



DATE: 07 JULY 2022

REPORT TO: EXECUTIVE MAYOR AND COUNCIL

1. ITEM NUMBER

2. SUBJECT

**SUPPLY CHAIN MANAGEMENT:
REPORT FOR PERIOD 1 APRIL 2022 TO 30 JUNE 2022 AND ANNUAL REPORT
FOR 2021/22**

**VERSKAFFINGSKETTINGBESTUUR:
VERSLAG VIR DIE TYDPERK 1 APRIL 2022 TOT 30 JUNIE 2022 EN
JAARVERSLAG VIR 2021/22**

**ULAWULO LOBONELELO NGEMPAHLA EKWIZIKO:
INGXELO YESITHUBA ESISUSELA KWO1 KUTSHAZIIMPUZI UKUYA
KOWAMA30 KWEYESILIMELA 2022**

N0022

3. DELEGATED AUTHORITY

In terms of delegation

This report is for

☐ **Committee name :**

☒ The Executive Mayor

☒ 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) 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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REPORT FOR PERIOD 1 APRIL 2022 TO 30 JUNE 2022 AND ANNUAL REPORT FOR 2021/22

Page 1 of 5

However, Clause 10 of this policy mentions that Council has an oversight role to ensure that the City Manager implement 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 within 10 days 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 Implications ☐ Yes ☒ No

Staff Implications ☐ Yes ☒ No

Risk Implications ☐ Yes The risks for approving and/or not approving the recommendations are listed below:

- ☐ No Report is for decision and has no risk implications.
- ☒ No Report is for noting only and has no risk implications.

POPIA Compliance ☒ Yes It is confirmed that this report has been checked and considered for POPIA compliance.

5 RECOMMENDATIONS

IT IS RECOMMENDED THAT THE CONTENTS OF THE REPORT ENTITLED "SUPPLY CHAIN MANAGEMENT REPORT FOR THE PERIOD 1 APRIL 2022 TO 30 JUNE 2022 AND ANNUAL REPORT FOR 2021/22" BE NOTED.

AANBEVELING

DAAR WORD AANBEVEEL DAT DAAR KENNIS GENEEM WORD VAN DIE INHOUD VAN DIE VERSLAG "VOORSIENINGSKANAALBESTUURSVERSLAG VIR DIE TYDPERK 1 APRIL 2022 TOT 30 JUNIE 2022 EN JAARVERSLAG VIR 2021/22".

ISINDULULO

KUNDULULWE UKUBA MAKUQWALASELWE IZIQULATHO ZENGXELO ESIHLOKO "INGXELO ENGOLAWULO LOBONELELO NGEMPAHLA EKWIZIKO YESITHUBA ESISUSELA KOWO1 KUTSHAZIIMPUZI UKUYA KOWAMA30 KWEYESILIMELA 2022".

ANNEXURES

ANNEXURE 1

REPORT FOR PERIOD 1 APRIL 2022 TO 30 JUNE 2022 AND ANNUAL REPORT FOR 2021/22

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Page 3 of 5

Joan-
Mari
Holt

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FOR FURTHER DETAILS CONTACT

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CHIEF FINANCIAL OFFICER

NAME

COMMENT:

DATE

SIGNATURE


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The ED's signature represents support for report content and confirms POPIA compliance.

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

For information.

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Mari Holt
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CITY MANAGER


NAME

Lungelo Mbandazayo

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EXECUTIVE MAYOR

NAME

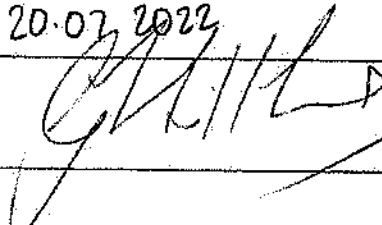
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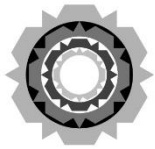
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ANNEXURE 1

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 (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.

5. OTHER SERVICES CONSULTED

Not applicable.

6. SALIENT DETAILS OF SUPPLY CHAIN MANAGEMENT ACTIVITIES

Major SCM activities are summarised below, for information.

6.1 Demand and Acquisition Management

The Demand Management unit has been instrumental in driving the planning for tenders and contracts for the MTREF cycle. The demand plan is reconciled to the capital and operating budgets to ensure that budgets are informed by planned tenders. Regular interactions with executives and line departments take place to ensure progress is made towards the planning for tenders City wide.

6.1.1 Implementation of the 2021/22 Demand Plan

There were 311 new tenders on the demand plan for the 2021/22 financial year. This amounts to 62 more tenders than the previous financial year which required 249 tenders which shows an increase in tender activity.

The demand plan is compiled in conjunction with Line Departments as well as the Corporate Project and Portfolio Planning Department and is a good reflection of the needs of the City for contracts to be established through the tender process. The demand plan is flexible to allow for the accommodation of new tenders as the needs of the organisation change.

The progress with the implementation of the demand plan is discussed in meetings with each Executive Director and their management team, together with representatives from SCM. These meetings are chaired by the CFO. The demand plan is a standing item on the agenda in order to ensure that there is full collaboration and commitment to successfully implement the demand plan. Within the SCM department, weekly meetings are held to monitor slippages and delays with tenders and to implement corrective actions where necessary.

Tenders on the demand plan are tracked through the various stages in the SCM process to ensure timely completion. This include tracking tenders from the initial step of receiving the bid initiation form and draft tender specifications from line departments, the bid specifications stage, advertising the tender, tender evaluation stage once the tender advertisement period closed and on to the tender award stage.

A tender completion rate of 95% was achieved at 30 June 2022 and is reflected in Table 01 below. This exceeds the targeted of 90% for the financial year.

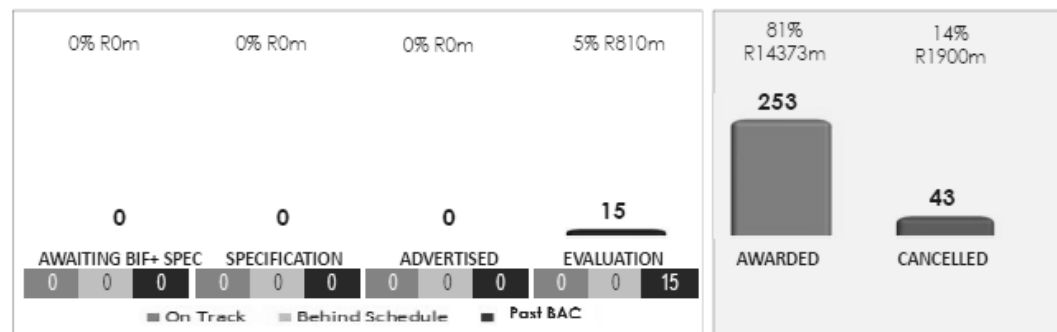
Table 01: 2021/22 Demand Plan for Tenders

2020/21 Approved Demand Plan	
Total number of tenders on approved plan	311
Number of tenders successfully awarded	253
Number of tenders cancelled	43
Number of tenders in progress	15
Implementation rate	95%

As per Table 01 above, 253 tenders (81%) of the total required tenders have been awarded and 43 tenders (14%) were cancelled as at 30 June 2022.

Figure 01 below further illustrates the above graphically with percentages and rand values per stage of the tenders on the demand plan.

Figure 01 – Graphical View of Demand Plan (2021/22)



15 Tenders with a value of R 810 million are currently in the tender evaluation process and therefore should be in a position to be awarded early in the new financial year.

R14.4 billion (81% of total number of tenders on the approved demand plan) for the financial year have already been awarded, and tenders to the value of R1.9 billion (14% of total number of tenders on the approved demand plan) have been cancelled.

The emphasis at this stage is to ensure that the demand plan is implemented timeously in order to support service delivery. In trying to plan in advance draft specifications are requested earlier in order for the tender process to start sooner.

This aims to reduce the number of tenders in slippage and creating a risk of services not being delivered.

The Demand Plan supports the capital budget spending by ensuring that projects which requires a tender is linked to the Demand Plan for the MTREF period. As at the end of the financial year the capital budget totalled R6.1 billion consisting of 1 323 projects. Information pertaining to the projects which have not been linked to the demand plan is provided to Executive Management weekly for the relevant line department to resolve.

6.1.2 Cancelled tenders analysis for the period 01 July 2021 to 30 June 2022

The Preferential Procurement Regulations provide for reasons under which a tender may be cancelled. Table 02 below provides an analysis of the number and estimated value of tenders which were cancelled per cancellation category (reasons).

Table 02: Cancellations for the period 01 July 2021 to 30 June 2022

Reasons for cancellation	Number	Estimated value R
No acceptable bids received	28	697 370 691
PPPFA non-compliance	10	956 000 000
No offers received	2	2 960 000
Market related price not achieved	2	149 238 634
No longer a need for the services, works or goods	1	94 000 000
Grand total	43	1 899 569 325

28 Of the 43 tender cancellations, representing 65%, are due to no acceptable bids received which is beyond the control of the City and driven by market factors. The Demand Management unit follows up with project managers after the cancellation of tenders to determine the way forward for all cancelled tenders.

Replacement tenders are added to the demand plan immediately after the new bid initiation form (BIF) and specifications have been received from the line department. The Tender Management unit gives these tenders priority. 22 Of the cancelled tenders have since been re-advertised and tabled at BAC for decision, 7 of the cancelled tenders are in the bid committees for advertisement and evaluation. 2 Cancelled tenders are no longer required, 3 cancelled tenders will

follow an alternative method of procurement and 9 of the cancelled tenders are in process of being added to the demand plan.

Remedial action and the lessons learnt from such findings are shared with the Top 300 project managers during the SCM workshops and Bid Committee Chairperson's training sessions.

6.1.3 Slippage analysis per Directorate 2021/22

The Slippage analysis indicates whether each tender is progressing through the SCM system according to plan in order to have the contract ready on time. Tenders are categorized as to whether they are on track, behind schedule or overdue [past the Contract Required by Date (CRbD)]. As at 30 June 2022, all 15 tenders which were not awarded were in the evaluation stage and all should already have been awarded. These are reflected per Directorate in Table 03 below.

Table 03: Tenders not awarded per Directorate 2021/22

Implementing Directorate	Number of tenders not awarded and past CRbD
Community Services & Health	5
Corporate Services	2
Economic Growth	-
Energy	3
Finance	1
Future Planning & Resilience	-
Human Settlements	1
Office of the City Manager	-
Safety & Security	-
Spatial Planning & Environment	-
Urban Mobility	-
Urban Waste Management	-
Water & Sanitation	3
Grand Total	15

Detailed demand plan management information is sent to Executive Directors and Mayco members each week to enable management to monitor the progress and address slippages with tenders so as to ensure timeous award of contracts in support of service delivery. It is incumbent on the relevant line department to resolve slippages so that capital projects and operating requirements are not adversely impacted.

6.1.4 Appeals analysis 2021/22

The appeal process, which is legislated in terms of Section 62 of the Systems Act, provides a platform for bidders who are of the view that their rights have been affected, to lodge an appeal. The appeal process is independent and tests the fairness and transparency of the bid committee process.

The City has received 151 appeals during the financial year up to 30 June 2022. Of these, 31 appeals were upheld, 100 appeals dismissed and 20 appeals are pending an outcome from the Appeals Authority. Of the total of 311 tender completed, (31) 10% were upheld. Learning lessons from appeals are shared with bid committees for future remedial action.

SCM is satisfied that the SCM system is sufficiently robust thereby minimising the number of successful appeals and subsequent delays in the process. The number of appeals is also an indicator of supplier's levels of confidence in the SCM system rather than to automatically resort to a court of law for remedies.

6.1.5 Implementation of the 2022/23 Demand Plan

The implementation of the 2022/23 demand plan is progressing well. The majority of the tenders for the 2022/23 financial year have already been advertised and in the process of being evaluated. Where specifications are outstanding, this is escalated to ED's.

The emphasis at this stage is to ensure that tenders required in the first quarter of the coming financial year are awarded timeously. The SCM unit is also specifically focussing on tenders for capital projects to ensure the capital objectives of the City are supported by the necessary contracts.

6.1.6 SCM Bid Adjudication Committee (SCMBAC)

The SCM Bid Adjudication Committee (SCMBAC) continues to meet weekly and remains instrumental in achieving maximum awards within a quick turn-around time. The BAC meeting is open to the public as part of good governance. The BAC has convened 13 meetings via skype during Quarter 4 of the 2021/22 financial year. A total number of 50 meetings were convened via skype for the year.

6.1.7 SCM Bid Committees

The BSC and BEC Chairperson appointments are for a two-year period after which the appointment is reviewed by relevant Executive Directors. Generally staff who are at a T-level 14 and above are appointed and only nominations accompanied by proof of the required SCM training are considered for appointment. A total of 39 Bid Specification Committee (BSC) and Bid Evaluation Committee (BEC) Chairperson re-appointments were made during Quarter 4 of the 2021/22 financial year for the various Directorates. A total amount of 120 appointments were made during the 2021/22 financial year. New Bid Committee members were appointed during the financial year to ensure cross-functional representation and full compliance to the Municipal SCM Regulations (MSCMR).

6.1.8 Procurement below R200 000 (Quotations)

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 Requests for quotations (RFQ's) that have been advertised and the number of responses received in order to establish the supplier interest in the quotation processes.

For the period 01 April 2022 until 30 June 2022, a total of 5 727 RFQ's were advertised on the City's website. 28 786 responses were received equating to a response ratio of 5.03 for each RFQ advertised. Table 04 below refers.

Table 04: RFQ Advertisements vs Responses Received for the period 01 April 2022 – 30 June 2022

Month	Goods			Services		
	RFQ's advertised	RFQ responses	Ratio	RFQ's advertised	RFQ responses	Ratio
Apr 22	1 254	7 466	5.95	737	2 331	3.16
May 22	1 368	8 190	5.99	742	2 965	4.00
Jun 22	1066	5 385	5.05	560	2449	4.37
Total	3 688	21 041	5.71	2 039	7 745	3.80

Total RFQ's advertised	5 727
Total responses	28 786
Ratio	5.03

The SCM Regulations require a minimum of three responses. The ratio of 5.03 is very good and shows that suppliers are actively interested in doing business with the City.

For the 2021/22 financial, a total of 22 194 RFQ's have been advertised on the City's website with 115 318 responses to these RFQ's. This equates to an average response ratio of 5.20 against a target of 3 responses per RFQ. Table 05 below refers.

Table 05: RFQ Advertisements vs Responses Received for the 2021/22 Financial Year.

Period	Goods			Services		
	RFQ's advertised	RFQ responses	Ratio	RFQ's advertised	RFQ responses	Ratio
Quarter 1	3 999	23 953	5.99	1 979	7 422	3.75
Quarter 2	4 130	22 549	5.46	1 254	3 856	3.07
Quarter 3	3 355	20 542	6.12	1 750	8 210	4.69
Quarter 4	3 688	21 041	5.71	2 039	7 745	3.80
Total	15 172	88 085	5.81	7022	27 233	3.88

Total advertised	22 194
Total responses	115 318
Ratio	5.20

The average response ratio is a good indicator of competitiveness in the procurement under R200 000 space.

6.1.9 B-BBEE Purchase Orders

Table 06 below illustrates the number of purchase orders, and their values, processed by the City for each B-BBEE status level of contributor for the period 01 April 2022 to 30 June 2022.

Table 06: B-BBEE Purchase Orders for the period 01 April 2022 to 30 June 2022

B-BBEE level	PO Count	% PO Count	No. of vendors	% of Vendors	Order value	% Order value
					R	
1	36 997	57.62%	659	39.70%	1 205 301 435	45%
2	7 313	11.39%	158	9.52%	367 514 654	14%
3	746	1.16%	16	0.96%	17 482 517	1%
4	2 531	3.94%	117	7.05%	60 075 942	2%
5	79	0.12%	5	0.30%	11 919 151	0%
6	29	0.05%	2	0.12%	2 015 448	0%
7	2	0.003%	2	0.12%	102 400	0%
8	140	0.22%	8	0.48%	9 690 317	0%
Subtotal level 1-8	47 837	75%	967	58%	1 674 101 865	62%
0	16 370	25%	693	42%	1 020 376 404	38%
Total	64 207	100%	1660	100%	2 694 478 269	100%

Approximately 967 B-BBEE suppliers who have conducted business with the City for Quarter 4 of the 2021/22 financial year, which equates to 58% of the overall number of suppliers the City conducted business with, are on B-BBEE levels 1 to 8, 50% of these suppliers are on B-BBEE levels 1 to 3, which are entities with more than 50% black ownership.

A total of 47 837 purchase orders for Quarter 4, with a total value of R1 674 101 865 or 62% were issued to the B-BBEE suppliers. 75% of the total number of purchase orders processed were awarded to BEE levels 1-8.

The procurement relating to *B-BBEE level 0* amounting to R1 020 376 404 includes payments to other Government Departments, Leases, Bursaries and City Improvement Districts.

6.1.10 Procurement Deviations

Deviations are approved in line with the Systems of Delegations. Ongoing initiatives to minimize deviations include SCM engaging line departments to put formal framework agreement tenders in place.

Three (3) tenders for pump related maintenance and repairs have been awarded. Since the implementation of the pump repairs and maintenance tenders. Consequently, the number of deviations has decreased.

Four framework tenders relating to repair and maintenance of fleet vehicles and equipment have been awarded. Until these tenders are awarded, deviations for fleet are process and are reported to Mayco and Council on a monthly basis in terms of SCM Regulation 36. Table 07 below highlights the status update on key tenders to address fleet and pump related deviations.

Table 07: Fleet services and Pump related tender status update as at 30 June 2022

Directorate	Description	Status
Fleet related tenders		
Solid Waste Management (Tender 339S/2020/21)	Servicing, diagnostic testing, fault finding and repairs of Heavy Plant.	Awarded – contract drafting phase
Water and Sanitation (Tender 344S/2020/21)	Servicing and repairs of Marine equipment, Small Plant, Bicycles and Golf Carts.	Tender awarded and active contract
Electricity Generation and Distribution (Tender 269S/2020/21)	Servicing, General repairs and Structural repairs of Hydraulic Equipment and Compactor Bodies.	Awarded – S33 Process
Electricity Generation and Distribution (Tender 318S/2020/21)	Servicing and repairs of Vehicles and standard Trucks.	Awarded – contract drafting phase
Pump related tenders		
Water & Waste - Water & Sanitation (Tender 231G/2020/21)	Supply, Installation, Servicing, Repairing, and Reconditioning of Valves and Associated Pipework.	Tender awarded and active contract
Water & Waste - Water & Sanitation (Tender 261S/2020/21)	Provision of backup maintenance services on aeration blower systems at various City sites.	Tender awarded and active contract
Water & Waste - Water & Sanitation (Tender 196Q/2020/21)	Supply, Installation, Servicing, Repairing, and Reconditioning of Penstocks.	Tender awarded and active contract

Presently, the RFQ and deviation processes are used for repairs and maintenance of vehicles. There is a high dependency on the relevant line department to provide SCM with proper technical specifications on time so as to procure vendors speedily.

The timelines for these transactions are tracked daily and on average less than 20% sits with the Procurement unit in the SCM department at any given time to process. Regular status reports regarding fleet procurements are sent to the line Directors.

6.2 Supplier Development, Empowerment and Management

6.2.1 Supplier Empowerment (Community Based Suppliers)

Economic and Supplier Development (ESD) facilitates information/ training sessions with Community Based Suppliers during which assistance is provided to new and emerging suppliers on how to conduct business with the City, how to register, how to submit RFQ's, compliance requirements for submitting City tenders and how to complete the City's tender documents.

A total of 105 awards to the value of R 1 814 270 were made to Community Based Suppliers during Quarter 4 of the 2021/22 financial year. At the end of Quarter 4, a total of 1 225 Community Based Suppliers, representing an increase of 228 Community Based Suppliers since the end of the previous financial year, have been registered on the City's database. Table 09 under paragraph 6.2.2 refers.

The year-on-year Community Based Supplier spending since the 2017/18 financial year to the 2021/22 financial year are summarized as per Table 08 below:

Table 08: Year-on-Year Community Based Supplier Spending

Details	2017/18 Total	2018/19 Total	2019/20 Totals	2020/21 Total	2021/22 Total
Number of awards	46	59	37	193	264
Award values	R543 542	R1 049 753	R879 977	R3 181 798	R4 325 968

Table 08 is indicative of a steady improvement in the support to Community Based Suppliers.

6.2.2 Supplier Management

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 SCM Regulations 44 and 45 to test conflict of interests.

The City's supplier database statistics for the period 01 July 2021 to 30 June 2022 is shown in Table 09 below.

Table 09: Supplier Database Statistics 2020/21 vs 2021/22

Details	2020/21 Totals	2021/2022 Totals
Accredited Suppliers on the City Database	14 010	15 066
Central Supplier Database registered (CSD)	13 685	15 062
Total E-Procurement registered suppliers	4 110	5 191
Community Based Suppliers (CBS)	997	1 225

As at the end of the 2021/22 financial year, the City had a total of 15 066 accredited suppliers, of which 15 062 suppliers are CSD registered. These statistics include 5 191 registered E-Procurement suppliers and 1 225 Community Based Suppliers.

The quarterly comparable new approved supplier registration statistics are included in Table 10 below.

Table 10: New approved supplier registration statistics 2020/21 vs 2021/22

Period	2020/21 Totals	2021/22 Totals
Quarter 1 (1 July to 30 Sept)	348	279
Quarter 2 (1 Oct to 31 Dec)	275	269
Quarter 3 (1 Jan to 31 Mar)	312	197
Quarter 4 (1 Apr to 30 June)	274	319
Total for the Financial Year	1 209	1 064

A total of 1 064 new supplier registration applications were approved for the 2021/22 financial year, compared to a total of 1 209 new supplier registration applications approved during the previous financial year. This could be due to COVID-19 impacts on suppliers in the market.

6.2.3 Due Diligence processes

Continuous due diligence reviews are being performed to ensure compliance with clauses 44 and 45 of the Municipal SCM Regulations. Controls have been put in place to ensure that the City does not do business with any person in service of the state. A dual verification process ensures the completeness of both the declaration of interest process and the family reporting note in the financial statements. The Consumer Profile Bureau reporting tool is being used to perform due diligence checks on both the staff and the suppliers. All City staff and Councilors

declaration/s of interest/s are assessed for possible conflicts to the SCM system. Where conflicts are detected due to misrepresentation or incorrect information supplied to the City, relevant action is taken. As per Table 11 below, a total of 20 775 staff declaration/s of interest/s were assessed by SCM during the 2021/22 financial year.

Table 11: Staff Declaration of Interest (DOI's) and Private Work applications reviewed during the 2021/22 financial year

Staff DOI's reviewed by SCM	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Electronic DOI's	9 362	2 957	2 799	2 295	17 413
Manual DOI's and private work applications	883	729	495	1 255	3 362
Total	10 245	3 686	3 294	3 550	20 775

As stipulated in MSCM Regulation 45, the City is required to report on all awards over R 2 000 made to a person who is a spouse, child or parent of a person who is in the service of the state or has been in the service of the state in the previous 12 months. Systems and procedures are in place to track and monitor potential conflicts of interest with City officials and employees in the state. There is a dependency on the central supplier database for completeness of data relating to all state employees in order to detect potential conflicts.

Staff non-disclosure cases are referred to Executive Directors to investigate in order to ensure that the declared relation/s do not pose a conflict to the procurement processes. Where required, if conflicts are detected with City officials and vendors, these are reported to Forensic Services to investigate. Necessary action is then taken against defaulters. SCM also held a workshop on Ethics during the last quarter.

6.2.4 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 satisfactorily or who have possibly committed abuse of the SCM system. The quarterly supplier performance management statistics are contained in Table 12 below

Table 12: Supplier Performance Management for the 2021/22 Financial Year

Defaulting and Poor Performing Suppliers	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Poor performance	1	3	2	3	9
False documentation	0	1	0	10	11
Collusion	2	0	0	2	4
Abuse of SCM system	0	1	1	0	2
Sent to Forensic Services	1	0	0	7	8
Sent to Legal Services (Possible restrictions)	0	0	1	12	13
Total	4	5	4	34	47

All the above suppliers have been registered on the “*Red list*” in the respective categories, where applicable. The following is in respect of quarter 4:

- 3 (three) cases relating to poor or non-performance has been flagged on the red list for noting and consideration, prior to any subsequent awards being made to the respective supplier(s),
- 10 (ten) cases relating to false documentation has been referred to Legal Services for possible restriction,
- 2 (two) cases relating to possible collision has been referred to legal services,
- 7 (seven) cases have been referred to forensic services.

Matters are referred to Legal Services and / or Forensic Services for further action where required. Such suppliers may be reported to the National Treasury in instances where the supplier must be considered for national restriction on the Central Supplier Database.

6.3 Inventory and Stores Management

The primary objective of the Inventory and Stores Management (ISM) division is to supply the City's user departments with the right quality and quality of materials at the right time. This is done to facilitate the efficient delivery of services to the inhabitants of Cape Town. ISM seeks to maintain a healthy balance between inventory levels and working capital investments. In total the City has 34 different stores and 14 Fuel sites. There are 13 450 different materials and 23 050 bins maintained.

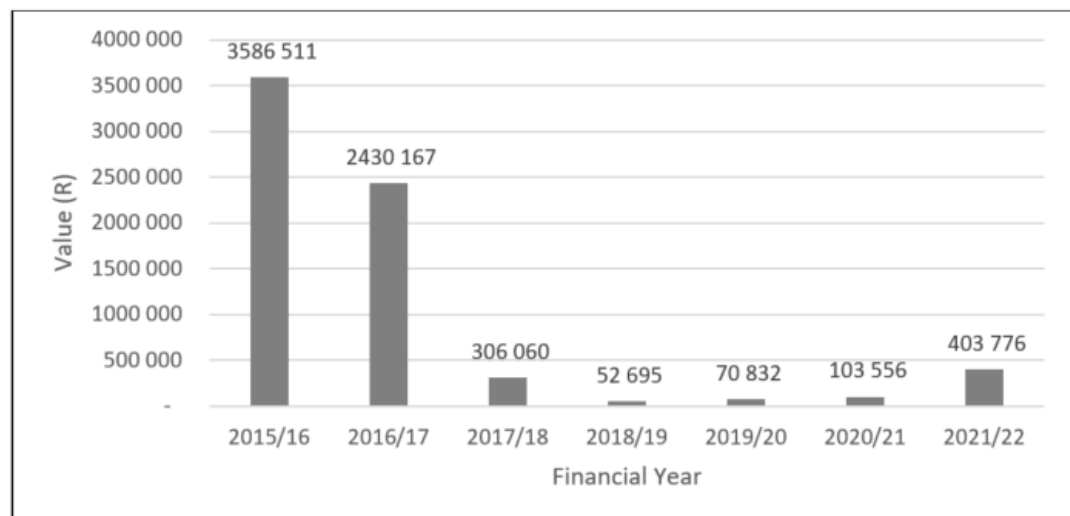
6.3.1 Annual Stocktake Results

The total value of stock at financial year-end was approximately R482 million. The MFMA requires that inventory be verified at least once per financial year. The City conducts two stock takes a year. The annual stock take result amounted to a nett adjustment of R403 775,94.

The inventory stock losses were assessed and formally reported to the Chief Financial Officer and approved for write-off. Part of the Stock Take process is to identify inventory in stores which can no longer be used due to obsolescence or redundancy. Obsolete printer cartridges, aqualoc meters & accessories and fuel shortages were the main contributors to the negative stock variance.

The below Graph 01, depicts the negative stock variances (stock written-off) since the 2015/16 financial year up to the 2021/22 financial year-end.

Graph 01: Stock Variances



The main contributors to the nett stock adjustment to the value of R403 775.94 are:

- Impairments to the value of R418 125.01
 - 1) Obsolete stock R336 953.45 (80.59%),
 - 2) Stock shortage of R80 953.43 (19.36%),
 - 3) Damaged Stock R218.13 (.05%)
- Surplus stock amounted to R14 349.07)

These matters were fully investigated and corrective actions put in place.

ISM Area Heads will ensure early and continuous collaboration with Line departments on inventory to minimize the possibility of obsolete inventory. Further to this, monitoring of daily counts are in place to ensure early detection and addressing of variances. The ISM unit also undertakes a second mid-year stock count over and above the legislated year-end verification of stock.

6.3.2 Stock comparative results

Comparative results for the last two financial years are indicated in Table 13 (Quarter 4) and Table 14 (Annual) below.

Table 13: Results for Quarter 4 - 2020/21 and 2021/22

Quarter 4	Stock value at end of quarter (R)	Average stock value during quarter	Usage value during quarter	Annualised stock turns	Number of transactions during quarter
		(R)	(R)		
2020/21	492 708 634	493 634 217	291 211 664	2.34	160 634
2021/22	482 418 878	518 262 546	356 722 157	2.72	187 516
% Change	-2%	5%	22.5%	0.38	16.7%

The quarterly usage value increased by R 65.5 million (22.5%) (01 April 2022 to 30 June 2022 compared to 1 April 2021 to 30 June 2021). The reason was mainly attributable by the increase in water meters, electricity meters, electricity components (switchgears and circuit breakers) and PPE items. The number of inventory transactions increased by 16.7% when compared with the 4th quarter of the previous fiscal year. This is attributable to the easing of lockdown restrictions and more inventory activity.

In comparison to the fourth quarter of the previous fiscal year, the stock turnover rate of 2.72 represented an improvement. A higher turnover ratio is a measure of how well inventory is managed, and it is predicted that the growth will continue until the ratio reaches the target of 3.5.

Table 14: Annual results for 2020/21 and 2021/22 financial years

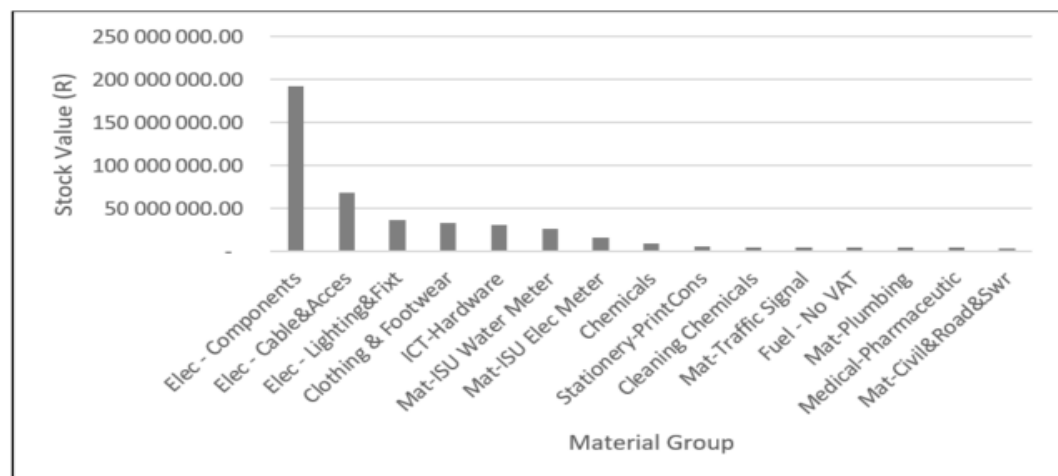
Financial Year	Stock value at end of Year (R)	Average stock value during Year	Usage value during Year	Annualised stock turns	Number of transactions during Year
		(R)	(R)		
2020/21	492 708 634	491 552 624	1 157 749 739	2.32	601 944
2021/22	482 418 878	523 297 889	1 153 097 150	2.17	686 993
% Change	-2%	6%	0%	-0.15	14%

There was minimal change in the annual stock utilization compared to the previous fiscal year, with a 0.15 decrease in stock turnover. Top 15 materials that contributed to the lower annual usage were from Energy, Water and Covid related materials. There was a 14% increase in the number of transactions for the year. The closing inventory balance decreased by 2% from the prior year.

In order to minimize overstocking and achieve optimal working capital management, the ISM Area Heads have improved controls and monitoring in the material demand and replenishment process. This will ensure that ISM is moving in the proper direction in order to achieve a 3.5 stock turn objective.

6.3.3 Top 15 Material Groups - Stock Value as at 30 June 2022

Graph 02 below indicates the relative importance of the Top 15 material groups in terms of stock / rand value at the end of the fourth quarter of 2021/22.

Graph 02: Top 15 Material Groups Stock Values as at 30 June 2022

The top 15 Material groups make up 93% of total inventory holding, at a value of R448.9m. It is noted that 80% (R359.4m) of these material groups (Energy, Water, Medical and ICT) have a turnover rate of less than 2, which is attributable to stock

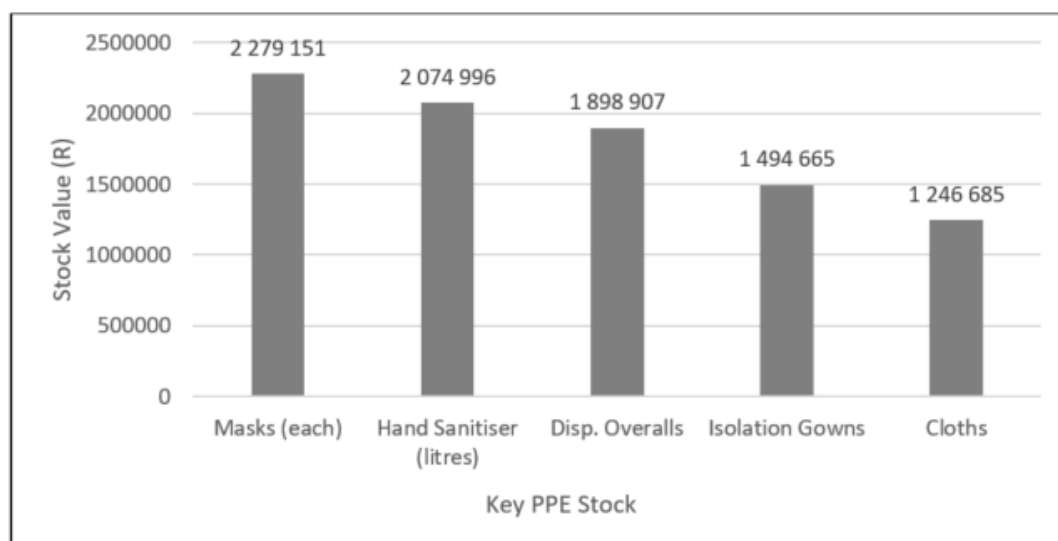
kept as strategic stock and for upcoming projects. The remaining 20% (R89.4m) had greater turnover rates ranging from 2.5 to 10.37, necessitating the high stock levels.

The information as per Graph 02 shows that the majority of high stock value is for Energy Services, followed by Clothing and Footwear which most of its items are required for Covid-19 protective gear, ICT Hardware and Water meters. Many of Energy Service items are high value items and have long lead times such as mini-substations, transformers and switchgear which requires advance purchases for capital projects due to their critical need in the City of Cape Town.

6.3.4 Personal Protective Equipment (PPE) Stock Values as at 30 June 2022

The current stock value the City is carrying amounts to R15 136 967 as at 30 June 2022. The top 5 categories of PPE held in stock are masks, hand sanitizer, disposable overalls, isolation gowns and cloths respectively, as indicated in Graph 03.

Graph 03: Rand Value of top 5 PPE Stock categories as at 30 June 2022



The SCM unit continues to exert tight control over requests for PPE commodities and in collaboration with the Occupational Health and Safety department ensures that the appropriate PPE is given to all departments. Since the commencement of the pandemic, the City has spent R148.86m on Covid related PPE.

The recent repealing of further restrictions has resulted in the City halting the purchase of all Covid related PPE. An overview of these expenditures is provided in Table 15 below:

Table 15: COVID-19

Stock Category	Stock Items	Total Units Issued	Value of Units Issued	Value of Stock on Hand	Total Value of Stock Purchased
PPE	Cloth Mask (each)	186 523	R3 804 901.94	R421 951.05	R4 226 852.99
	Masks (each)	6 018 855	R41 502 426.09	R2 279 151.21	R43 781 577.30
	Hand Sanitiser (litres)	690 256	R36 097 288.90	R2 074 995.98	R38 172 284.88
	Gloves (each)	7 124 416	R14 117 056.84	R1 131 581.59	R15 248 638.43
	Face Shields	32 490	R1 124 035.14	R41 704.86	R1 165 740.00
	Thermometer	4 702	R3 812 443.86	R149 206.73	R3 961 650.59
Specialised PPE	N95 Mask (Each)	93 870	R4 589 969.49	R931 665.00	R5 521 634.49
	Goggles	3 850	R76 228.12	R1 344.75	R77 572.87
	Isolation Gowns	4 800	R624 000.00	R1 494 665.00	R2 118 665.00
	Aprons (each)	397 472	R466 962.91	R2 289.00	R469 251.91
	Disp. Overalls	35 635	R5 511 312.20	R1 898 907.45	R7 410 219.65
	HazMat Suits	144	R111 816.00	R0.00	R111 816.00
	HD Gloves (Each)	2 781	R47 056.99	R12 814.23	R59 871.22
Other COVID-19 Materials	Soap Bars (each)	810 328	R3 920 823.26	R311 100.54	R4 231 923.80
	Liquid Soap (litres)	192 445	R3 426 123.88	R462 616.61	R3 888 740.49
	Anti Bac. Liquid (litres)	22 324	R1 817 640.68	R618 328.21	R2 435 968.89
	Bleach (litres)	149 147	R1 647 563.75	R248 251.69	R1 895 815.44
	Pine Gel (litres)	362 515	R6 736 297.28	R626 816.56	R7 363 113.84
	Cloths	199 465	R1 343 923.30	R1 246 684.50	R2 590 607.80
	Bottles	41 100	R456 404.04	R15 341.95	R471 745.99
	Dispenser	3 067	R1 747 680.00	R1 106 431.18	R2 854 111.18
	Sprayer	987	R746 712.91	R61 118.99	R807 831.90
Totals		16 377 171	R133 728 667.58	R15 136 967.08	R148 865 634.66

6.4 Supply Chain Management Overall

6.4.1 Risk Management

The SCM risk registers and mitigating plans are reviewed on an ongoing basis. SCM is satisfied that known risks are being adequately managed and monitored. The latest version of the risk register was approved by the Director: SCM on 30 June 2022.

6.4.2 Disposal Management

The SCM Demand & Disposal unit is responsible for the disposal of redundant movable assets and scrap. Disposal of scrap metals, oil, paper and transformers is achieved through competitive contracts with dealers in these categories of scrap. The revenue generated for each of these categories is reflected in Table 16 below. Movable assets are disposed through an auction process conducted by a professional auctioneer who has been appointed through a competitive SCM process.

Table 16: Comparable Disposal revenue (2020/21 and 2021/22 financial years)

Category	2020/21 Revenue R	2021/22 Revenue R
Disposal of movable assets	47 004 319,68	57 033 040,82
Disposal of scrap metals	4 022 146,83	7 484 350,16
Disposal of waste paper	69 244,88	44 411,08
Disposal of oils	610 543,71	664 243,69
Disposal of transformers	2 530 874,00	1 851 971,50
Total	54 237 129,10	67 078 017,25

As can be seen in Table 16, a total of R67 078 017.25 disposal revenue was generated for the financial year, compared to R54 237 129.10 disposal revenue generated during the previous financial year. This represents a positive increase in disposal revenue generated of 23.7% from previous year.

6.4.3 SCM Capacitation and Development

The SCM business improvement strategy, which focus is to provide an effective and efficient SCM service to the City, *inter alia*, provides for the staffing of the SCM unit with suitably qualified and experienced employees. For the period 1 April 2022 to 30 June 2022, the SCM department made 27 permanent appointments.

For the 2021/22 financial year, 57 permanent appointments were made. These details are as follows:

- 3 Clerks
- 14 Senior Clerks
- 6 Assistant Buyers
- 1 Specialist Clerk

- 6 Stores Clerks
- 1 Assistant Professional Officer
- 1 Buyer
- 1 Project Administrator
- 1 Assistant Quality Control Officer
- 2 Logistics Officer
- 1 Professional Officer
- 4 Procurement Specialist
- 1 Senior Accountant
- 8 Senior Professional Officer
- 5 Heads
- 2 Managers

The SCM staff establishment consists of 331 approved positions. To fill scarce skills, various recruitment and selection processes including Head hunting is being conducted.

In total, 44 EPWP opportunities were created for the 2021/22 financial period. A total of 6 student appointments (external opportunities) were made during Quarter 4.

6.4.4 SCM Audit Action Plan

The SCM department has developed an audit action plan which is aimed at addressing audit findings and mitigating risks in the compliance processes. The audit action plan is tracked regularly by the Procurement Excellence and Governance Unit and majority of audit actions were implemented successfully.

The 2020/21 Auditor General of South Africa (AGSA) external audit was concluded during the 3rd quarter following which the SCM Audit Action Plans were developed with the key focus on achieving a clean audit outcome for the next audit cycle. Significant focus was afforded to analysing instances of non-compliance and resultant irregular expenditure as reported by the AGSA. Consequence management interventions has been instituted in order to bring about a culture of compliance, good governance and efficiency.

The implementation of corrective measures as contained in the Audit Action Plan was concluded by 30 June 2022.

6.4.5 Management Interventions

The Tender Procedures was implemented 1 August 2021 and the Guideline on Framework Agreements and Panel Tenders, which complement the SCM Policy, were finalized and implemented on 1 October 2021. Ongoing training initiatives were held with line departments and SCM staff on these guidelines. Workshops with the Top 300 project managers were arranged in order to guide and empower line directorates on supply chain processes. The key corrective actions required as identified during the most recent external audit assessment are also discussed at these platforms.

A drive towards implementing an SCM Management culture of accountability, good governance and efficiency is being instilled as part of the SCM roadmap, change journey and vision. Where necessary consequence management, internal reviews and investigations have been implemented to instil the right culture within the SCM department.

Monthly SCM Forum meetings are held with the City Manager to highlight and report on the progress of various SCM issues. SCM is also represented at the Contract Management Forum meetings with the City Manager.

Comments have been submitted to the National Treasury and Province on how to create more enabling legislation within the municipal environment.

6.4.6 Supply Chain Management Policy review

The SCM Policy review has been halted following the Constitutional Court judgement regarding the invalidity of the 2017 Regulation, which was handed down on 16 February 2022. Subsequent to this, National Treasury published the draft Preferential Procurement Regulations, 2022 for public comment. Once clarity has been received from National Treasury on the matter, the SCM policy review process will resume. The SCM process is however continuing to function on the basis of the 2019 Policy to ensure continuity of service and minimum impacts on compliance and service delivery.

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