehensive impact analysis of appeals is not available at this time. The SCM unit is analyzing the root cause/s of appeals being upheld.

5.1.5 Implementation and update of the 2020/21 Demand Plan

The implementation of the 2020/21 demand plan is already well underway with 22 (8%) of the 284 tenders planned for the year, already awarded. The Demand Management unit is prompting line departments to submit the 50 outstanding specifications including sending the information to executive level. In addition, line departments are submitting late items for inclusion in the 2020/21 demand plan since the approval of the MTREF budget in May 2020. The quantum of the 2020/21 demand plan will increase as too will the outer years of the MTREF period.

The Demand Plan is being compiled for the MTREF period to coincide with the budget. As from July 2020, management will be furnished with details of the 2020/21 as well as the 2021/22 demand plans. This is to ensure that the process for awarding contracts required early in 2021/22 financial year begin early enough and slippage is avoided.

Table 5: 2020/21 Demand Plan



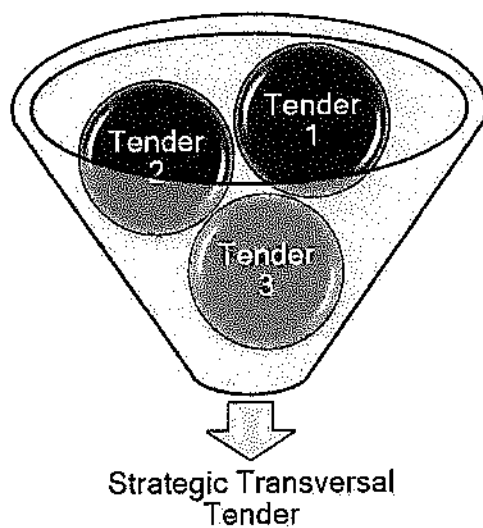
5.1.6 Slippage Analysis per Directorate (2020/21 Demand Plan)

The SCM unit tracks the progress of a tender against a date plan in order to monitor whether the tender will be awarded and a contract in place timeously. Where a tender is behind schedule, it is reported to be in slippage. As a starting point, the draft specifications for tenders are to be provided to SCM 12 months in advance (18 months in advance if Section 33 is applicable). If the draft specification is not received within these timeframes the tender reflects slippage. Once the draft specification is received and assessed for completeness, a timeline is agreed to between the Line Department and SCM, then slippage is measured against that timeline.

5.1.7 Strategic Sourcing (Transversal Contracts) Initiatives

The strategic sourcing project is underway whereby approximately 74 tenders across various commodities and services will be consolidated into approximately 14 City-wide tenders. This project intends leveraging the buying power of the City as well as standardizing products and pricing for these commodities or services.

This is a multi-year project, and the footprint of each individual tender envisaged in this project is alive to the ever changing needs of the City and the way in which the market responds to these tenders. While the outcome of reducing the number of tenders for common commodities or services is clear, the strategy applied to each tender will have its own unique characteristics.



Tenders on the three-year demand plan are identified based on the description of the Scope of Work in the title. These tenders are then analyzed to establish the commonality and overlaps in terms of suppliers and use by specific directorates. This data is then used to determine who the key role players are in order to start the strategic procurement process.

Our pilot tender, namely the City-Wide Fencing tender has now been through the complete Strategic Procurement Process. After much analyses and some very involved and productive cross-functional team meetings, the specification is now ready to be presented to the Bid Specification Committee.

5.1.8 SCM Bid Adjudication Committee (SCMBAC)

The SCMBAC has convened 51 meetings during the 2019/20 financial year. SCMBAC meetings were held through Skype medium during the lockdown period. Meetings were attended by all relevant role players namely Bid Evaluation Committee Chairpersons, Project Managers and Senior SCM Practitioners in order to provide input and pertinent information to the Committee to enable informed decision making.

5.1.9 SCM Bid Committees

New Bid Committee members were appointed during the financial year to ensure cross-functional representation and full compliance to the Municipal SCM Regulations (MSCMR). Bid Specification Committee (BSC) and Bid Evaluation Committee (BEC) Chairperson appointments are for a two-year period after which the appointment is reviewed by relevant Executive Directors. Bid Committee members must be on T-level 14 and above and only nominations accompanied by proof of the required SCM training are considered for appointment.

5.1.10 Procurement below R200 000

In order to procure goods or services which involves a transaction value over R2 000 and up to R200 000, written price quotations must be obtained. SCM tracks the ratio between RFQs that have been advertised and the number of responses received in order to establish the supplier activity in our procurement processes.

For the 4th Quarter, (1 April 2020 until 30 June 2020) a total of **2 517 RFQ's** were advertised on the City's website, receiving **14 248 responses** to these RFQs. This equates to an average response ratio of **5.66**, which is above acceptable the norm. This means that more suppliers are accessing opportunities in the City.

Table 6: RFQ Advertisements vs responses for the period 1 April 2020 - 30 June 2020

Month	Goods			Services		
	RFQ's Advertise d	RFQ's Responses	Ratio	RFQ's Advertised	RFQ's Responses	Ratio
Apr 20	601	3 001	4.99	61	90	1.50
May 20	737	4 482	6.08	210	186	0.89
Jun 20	717	4 881	6.81	191	1 608	8.42
Total	2 055	12 364	6.02	462	1 884	4.08

Total Advertised **2 517**
Total Responses **14 248**
Total Ratio **5.66**

For the 2019/20 financial year, a total of **22 255 RFQ's** have been advertised on the City's website receiving **91 627 responses** to these RFQ's. This equates to an average response ratio of **4.12**, which is above the norm. Again, this is an indication of increased competitiveness in procurement under R200 000.

Table 7: RFQ Advertisements vs responses received for the period 2019/20 financial year

Quarter	Goods			Services		
	RFQ's Advertised	RFQ Responses	Ratio	RFQ's Advertised	RFQ Responses	Ratio
Quarter 1	4 692	21 986	4.69	2 560	6 214	2.43
Quarter 2	5 036	26 718	5.31	1 787	4 659	2.61
Quarter 3	3 043	13 207	4.34	2 620	4 595	1.75
Quarter 4	2 055	12 364	6.02	462	1 884	4.08
Totals	14 826	74 275	5.01	7 429	17 352	2.34

Total Advertised **22 255**
Total Responses **91 627**
Total Ratio **4.12**

The City's e-Procurement portal is an automated online service making it easier for suppliers to submit their bids online. The final roll-out of the e-Procurement system to all outstanding Services commodities will be finalized during the 2020/21 financial year. Procurement for all Goods commodities are being done using the e-Procurement platform.

5.1.11 Deviating from following normal procurement processes in terms of MSCMR 36

Deviations are considered by the Accounting Officer / delegate (Director: SCM) and noted by Council and are processed in terms of the SCM regulations and the SCM policy. The process for both deviations above and below R200k entails being assessed in terms of the stipulated criteria of emergency procurement, availability from only one provider, art-historical objects, circumstances where it is impractical or impossible to follow the official procedure, or correction of minor technical breaches. Deviation procedures have been amended to take into account audit recommendations.

In terms of City Manager directives, the processing and approvals for deviations received more stringent scrutiny. Approvals made via the BAC and the City Manager's office may be sent for further assessment via the Engineering Services Unit or for investigation by the Forensics department. The City Manager also no longer condones the approvals or values retrospectively. Expenditure that have been incurred without the proper approval/s are reported to Council as irregular expenditure and consequence management actions are applied where required.

5.2 Supplier Development, Empowerment and Management

5.2.1 Supplier Empowerment (Community Based Vendors)

SCM continues to educate Community Based Suppliers (CBS) on how to conduct business with the City, how to register on the supplier database and the National Treasury Central Supplier Database (CSD), how to submit RFQ's, the requirements for submitting tenders and how to complete tender and RFQ documentation. This project is run in conjunction with the Enterprise and Investments department and includes visits to each of the 24 sub-councils where tender opportunities are shared with suppliers and new and emerging suppliers are assisted. A total of **1 242 potential suppliers** attended these training interventions during the 2019/20 financial year. In addition, reduced payment terms have been approved and implemented for all Qualifying Small Enterprises (QSE's), Exempt Micro Enterprises (EME's) and Community Based Suppliers.

5.2.2 B-BBEE Purchase orders (PO)

The tables below illustrate the number of purchase orders and their values, processed by the City for each B-BBEE status level of contributor for the 2019/20 financial year.

Table 8: B-BBEE vs PO spend 1 July 2019 - 30 June 2020

B-BBEE Level	Vendors	% Vendors	PO's	% PO's	PO Values	% PO Value
1	1 122	34.46%	97 898	55.92%	R4 964 583 322.51	35.95%
2	325	9.98%	22 283	12.73%	R3 621 790 414.44	26.22%
3	133	4.08%	10 287	5.88%	R1 373 142 053.34	9.94%
4	345	10.60%	17 844	10.19%	R1 358 040 166.23	9.83%
5	17	0.52%	1 061	0.61%	R236 938 570.25	1.72%
6	10	0.31%	37	0.02%	R220 330 473.21	1.60%
7	15	0.46%	167	0.10%	R15 940 778.01	0.12%
8	24	0.74%	672	0.38%	R148 456 916.03	1.07%
0	1 265	38.85%	24 819	14.18%	R1 871 903 425.91	13.55%
Grand Total	3 256	100.00%	175 068	100.00%	R13 811 126 119.93	100.00%

BBBEE 1 991 61.15% 150 249 85.82% R11 939 222 694.02 86.45%

The number of B-BBEE suppliers who have conducted business with the City for the period 1 July 2019 – 30 June 2020 were **1 991** and this equates to **61.15%** of the overall number of suppliers used.

A total of **150 249 purchase orders totaling R11 939 222 694.02** were issued to the B-BBEE suppliers which equates to **85.82%** of the total purchase orders issued during the financial year and **86.45%** of the total procurement spend for the financial year.

5.2.3 Supplier Database statistics

The City's supplier database is maintained in parallel with the National Treasury Central Supplier Database. These databases provide information on accredited suppliers capable of doing business with the City and must be maintained through stringent due diligence processes to ensure compliance to MSCMR 44 and 45.

Table 9: Supplier registration statistics for the 2019/20 financial year compared to the previous financial year

Details	2018/19 Total	2019/20 Total
Suppliers ready for transacting with the City	11 461	12 702
E-procurement registered suppliers	2 065	3 099
National Treasury CSD registered suppliers	11 632	12 671
Community Based Suppliers	742	808

New supplier applications processed

For the fourth quarter, 181 new supplier applications were considered and approved. This is a decrease from the statistics for the same period in the previous financial year and can be attributed to the impact of the National lockdown on SCM operations during the various levels of lockdown.

A total of **1 241 new supplier applications** were considered and approved for the 2019/2020 financial year compared to a total of 1 282 new supplier registrations during the previous financial year.

Table 10: Quarterly supplier registration statistics for the 2019/20 financial year compared to the previous financial year

Period	2018/19 Number	2019/20 Number
Quarter 1 (1 July to 30 Sept)	426	350
Quarter 2 (1 Oct to 31 Dec)	318	378
Quarter 3 (1 Jan to 31 Mar)	237	332
Quarter 4 (1 Apr to 30 June)	301	181
Total for the financial year	1 282	1 241

5.2.4 Supplier Due Diligence

Detection controls, to ensure that the City does not do business with any person in service of the state and to ensure compliance with clauses 44 and 45 of the MSCMR, were enhanced during the financial year in response to the previous year audit findings.

In addition, SCM assessed all staff declaration of interest for potential conflicts in terms of the City's procurement processes and to ensure compliance with section 5(1) of the Municipal Systems Act (Act 32 of 2000) which require full declaration of any direct and indirect benefits to be acquired or from contracts concluded with the City.

Table 11: Staff declaration of interest (DOI) and private work applications reviewed during the 2019/20 financial year

Staff DOIs reviewed by SCM	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Electronic DOIs	7 440	10 399	3 770	2 056	23 665
Manual DOIs & Private work applications	2 189	2 945	1 760	239	7 133

5.2.5 Supplier Performance Management

Supplier performance management is monitored on the City's internal monitoring tool namely the "Red List" which tracks information on suppliers who are not performing satisfactory or who have committed abuse of the SCM system. Poor performing suppliers are performance managed by the relevant project managers within line departments and where deemed necessary, non-performance or abuse matters are referred to Legal Services for further action. Such suppliers may be reported to the National Treasury in instances where the supplier has defaulted and must be restricted.

Table 12: Supplier default and performance for the 2019/20 financial year

Defaulting & Poor Performing Suppliers	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
False documentation	-	1	2	7	10
Poor performance	18	13	10	2	43
Non-delivery of goods / services	5	5	3	3	16
Repeated withdrawals from bids/RFQ's	-	1	-	-	1
Abuse of SCM system	-	2	-	-	2
Matters sent to Forensic Unit	1	1	2	7	11
Matters sent to Legal (Restrictions)	4	5	5	1	15
Total	28	28	22	20	98

For the year under review, 98 matters of SCM abuse, default or poor performance have been recorded and actioned accordingly.

5.3 Inventory and Stores Management

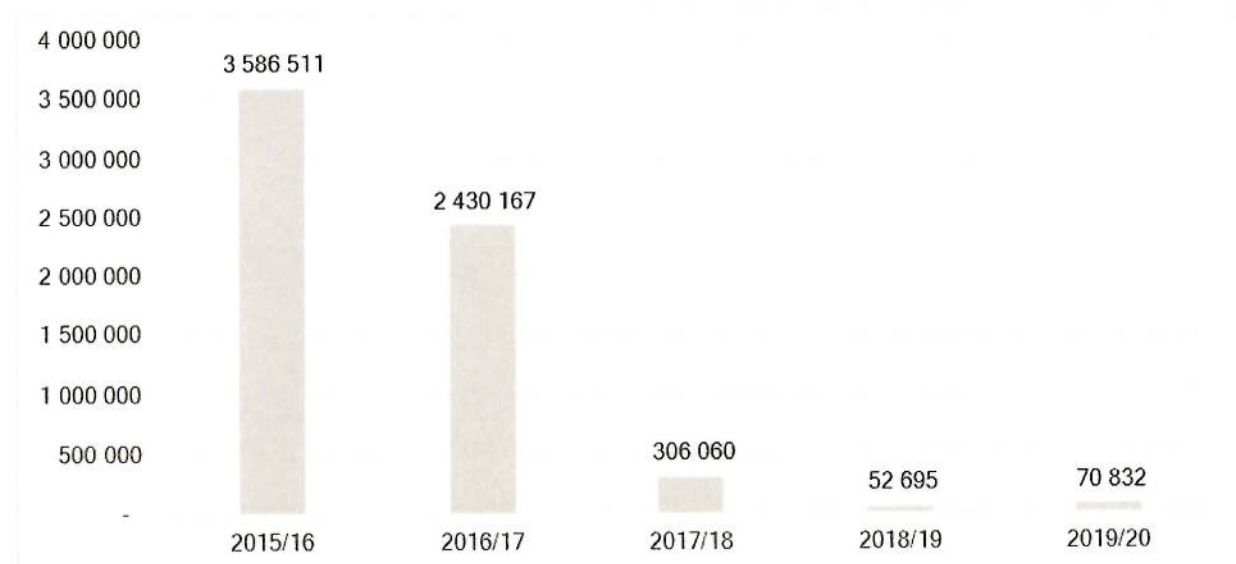
The main purpose of the Inventory and Stores Management (ISM) branch is to provide the right quality of materials at the right time and quantities to other user departments in the City. This is done to enable effective service delivery to the citizens of Cape Town. ISM strives to keep the right balance between stock levels and working capital investment.

There are currently 35 operational SAP stores in the City and 15 fuel sites. There are 13 439 different materials and 23 121 bins maintained. During 2019/20 the average stock value was R372 214 052 with an annual stock usage of R996 149 482. There were 699 536 goods movement transactions during the financial year.

5.3.1 Annual Stock take results

The MFMA requires that inventory at least gets verified once per financial year. The net annual stock take result amounted to a shortage of R29 962.90. Surplus stock amounted to R40 869.56 with Shortages of R68 493.88. Damaged stock amounted to R2 338.58. The below graph depicts the negative stock variances (stock written off) since 2015/16.

Graph 2: Stock Take Negative Variance (stock written-off)



The graph depicts the concerted effort of SCM to implement controls, processes, security enhancements and culture change to reduce stock losses. The current value of stock losses is 51 times lower than four (4) years ago. The stock written-off figure of R70 832 includes a negative variance of R21 542 applicable to the previous financial year, but for which the accounting entry was only posted in the 2019/20 financial year. All reported variances are investigated fully and consequence management actions implemented where applicable.

5.3.2 Comparative results

Some comparative results for the last two financial years are indicated in the tables below:

Table 13: Results for the period 1 April 2020 to 30 June 2020 (4th Quarter)

4th Quarter	Stock Value at end of Quarter (R)	Ave Stock Value during Quarter (R)	Usage Value during Quarter (R)	Annualised Stock Turns	No of Transactions during Quarter
2018/19	363 407 014	404 335 394	313 449 300	3.07	214 367
2019/20	428 292 862	380 243 078	189 807 267	1.97	69 202
% Change	18%	-6%	-39%	-1.10	-68%

It should be noted that the National lockdown had a profound impact on the key performance indicators relating to inventory management, especially the Quarter 4 results.

The quarterly comparable **stock value** increased by 18% (1 April 2020 to 30 June 2020 compared to 1 April 2019 to 30 June 2019). The reason for the increase was attributable to an increase in the value of stock for water meters, circuit breakers and electricity meters. In addition, COVID-19 related Protective and Personal Equipment (PPE) was procured in bulk as a means of ensuring that there was sufficient PPE to be distributed to the City's front-line staff and for when the City's employees returned to work. In addition, a previous year uncorrected error highlighted by the AGSA had to be corrected which resulted in an increase in the value of inventory in order to reflect accurate inventory values.

The **usage value** reduced by 39% (01 April 2020 to 30 June 2020 compared to 01 April 2019 to 30 June 2019). The reason was mainly attributable by the effect of the National lockdown that resulted in a reduction of the usage of both water and electricity meters. Furthermore, most employees were working remotely during the lockdown. This resulted in a drastic reduction in the demand for consumable materials. The effect of the lockdown is clearly evident in the number of inventory transactions that reduced by 68% (01 April 2020 to 30 June 2020 compared to 01 April 2019 to 30 June 2019).

Due to the aforementioned and profound ripple effect of the lockdown, the quarterly comparable **stock turn** reduced by 1.1. This resulted in an unfavourable stock turn of

1.97 against a target of 3.5. It should be noted that prior to the lockdown the stock turn for Quarter 3 was 2.93.

Table 14: Annual Results

Financial Year	Stock Value at end of Quarter (R)	Ave Stock Value during Quarter (R)	Usage Value during Quarter (R)	Annualised Stock Turns	No of Transactions
2017/18	393 797 662	344 491 030	1 307 411 095	3.74	835 320
2018/19	363 407 014	398 814 907	1 139 000 740	2.82	812 486
2019/20	428 292 020	372 214 052	996 149 482	2.63	699 536
% Change (2019/20 vs 2018/19)	18%	-7%	-13%	-0.19	-14%

The comparable **stock turn** reduced by 0.19 year- on-year. The stock turn for the 2019/20 financial year was unfavourable at 2.63 compared to the target of 3.5.

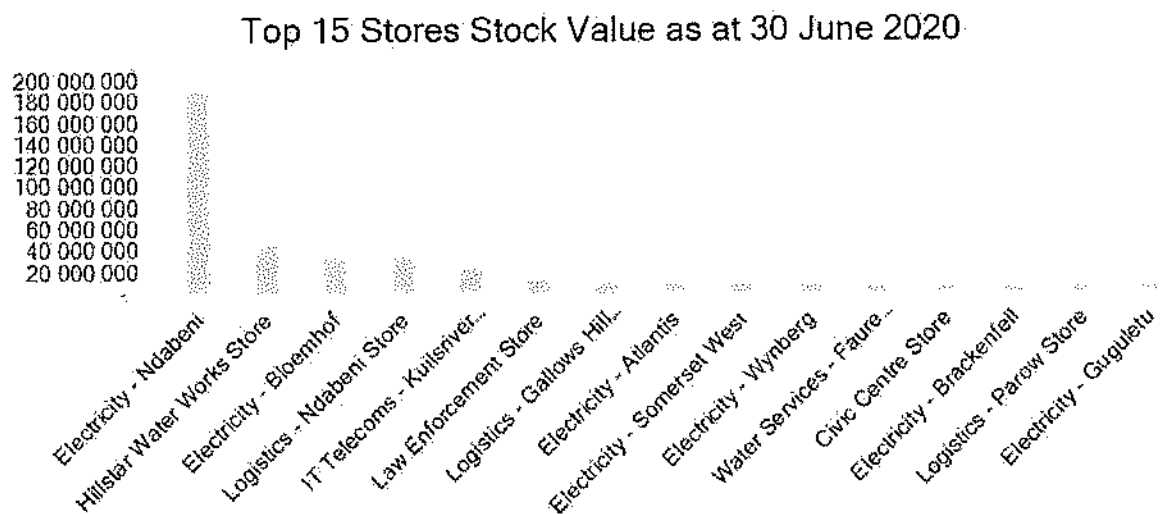
This was mainly due to:

- A sudden reduction in the demand of stock due to the National lockdown, as most employees worked remotely. Therefore, the demand of materials used in the day-to-day operations, particularly for non-essential workers, reduced sharply.
- Projects had to be put on hold due to National lockdown restrictions.
- Reduced demand of water meters coupled with increased receipts.

5.3.3 Top 15 Stores Stock value as at 30 June 2020

The graph indicates the relative importance of the top 15 SAP Stores **Stock Value** in terms of rand value at the end of the fourth quarter of 2019/20.

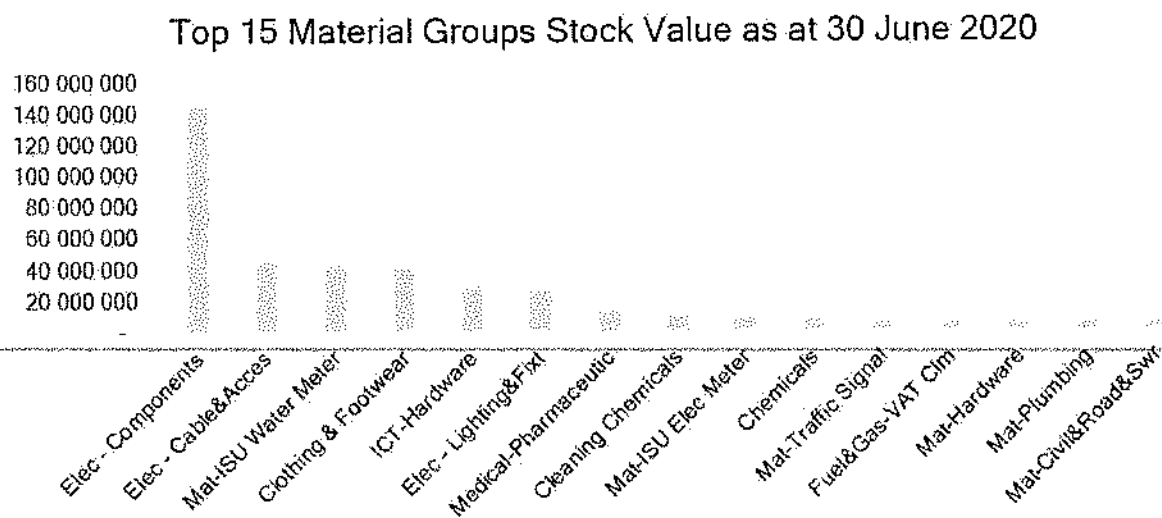
Graph 3: Top 15 Stores Stock value as at 30 June 2020



5.3.4 Top 15 Material Groups value as at 30 June 2020

The graph indicates the relative importance of the top 15 **Material Groups** in terms of rand value at the end of the fourth quarter of 2019/20.

Graph 4: Top 15 Material Groups value as at 30 June 2020



5.4 Supply Chain Management Overall

5.4.1 Risk Management

The SCM risk register and mitigating plans are reviewed on an ongoing basis and was recently approved on 17 June 2020. SCM is satisfied that known risks are being adequately managed and monitored.

5.4.2 Disposal Management

The SCM Demand & Disposal unit is responsible for the disposal of redundant movable assets and scrap. A number of contracts have been established with suppliers for the administration of this function. The below table illustrates the revenue generated through the disposals for the 2019/20 financial year. This revenue is lower than the previous year (R53m) due to the cancellation of the auction which would have taken place in May 2020. The auction could not continue due to the National lockdown.

Table 15: Income generated through disposals

Description	Revenue
Redundant assets (including vehicles)	R 24 385 448.27
Transformers	R 2 440 796.65
Scrap metals	R 5 279 202.41
Oils	R 860 832.67
Paper	R 65 101.99
Total	R 33 030 981.99

The City is making use of the on-line auction process which was included in the auctioneer contract for the disposal of redundant assets. This enables the continuation with the disposal of assets during the lockdown period. The auction of the low value redundant furniture as well as abandoned vehicles will be used as a pilot, followed by other assets should this process prove to be successful.

5.4.3 SCM unit capacitation

The SCM business improvement strategy, inter alia, provides for the staffing of the SCM unit with suitably qualified and experienced employees. For the period April 2020 to June 2020, 10 appointments were made. For the 2019/20 financial year, a total of 66 permanent appointments were made. The details are as follows:

- 2 Managers (Tenders and Contracts unit)
- 1 Head (Procurement Excellence and Governance)
- 4 Senior Professional Officers (Tenders and Contracts unit, Demand Management unit and Procurement)
- 2 Accountants (Tenders and Contracts unit)
- 1 Administrative Officer 3 (Tenders and Contracts unit)
- 7 Assistant Professional Officers (Tenders and Contracts unit)
- 6 Administrative Officer 1's (Tenders and Contracts unit and Supplier Management and Administration)
- 43 Junior appointments (All SCM units)

During the 2019/20 financial year, 5 students were appointed and 22 EPWP workers were contracted. The entire SCM Department has experienced difficulty in attracting and appointing suitably skilled and specialised staff and will continue to engage HR to find alternative recruiting strategies for this scarce skill. The SCM staff establishment consists of 387 approved positions of which 326 are filled leaving 61 vacancies.

5.4.4 Capacity building

Various formal and informal training interventions were embarked upon to ensure that all persons involved in supply chain management processes are equipped in the application of the City's SCM policy and practices and to ensure compliance and good governance. The below accredited training interventions offered by the National School of Government (NSG) reached 254 attendees during the period 1 July 2019 to 30 June 2020:

Training intervention	Number of attendees
Bid Committee	205
Basic Project Management	2
Advanced Project Management	9
Ethics Management	5
Detecting & Combatting Bid Rigging	7
Strategic Sourcing	4
Demand Management	22
Total	254

These training interventions improve the City's ability to address MFMA competency requirements for bid committees and SCM staff.

5.4.5 SCM Audit Action Plans

The Procurement Excellence and Governance unit is responsible for the monitoring and evaluation function relating to performance and governance within the SCM system. This enables the identification of areas of risk together with improvement initiatives. This unit is also continuously monitoring and reporting on the Audit Action Plan with the view to ensure compliance and the effective implementation of the action plans and corrective measures to address the audit findings from internal and external audits. Key initiatives included:

- The continuation of the Contract Financial Tracking project to deliver on a contract financial tracking system whereby spend on all original contracts, extensions and deviations can be determined and expenditure after contract expiry is prevented. This is aimed at address prior year AGSA findings on contract management;
- Complete review of all Inventory material items to ensure that items are valued correctly in terms of relevant GRAP requirements;
- Review of all procurement transactions to identify areas of non-compliance and irregular expenditure; and
- Improvements to SCM user guidelines.

Significant focus was afforded to analyze instances of non-compliance and resultant irregular expenditure in order to address the reputational risk coupled with the auditor's reports on irregular expenditure. In order to bring about a culture of compliance, consequence management actions are being implemented.

5.4.6 Covid-19 impacts on SCM operations

Procurement relevant to the Covid-19 global pandemic during the 4th quarter of the financial year was challenging in many ways. The global supply chain shortages of the critical PPE requirements had a negative impact on market pricing and availability of these essential items. The City attempted to approach as many suppliers as possible and negotiated prices where it was possible during these procurement processes but

ultimately key considerations that had to be considered, in light of the safety of front-line staff and the public, included stock lead times / availability as well as the cost-effectiveness of these essential items. PPE requirements were mainly procured through the deviation processes using MSCMR 36 and the City's SCM Policy where products were not available on tender or contracted suppliers failed to deliver. Contract management principles were applied in managing non-performing suppliers. Some requirements imposed by the National Treasury during this time were found to be unrealistic and placed further constraints on the procurement process and was brought to the attention of the Provincial Treasury.

5.5. Management Interventions

Various compliance directives were developed with the Office of the City Manager's staff and other stakeholders to provide better guidance of supply chain matters relating to audit matters. Top 300 workshops were held during the year to engage project managers on various SCM issues including audit findings and driving tender efficiencies. SCM Strategy session was held in September 2019 and change management interventions are being plan. The SCM Vision continues to be the focus in order to develop the key seven pillars which are the centre of excellence, skilled staff, right culture, e-procurement, SCM strategic support, a project-based approach to supply chain, motivated and productive staff.

The Office of the CFO also continues to drive the message of compliance and procurement planning at EMT.

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