



DATE: 13 JULY 2023

REPORT TO: EXECUTIVE MAYOR AND COUNCIL

1. ITEM NUMBER

2. SUBJECT

**SUPPLY CHAIN MANAGEMENT:
REPORT FOR PERIOD 1 APRIL 2023 TO 30 JUNE 2023 AND ANNUAL REPORT
FOR 2022/23**

**VERSKAFFINGSKETINGBESTUUR:
VERSLAG VIR DIE TYDPERK 1 APRIL 2023 TOT 30 JUNIE 2023 EN
JAARVERSLAG VIR 2022/23**

**ULAWULO LOBONELELO NGEMPAHLA EKWIZIKO:
INGXELO YESITHUBA ESISUSELA KWO1 KUTSHAZIIMPUZI UKUYA
KOWAMA30 KWEYESILIMELA 2023**

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 2023 TO 30 JUNE 2023 AND ANNUAL REPORT FOR 2022/23

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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:

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- ☐ 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 2023 TO 30 JUNE 2023 AND ANNUAL REPORT FOR 2022/23" BE NOTED.

AANBEVELING

DAAR WORD AANBEVEEL DAT DAAR KENNIS GENEEM WORD VAN DIE INHOUD VAN DIE VERSLAG "VOORSIENINGSKANAALBESTUURSVERSLAG VIR DIE TYDPERK 1 APRIL 2023 TOT 30 JUNIE 2023 EN JAARVERSLAG VIR 2022/23".

ISINDULULO

KUNDULULWE UKUBA MAKUQWALASELWE IZIQULATHO ZENGXELO ESIHLOKO "INGXELO ENGOLAWULO LOBONELELO NGEMPAHLA EKWIZIKO YESITHUBA ESISUSELA KOWO1 KUTSHAZIIMPUZI UKUYA KOWAMA30 KWEYESILIMELA 2023".

ANNEXURES

ANNEXURE A

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FOR FURTHER DETAILS CONTACT


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DIRECTORATE	021 400 3190	FILE REF No	
SIGNATURE : DIRECTOR	<div><div>Arno Vorster</div><div>Digitally signed by Arno Vorster Date: 2023.07.13 13:48:59 +02'00'</div></div>		

CHIEF FINANCIAL OFFICER

NAME Kevin Jacoby COMMENT:

DATE

SIGNATURE



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Kevin Jacoby
Date: 2023.07.17
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The ED's signature represents support for report content and confirms POPIA compliance.

MAYORAL COMMITTEE MEMBER

NAME Cllr Siseko Mbandezi COMMENT:

DATE

SIGNATURE

Zahid Badroodien

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Badroodien
Date: 2023.07.20 08:56:13 +02'00'

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.

SIGNATURE

Joan-
Mari Holt

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CITY MANAGER

NAME

Lungelo Mbandazayo

COMMENT:

DATE

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Date: 2023.07.25
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EXECUTIVE MAYOR

NAME

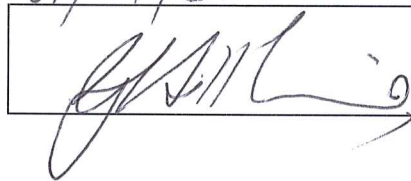
Ald Geordin Hill-Lewis

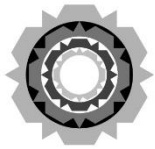
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DATE

31/07/2023

SIGNATURE





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 EXECUTIVE MAYOR/COUNCIL

For information only

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 Medium Term Revenue and Expenditure Framework (MTREF) cycle. This aids the organisation in planning three (3) years in advance for tenders for various goods and services. The demand plan is reconciled to the capital and operating budgets to ensure that budgets are informed by planned contracts. Regular interactions and collaboration sessions 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 2022/23 Demand Plan

The total quantum of the demand plan for the 2022/23 financial year was 350 tenders, which includes 16 tender that were in progress at the end of the previous financial year. There were 39 more tenders than in the 2021/22 demand plan.

The demand plan is discussed in collaboration meetings with each Executive Director and their management team, together with representatives from SCM, Contract Management Unit and Budgets department. These meetings are chaired by the CFO where the demand plan is a standing item on the agenda in order to drive the full collaboration and commitment to successfully implement the quantum of tenders and contracts. Within the SCM department, weekly meetings are held to monitor slippages and delays with tenders.

The tender completion rate was 97% as at the end of Quarter 4 of the 2022/23 financial year and is reflected in Table 01 below:

Table 01: 2022/23 Demand Plan for Tenders

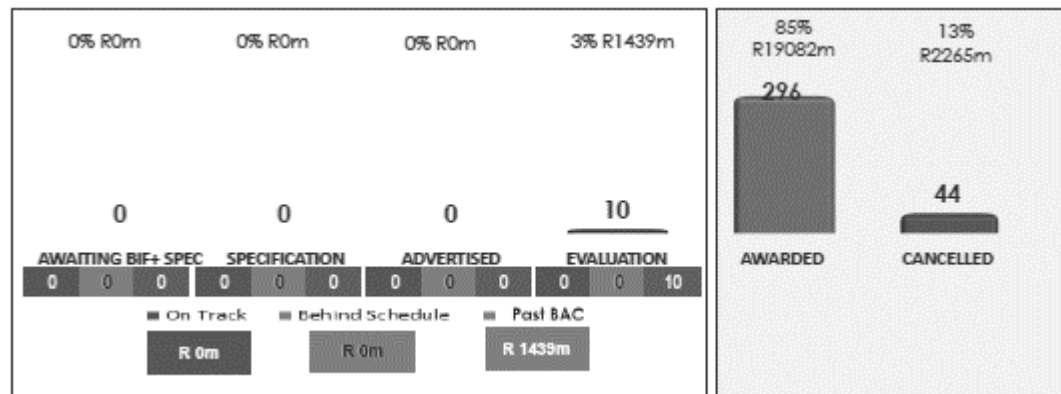
2022/23 Approved Demand Plan	
Total number of tenders on approved plan	350
Number of tenders successfully awarded	296
Number of tenders cancelled	44
Number of tenders in progress	10
Implementation rate	97%

This is a remarkable achievement and exceeds prior year's performance. As can be seen from Table 01, 296 tenders (84%) of the total required tenders have been awarded and 44 tenders (13%) were cancelled as at 30 June 2023. Tenders to the

value R19 082 million for the financial year have already been awarded, and tenders to the value of R2 265 million have been cancelled.

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 (2022/23)



10 Tenders to the value of R1 439 million are currently in process of finalisation. Cancelled tenders are discussed in more detail in paragraph 6.1.3 below.

Measures to Improve Tender Processing

The emphasis at this stage is to ensure that the demand plan is implemented timeously in order to support service delivery. The following steps were introduced during the 2022/23 financial year, to strengthen the implementation of the demand plan on a continuous basis:

- All specifications for repeatable tenders and the associated BIF must be submitted to a SCM Tenders: SPO, 18 months in advance of the CRD (24 months, if section 33 of the MFMA is applicable)
- The SCM Tenders: SPO, shall review that draft specification and BIF, to ensure 100% completeness and update the status in the Tender Tracking System (TTS) within 10 days.
- The Project Manager and SCM Tenders: SPO are to agree on a timeline within 14 days of receipt of the 100% complete draft specification.
- The first BSC meeting shall take place within 30 days of receipt of the 100% complete draft specification.

- Guidelines were issued for Data Enhancement, a memo for setting standard and prescribed timelines for various tender activities and updates to the City SCM Policy and procedures.
- Rules were set to not have more than 3 bid specification meetings and more than 4 Bid Evaluation Meetings without approval. This is to avoid unnecessary delays with finalising and advertising tenders or delays with evaluation processes.
- An Efficiency Matrix was introduced by the CFO to track an entire suite of information and performance per line directorate.
- Further the CFO introduced a Contract Tracking Mechanism to track the timeous replacement of all City contracts per line directorate.
- Deviations and contract extensions were scrutinised by the Bid Adjudication Committee (BAC) for poor planning and remedial actions were recommended.
- SCM introduced a Quality Review process to assess all tender reports being submitted to BAC with the aim of getting tenders processed and approved “Right the First Time”.
- The timeline must provide at least 90 days after the BAC award and prior to Contract Required by Date (CRD), in order for the appeal period, contract signing and other administrative processes to be concluded.

99, 60 Percent (%) of the approved budget for 2022/23 is linked to tenders on the Demand Plan. Information pertaining to the projects which have not been linked to the demand plan is provided to the Executive Management for the relevant line department to resolve.

6.1.2 Slippage analysis per Directorate 2022/23

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 BAC award Date]. The tender slippage analysis per directorate for the 2022/23 demand plan as at 30 June 2023 is depicted in Table 02 below.

Table 02: Tenders not awarded per Directorate 2022/23

Implementing Directorate	Number of tenders in progress			
	On Track	Behind Schedule	Overdue	Grand Total
Community Services & Health	0	0	3	3
Corporate Services	0	0	1	1
Economic Growth	0	0	1	1
Energy	0	0	0	0
Finance	0	0	0	0
Future Planning & Resilience	0	0	0	0
Human Settlements	0	0	3	3
Office of the City Manager	0	0	0	0
Safety & Security	0	0	0	0
Spatial Planning & Environment	0	0	1	1
Urban Mobility	0	0	0	0
Urban Waste Management	0	0	0	0
Water & Sanitation	0	0	1	1
Grand Total	0	0	10	10

As per Table 02 above, 10 tenders are in progress which are past their BAC award date. These tenders will be carried over to the new financial year and will be closely monitored to drive the conclusion thereof expeditiously. Looking back to prior years, the tenders carried over into the next financial were around 120 bids. This has reduced by 92% with the current 10. This is a good reflection that the robust monitoring, training, guidelines and remedial actions have had the desired effect of driving tender processes more timeously which supports the strategic objectives of better service delivery.

Detailed Demand Plan Management information is sent fortnightly to Executive Directors (ED) and monthly to MayCo members to enable management to monitor the progress and address slippages of tender processes, to ensure timeous award of contracts in support of service delivery. It is incumbent on the relevant line ED to resolve slippages and tender challenges so that capital projects and service delivery is not adversely impacted.

Table 02A below depicts the demand plan status per Directorate for all tenders assessed as overdue as at 30 June 2023.

Table 02A: Demand Plan status – tenders overdue as at 30 June 2023

	Demand Plan Status					
Directorate	Evaluation	Drafting PB Report	Drafting Report	Preferred Bidder	Report Ready	Grand Total
Community Services & Health	1	0	1	1	0	3
Corporate Services	0	0	0	1	0	1
Economic Growth	0	0	0	0	1	1
Energy	0	0	0	0	0	0
Finance	0	0	0	0	0	0
Future Planning & Resilience	0	0	0	0	0	0
Human Settlements	0	2	1	0	0	3
Office of the City Manager	0	0	0	0	0	0
Safety & Security	0	0	0	0	0	0
Spatial Planning & Environment	0	0	0	1	0	1
Urban Mobility	0	0	0	0	0	0
Urban Waste Management	0	0	0	0	0	0
Water & Sanitation	0	0	0	0	1	1
Grand Total	1	2	2	3	2	10

As per Table 02A above, 90% (Evaluation=1; Drafting PB Report=2; Drafting Report=2; Preferred Bidder=3; Report Ready=2) of overdue awards are in the post evaluation stage of the tender process and with 20% (Report Ready=2) ready to serve at the next BAC. Processes are in place to ensure that the awards in evaluation phases are prioritised and actively monitored.

6.1.3 Cancelled tenders analysis for the 2022/23 financial year

44 tenders (13% of tenders) were cancelled during the 2022/23 financial year. Table 03 below provides an analysis of the number and estimated value of tenders which were cancelled per category with reasons.

Table 03: Cancellations for the period 01 July 2022 to 30 June 2023

Reasons for cancellation	Number	Estimated value R
No acceptable bids received	33	1 866 090 000
PPPFA non-compliance	5	39 950 859
No offers received	1	100 000 000
Funds are no longer available	2	188 000 000
Market related price not achieved	1	60 000 000
No longer a need for the services, works or goods	2	11 000 000
Grand total	44	2 265 040 859

33 of the 44 tender cancellations, representing 75%, are due to no acceptable bids received. SCM has Top 500 workshops with project managers where they are encouraged to revise and review tenders specifications and conduct market research before re-advertising these tenders, to stimulate better responses from the supplier industry. Line departments are encouraged to engage with the SCM Demand Management department to issue out market prompts. Issuing a market prompt refers to the act of proactively notifying and informing potential suppliers and service providers about specific goods or services required by the City. It involves publicly announcing or publishing a notification to attract qualified vendors and contractors who can fulfill the identified needs of the local government.

A market prompt alert potential suppliers that a tender is going to be advertised so that the supplier industry can prepare for bidding. The issuance of a market prompt in a local government context ensures transparency, fairness, and competitiveness in the procurement process, allowing a wide range of potential suppliers to have an equal opportunity to offer their solutions and compete for the government contract. It enables local government to obtain the best value for public funds while promoting a level playing field for businesses interested in providing goods or services to the local community.

SCM Department follows up with project managers after the cancellation of tenders to determine the way forward. The Tender Management unit gives these tenders

priority in order to ensure they are awarded as soon as possible in order to support service delivery and reduce the risk of deviations and irregular expenditure.

6.1.4 Appeals analysis 2022/23

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 received 170 appeals during the financial year up to 30 June 2023. The increase in the number of appeals is also a sign that there is a level of trust in the Appeals Authority to resolve dissatisfaction in a fair and objective manner. When approximately 5000 bids per annum are submitted, 170 appeals represents about 3, 4% of appellants. Of these, 24 appeals were upheld, 125 appeals dismissed, 9 appeals were withdrawn and 12 appeals are pending an outcome from the Appeals Authority. 15% of appeals were upheld and is indicative of the fact that majority of tenders are processed in a fully compliant manner.

SCM is satisfied that the SCM system is sufficiently robust thereby minimising the number of successful appeals and subsequent delays in the process.

6.1.5 Implementation of the 2023/24 Demand Plan

The implementation of the 2023/24 demand plan is in its early stages but progressing well with a completion rate of 66%, many tenders for this period needs to start within the current financial year in order to be awarded in time for implementation as required by the CRbD.

For the first time in the history of the City, 66% of tender for the new year were finalised before the start of the new financial year. Historically, this number would be around 10% with a huge backlog from the prior years.

Also noting that 97% for the prior year was also the highest completion rate for the 2022/23 financial year. So as at 30 June 2023, tenders for two financial years were processed in parallel and are progressing very successfully.

The emphasis at this stage is to ensure that tender specifications are received in order for the tender process to start and that tenders do not fall behind schedule. The SCM department has been sending reminders to line departments to submit outstanding specifications.

As at 30 June 2023, only 4 (1%) tender specifications for the 2023/24 demand plan has not been received, of which 3 are not yet due and 1 has been submitted and is still under review for finalisation. Again, this is a drastic improvement since the last five years where the number of specifications still outstanding will exceed over 200. This is a 96% improvement since prior years like 2018.

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 Strategic Sourcing (Transversal Contracts) Initiatives

The strategic sourcing project is ongoing whereby approximately 72 tenders across various commodities and services will be consolidated into approximately 16 City-wide tenders. This project intends leveraging the buying power of the City as well as standardising products and pricing for these commodities or services.

This complex 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.

Pricing Database Project

The rates analysis outlined in the Procurement Transparency Report was performed on City contracts that were active during the 2021/22 financial year. More than 2000 contracts, across various sectors, formed the basis of the analysis, and a total of 300 commodities classified as being essential to the City's delivery of its services to residents were analysed.

The key outcome of the analysis of the 300 commodities is that, in the 2021/22 financial year, the City paid market related prices, or below market related prices,

for 85% of the items and services it procured. This shows the effectiveness of the procurement department and bid committees in testing and negotiation better pricing for the ratepayer.

The remaining 15% of the commodities analysed were procured at prices slightly above market prices. The extent of these pricing differentials varied on a number of factors, including but not limited to:

- Premiums paid due to legislative requirements for local content and preference;
- Local and international market factors;
- Lingering global supply chain constraints due to Covid 19;
- Weak local currency;
- War in Ukraine
- High fuel prices impacting manufacturing and logistics costs
- Impacts of poor economic growth and rising domestic and international inflation;
- Knock-on effect of protest action, looting, and intimidation resulting in anti-competitiveness in certain industries (e.g. the so-called construction mafia)
- Specialist commodities and unique specifications required by the City (not off-the-shelf products); and
- Cost of extended warranties, guarantees, insurance, and maintenance agreements.

The City is cognisant that the lowest-cost solution does not automatically translate to value for money. Rather, true value for the procurement spend comprises of the right mix of fair price, quality, and accessibility and fit-for-purpose specifications. The report was shared with the Office of the Auditor General of South Africa (Western Cape) on 30 June 2023.

6.1.7 SCM Bid Adjudication Committee (SCMBAC)

The City has a transparent BAC process which is open to the public to attend. The SCM Bid Adjudication Committee (BAC) 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 2022/23 financial year and 49 meetings for the 2022/23 financial year. BAC resolutions and minutes are processed within the target of 7 to 10 working days.

Strong security measures have been implemented during Quarter 4 to safeguard BAC information and guard against unauthorised sharing of data relating to City tenders.

6.1.8 SCM Bid Committees

The 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. Only 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 25 BSC and BEC Chairperson Re-appointments were made during Quarter 4 of the 2022/23 financial year for the various Directorates. A total amount of 134 appointments were made during the 2022/23 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. Continuous training is provided to ensure BAC members are informed, advised of any changes and equipped to maintain a high standard of compliance.

6.1.9 Procurement below R200 000

Written price quotations must be obtained to procure goods or services with a transaction value between R2 000 and R200 000. 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 activity in our procurement processes.

For the period 1 April 2023 until 30 June 2023, a total of 4 340 RFQ's were advertised on the City's website. 24 016 responses were received equating to a response ratio of 5.53 for each RFQ advertised. Table 04 below refers:

Table 04: RFQ Advertisements vs Responses Received for the period 1 April 2023 to 30 June 2023

Month	Goods			Services		
	RFQ's advertised	RFQ responses	Ratio	RFQ's advertised	RFQ responses	Ratio
Jan 23	1 129	7 566	6.70	248	542	2.19
Feb 23	1 489	9 593	6.44	301	580	1.93
Mar 23	961	5 206	5.42	212	529	2.50
Total	3 579	22 365	6.25	761	1 651	2.17

Total RFQ's advertised 4 340
Total responses 24 016
Ratio 5.53

The SCM Regulations require a minimum of three (3) responses. The ratio of 5.53 is good and shows that suppliers are interested in doing business with the City.

For the 2022/23 financial, a total of 20 681 RFQ's have been advertised on the City's website with 105 531 responses to these RFQ's. This equates to an average response ratio of 5.10 against a target of 3 responses per RFQ. Table 05 below refers.

Table 05: RFQ Advertisements vs Responses received for the 2022/23 Financial Year.

Period	Goods			Services		
	RFQ's advertised	RFQ responses	Ratio	RFQ's advertised	RFQ responses	Ratio
Quarter 1	4 033	23 727	5.88	2 317	9 341	4.03
Quarter 2	3 540	18 397	5.20	1 992	8 013	4.02
Quarter 3	3 522	19 354	5.50	937	2 683	2.86
Quarter 4	3 579	22 365	6.25	761	1 651	2.17
Total	14 674	83 843	5.71	6 007	21 688	3.61

Total advertised 20 681
Total responses 105 531
Ratio 5.10

The average response ratio of 5.10 is not only above the norm but also in proximity to the previous year's average response ratio of 5.20 and a good indicator of competitiveness in the procurement under R200 000 space. This is reflective of a very active space where small and micro businesses want to trade with the City and access economic opportunities.

6.1.10 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 2023 to 30 Jun 2023.

Table 06: B-BBEE Purchase Orders for the period 01 April 2023 to 30 June 2023

B-BBEE level	PO Count	% PO Count	No. of vendors	% of Vendors	Order value	% Order value
					R	
1	20 843	50.79%	572	37.78%	1 393 270 077	45%
2	4 392	10.70%	127	8.39%	453 197 922	15%
3	493	1.20%	18	1.19%	33 259 001	1%
4	1 337	3.26%	75	4.95%	65 987 005	2%
5	111	0.27%	3	0.20%	15 309 344	0%
6	2	0.00%	1	0.07%	1 886 713	0%
7	36	0.09%	4	0.26%	1 412 502	0%
8	37	0.09%	8	0.53%	26 410 683	1%
Subtotal level 1-8	27 251	66%	808	53%	1 990 733 248	64%
0	13 788	34%	706	47%	1 113 732 030	36%
Total	41 039	100%	1514	100%	3 104 465 278	100%

Approximately 808 B-BBEE suppliers who have conducted business with the City for Quarter 4 of the 2022/2023 financial year, which equates to 53% of the overall number of suppliers the City conducted business with, are on B-BBEE levels 1 to 8, 717 or 47% of these suppliers are on B-BBEE levels 1 to 3, which are entities with more than 50% black ownership.

A total of 27 251 purchase orders, with a total value of R1 990 733 248 were issued to the B-BBEE suppliers which equates to 66% of the total of purchase orders processed and 64% of the total spending for this period. The procurement relating to *B-BBEE level 0* amounting to R1 113 732 030 includes payments to other Government Departments, Leases, Bursaries and City Improvement Districts.

On 4 November 2022 (Government Gazette No. 47452, Vol. 689) was published introducing the latest Preferential Procurement Policy Framework Act (5/2000): Preferential Procurement Regulations with an implementation date of 16 January 2023. The requirements relating to B-BBEE were removed from the Regulations

and replaced with specific goals requirements, meaning specific goals as contemplated in section 2(1)(d) of the Act which may include contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender and disability including the implementation of programmes of the Reconstruction and Development Programme as published in Government Gazette No. 16085 dated 23 November 1994.

The change in legislation resulted in all tenders advertised after 16 January 2023, to measure preference on specific goals rather than B-BBEE contribution status. The reporting framework will change from reporting awards and spend against B-BBEE levels to a more equitable HDI/ RDP goals approach, including how the procurement and spent supports Small Medium Enterprises. The change will reflect in the Quarter 1 of 2023/24 report.

6.1.11 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.

Four (4) tenders relating to repair and maintenance of fleet vehicles and equipment, and three (3) tenders for pump related maintenance and repairs have been awarded and all seven (7) tenders are active. Table 07 below has reference.

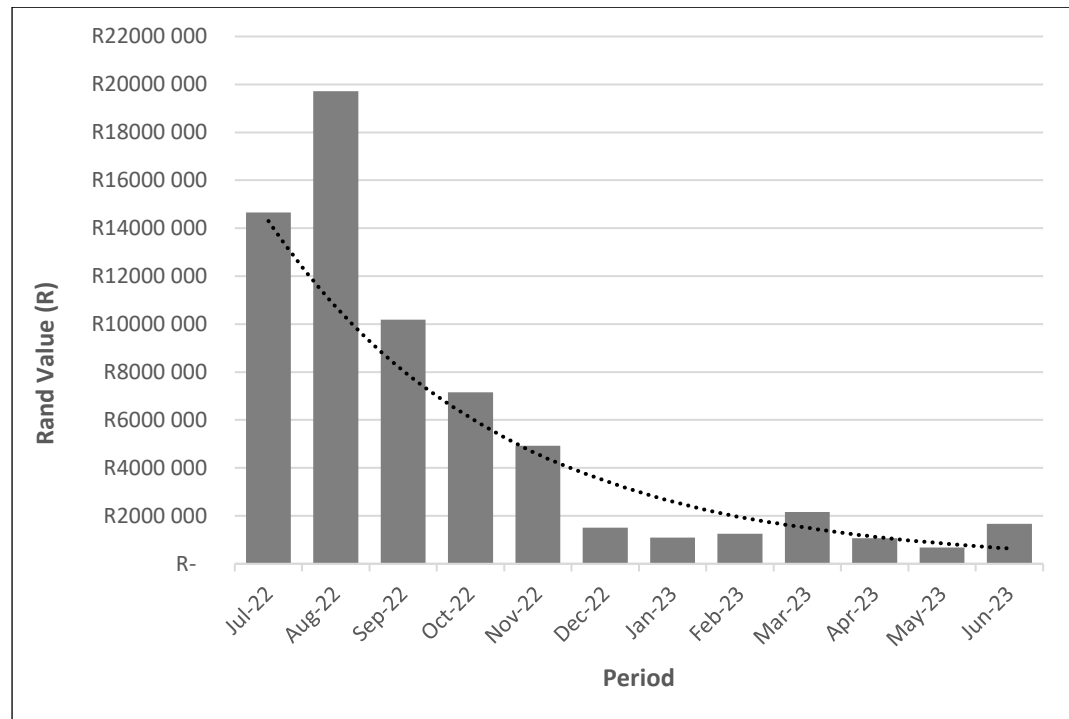
Table 07: Fleet services and Pump related tender status update as at 30 June 2023

Directorate	Description	Status
Fleet related tenders		
339S/ 2020/21: Solid Waste Management	Servicing, diagnostic testing, fault finding and repairs of Heavy Plant.	Active
344S/ 2020/21: Water and Sanitation	Servicing and repairs of Marine equipment, Small Plant, Bicycles and Golf Carts.	
269S/ 2020/21: Electricity Generation and Distribution	Servicing, General repairs and Structural repairs of Hydraulic Equipment and Compactor Bodies.	
318S/ 2020/21: Electricity Generation and Distribution	Servicing and repairs of Vehicles and standard Trucks.	

Directorate	Description	Status
Pump related tenders		
231G/2020/21: Water & Waste - Water & Sanitation	Supply, Installation, Servicing, Repairing, and Reconditioning of Valves and Associated Pipework.	Active
261S/2020/21: Water & Waste - Water & Sanitation	Provision of backup maintenance services on aeration blower systems at various City sites.	
196Q/2020/21: Water & Waste - Water & Sanitation	Supply, Installation, Servicing, Repairing, and Reconditioning of Penstocks.	

Since the implementation of the tenders indicated in Table 07, a decline in the number and value of deviations has been noted as a result of the implementation of the tenders. The results are demonstrated below in Graph 01.

Graph 01: Decrease in fleet deviation spending



The fleet deviations under R200 000 has reduced by approximately **88%** as at 30 June 2023, compared to the status at the beginning of the financial year. This is a very significant achievement for the City and is reflective of a desire to ensure good governance, stimulate competition amongst suppliers and drive open and transparent processes.

6.2 Supplier Development, Empowerment and Management

6.2.1 Supplier Empowerment (Community Based Suppliers)

At the end of Quarter 4, a total of 1 434 Community Based Suppliers, representing an increase of 38 Community Based Suppliers since the end Quarter 3, have been registered on the City's database. Table 09 under paragraph 6.2.2 refers

The monthly Community Based Supplier spending for the 2022/23 financial year is summarised as per Table 08 below:

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

Details	2019/20 Totals	2020/21 Totals	2021/22 Totals	2022/23 Totals
Number of awards	37	193	264	51
Award values	R879 977	R3 181 798	R4 325 968	R1 309 794

The downward trend as per Table 08 for the 2022/23 financial year is directly attributed to the continuous improvement of the demand plan as discussed in section 6.1.1.

The City's 95% demand plan achievement in the 2021/22 financial year, followed by a 97% demand plan achievement rate for the 2022/23 has consequently resulted in a decrease of 1 513 RFQ's awarded in the financial year under review. More tenders were active in the current year, which did not necessitate the need to procure via the RFQ process. There has also been a greater trend towards the use of EPWP workers as highlighted in 6.4.3.

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 2022 to 30 June 2023 is shown in Table 09 below.

Table 09: Supplier Database Statistics 2021/22 vs 2022/23

Details	2021/2022 Totals	2022/23 Totals
Accredited Suppliers on the City Database	15 066	17 639
Central Supplier Database registered (CSD)	15 062	16 085
Total E-Procurement registered suppliers	5 191	6 244
Community Based Suppliers (CBS)	1 225	1 434

As at the end of the 2022/23 financial year, the City had a total of 17 639 accredited suppliers, of which 16 085 suppliers are CSD registered. These statistics include 6 244 registered E-Procurement suppliers and 1 434 Community Based Suppliers.

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

Table 10: New approved supplier registration statistics 2021/22 vs 2022/23

Period	2021/22 Totals	2022/23 Totals
Quarter 1 (1 July to 30 Sept)	279	338
Quarter 2 (1 Oct to 31 Dec)	269	256
Quarter 3 (1 Jan to 31 Mar)	197	212
Quarter 4 (1 Apr to 30 June)	319	290
Total for the Financial Year	1 064	1 096

A total of 1 096 new supplier registration applications were approved for the 2022/23 financial year, compared to a total of 1 064 new supplier registration applications approved during the previous financial year. This increase in over 1 000 new suppliers reflects the central pillars of inclusivity and the opportunity City where there is wide interest in doing business with a well-run City. Suppliers are paid on time and hence appreciate working for the City.

6.2.3 Due Diligence processes

The City has over the years implement robust preventative and detective controls in testing potential, apparent and direct conflict of interests with it 32000 staff and over 12000 active vendors. Strong action including legal consequences and restriction of suppliers and formal disciplinary action of staff is taken when an irregular relationship is discovered.

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.

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.

As per Table 11 below, a total of 32 459 staff declaration/s of interest/s were assessed by SCM during the 2022/23 financial year.

Table 11: Staff Declaration of Interest (DOI's) and Private Work applications reviewed during the 2022/23 financial year

Staff DOI's reviewed by SCM	2021/22 FY	2022/23 FY
Electronic DOI's	17 413	25 945
Manual DOI's and private work applications	3 362	6 514
Total	20 775	32 459

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.

6.2.4 Supplier Performance Management

Supplier performance management, potential matters of fraud and corruption are monitored and placed 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. These matters are then investigated fully with the relevant actions being. The quarterly supplier performance management statistics are contained in Table 12 below:

Table 12: Supplier Performance Management for the 2022/23 Financial Year

Defaulting and Poor Performing Suppliers	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Poor performance	1	1	2	0	4
Non-delivery	1	1	4	2	6
False documentation	2	0	2	0	4
Abuse	1	0	2	0	3
Sent to National Treasury (To restrict)	0	2	1	1	4
Sent to Legal Services (Possible restrictions)	3	0	0	0	3
Sent to Forensic Services	2	0	0	0	2
Collusion	3	0	0	0	3
Total	13	4	11	3	31

All the above matters per Table 12 have been registered on the "*Red list*" in the respective categories, where applicable. The following is in respect of Quarter 4:

- 2 (two) cases relating to non-delivery has been flagged on the red list for noting and consideration, prior to any subsequent awards being made to the respective supplier(s).
- 1 (one) case has been referred to National Treasury for restriction.

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

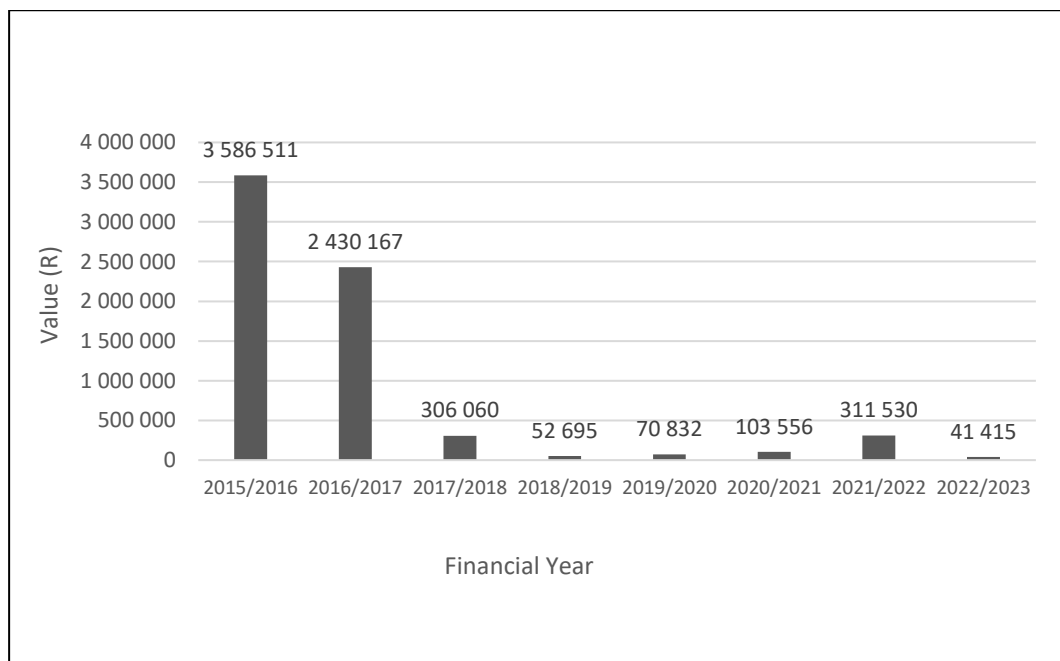
The primary objective of the Inventory and Stores Management (ISM) division is to supply the City's user departments with the right quality and quantity of materials at the right time. This is done to facilitate the efficient delivery of services to the inhabitants of Cape Town. ISM seeks to maintain a healthy balance between inventory levels and working capital investments. In total, the City has 34 different stores and 15 Fuel sites. There are 13 710 different materials and 24 020 bins maintained.

6.3.1 Annual Stocktake Results

The MFMA requires that inventory be verified at least once per financial year. The annual stock take result amounted to a nett adjustment of R41 415, 18. The inventory stock losses were assessed and formally reported to the Chief Financial Officer and approved for write-off. Shortages on Fuel and Cables and, theft of Protective Wear and Antiseptic Solution were the main contributors to the negative stock variance.

The below Graph 02, depicts the negative stock variances (stock written-off) since the 2015/16 financial year up to the 2022/23 financial year end.

Graph 02: Stock Variances



The main contributors to the nett stock adjustment to the value of R41 415, 18 are:

- Impairments to the value of R68 460.34
 - 1) Stock shortage of R32 266.90 (47.13%)
 - 2) Stock Theft of R36 193.44 (52.87%)
- Surplus stock amounted to R27 045.16

Stock impairments due to theft (R36 193.44) was as a result of misappropriation by City officials. Both matters have been reported to the South African Police Service, staff has subsequently been dismissed from the City's employment and the process to recover financial losses are in progress.

Other contributing factors for stock shortages was a result of shortages identified at the end of issuing a drum of electrical cable (R21 864.45). The shortage can only be identified when the electrical cable on the drum is fully issued. After the discovery, the short delivered value was fully recovered from the supplier. Therefore, the shortage is not a loss to the City.

The other contributing factor for stock shortages was due to fuel operational losses over the financial year. Fuel operational losses are defined as pipe losses, inherent dipstick accuracy and volatility of the product which includes vapour losses. Fuel usage for the financial year amounted to R91 201 487.40 whilst the fuel operational losses for the financial year was R9 841.36 or 0.01%.

ISM has implemented stricter security controls in the Stores to minimize the possibility of stock theft. This will also include the installation of additional surveillance cameras in some of the Strategic Stores. 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.

Overall, the stock losses reported for the financial year of R68 460 is minimal compared to an average stock holding of R560 million. This means that 99, 98% of the City's stock inventory is strictly controlled and accounted for in terms of the MFMA.

6.3.1 Stock comparative results

Comparative results for the last two financial years are indicated in Table 13 below:

Table 13: Results for Quarter 4 - 2021/22 and 2022/23

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)		
2021/22	482 418 878	518 262 546	356 722 157	2.72	187 516
2022/23	560 971 486	557 798 077	343 477 452	2.44	200 836
% Change	16%	8%	-4%	-0.28	7.1%

The quarterly comparable stock value has increased by 16% (01 April 2023 to 30 Jun 2023 compared to 01 April 2022 to 30 June 2022). The 16% (R78.56M) increase was mainly attributed to a lower demand in certain material types. The top contributing material types were electrical components, led lighting and calcium hypochlorite. An increased stockholding of fuel was also noted as a mitigation strategy for Stage 8 Load Shedding Readiness.

In order to minimize overstocking and achieve optimal working capital management, the ISM management team ensured that only necessary goods were ordered by following stringent inventory management procedures in material requirements planning. This will ensure that ISM is moving in the proper direction in order to achieve a 3.5 stock turn target.

The quarterly usage value decreased by R13.24 million (4%) (01 April 2023 to 30 June 2023 compared to 01 April 2022 to 30 June 2022). The reason was mainly attributable by the lower demand in electrical components, water meters, disinfectants and fuel.

Many 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. Engagements with line departments are taking place with regards to them accounting for potential obsolete or redundant stock. Departments are required inform supply chain to set the correct stock level and their material requirements levels to prevent stockpiling and holding up working capital.

Table 14: Annual results for 2021/22 and 2022/23 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)		
2021/22	482 418 878	523 297 889	1 153 097 150	2.17	686 993
2022/23	560 791 486	538 537 757	1 286 197 161	2.36	754 567
% Change	16%	3%	12%	0.19	9.8%

There was a 12% increase in the annual stock utilization compared to the previous fiscal year, with a 0.19 improvement in stock turnover. Top 15 materials that contributed to the higher annual usage were from Energy, Water, ICT, Roads and Public Housing. Consequently, there was a 9.8% increase in the number of transactions for the year. The closing inventory balance increased by 16% as a result of decreased demand in certain material types and the increase stock holding of fuel as mitigation for Stage 8 Load Shedding Readiness.

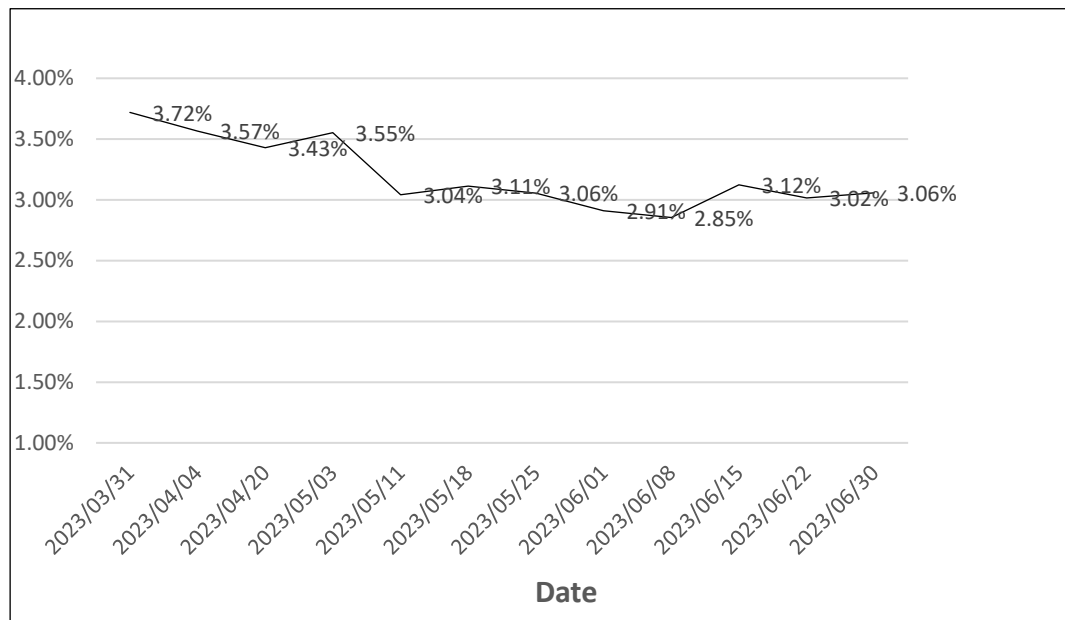
In order to minimize overstocking and achieve optimal working capital management, the ISM Area Heads have improved controls and monitoring in the material demand and replenishment process. This will ensure that ISM maintains the positive trend in achieving the 3.5 stock turn objective.

6.3.3 Stock out percentages as at 30 Jun 2023

The stock out percentage decreased from 3.72% at the beginning of Quarter 4 to 3.06% as at 30 June 2023. Notwithstanding the disruption in supply due to the high stages of load-shedding experienced by manufacturers, the improvement in the stock out rate was attributable to the proactive and collaborative approach of ISM with Procurement.

Graph 03 below indicates the stock out percentage as at the end of Quarter 4 of the 2022/23 financial year.

Graph 03: Stock out City wide % as at 30 June 2023



The stock availability achievement as at the end of Quarter 4 was 96.94%. This represents an over-achievement of 4.94% against the target of 92%. SAP Material Requirements Planning (MRP) is regularly reviewed and contracts are implemented timeously to ensure that stock is readily available as and when needed. Continued implementation of contracts and regular review of MRP will ensure the target is consistently achieved.

Regular engagements with user departments are held on a weekly basis to review the current stock levels and to determine the acceptable minimum stock levels to be maintained by the stores.

6.4 Supply Chain Management Overall

6.4.1 Risk Management

The SCM risk registers and mitigating plans are reviewed during Quarter 1 and Quarter 3 each year. SCM is satisfied that known risks are being adequately managed and monitored. The latest update to the Transversal Fraud Risk register was approved on 16 March 2023. The Finance: Supply Chain Management risk register was reviewed together with Risk, Ethics and Governance and approved on 22 May 2022. The next review will take place during Quarter 1 of 2023/24.

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 15 below. Movable assets are disposed through an auction process conducted by a professional auctioneer who has been appointed through a competitive SCM process.

Table 15: Comparable Disposal revenue (2021/22 and 2022/23 financial years)

Category	2021/22 Revenue R	2022/23 Revenue R
Disposal of movable assets	57 033 040,82	40 031 557,78
Disposal of scrap metals	7 484 350,16	10 240 742,88
Disposal of waste paper	44 411,08	159 576,48
Disposal of oils	664 243,69	718 531,05
Disposal of transformers	1 851 971,50	2 819 696,50
Total	67 078 017,25	53 970 104,69

As can be seen in Table 15, a total of R53 970 104, 69 disposal revenue was generated for the financial year, compared to R67 078 017, 25 disposal revenue generated during the previous financial year. Fewer assets were written off for disposal. Remote working probably contributed to sharing of assets and expanding the useful life of current assets.

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 01 July 2022 to 30 June 2023, the SCM department made **98** permanent appointments and 1 external transfer to SCM. These details are as follows:

- 3 Office Assistants
- 7 Clerks

- 28 Senior Clerks
- 8 Assistant Buyers
- 2 Specialist Clerks
- 1 Senior Secretary
- 7 Stores Clerks
- 10 Buyers
- 2 Administrative Officer 1's
- 6 Assistant Professional Officers
- 8 Professional Officer
- 2 Procurement Specialist
- 2 Demand and Risk Analyst
- 6 Senior Professional Officer
- 5 Heads (1 Transfer included)
- 2 Managers

Further to this the department created 10 graduate interns positions, these positions was filled during April/ May 2023. This is the first SCM Internship Program in the City that will build future SCM knowledge and capacity. The SCM department also created 47 EPWP appointments during the financial year.

The SCM staff establishment consists of 343 approved positions. There are currently 29 positions vacant due to consequential vacancies and some new positions created which are at various stages of the recruitment process. The loss of SCM skills to other parts of the organisation still remains a challenge. People move particularly out of the Tenders space due to the high risk and high pressure in this space. Management is looking to address this to a change and retention plan. To fill scarce skills, open recruitment, referral and head hunting is being conducted.

To support the growth of the capital budget which would consequently result in an increase volume of future tenders, additional Senior Practitioner positions have been created to provide relieve on the current staff compliment.

6.4.4 SCM Audit Action Plan and AGSA

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. All of audit actions emanating from 2021/22 audit action plan were implemented.

There was a significant reduction in non-compliance and irregular expenditure in the year under review that stemmed from audit findings. These improvements were attributed to the effective monitoring of audit findings that resulted in non-compliance in past audit cycles, the implementation of departmental self-reviews , the implementation of a key control monitoring tool as well as sufficient human resource capacitation. Corrective measures has been instituted in order to bring about a culture of compliance, good governance and efficiency.

Pro-active measures are ongoing in preparation for the next AGSA audit cycle commencing during the next quarter.

6.4.5 Management Interventions

An Orientation Program was developed for on boarding new SCM staff within Tenders and Procurement Section to assist with quick induction and learning of City procedures and processes. Workshops with the Top 500 project managers were held in June/July/October/November 2022 and February 2023 in order to sensitise the line directorates on key matters. 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.

The annual SCM Strategic Session took place on 15 September 2022, launching the next phase in the culture change journey – SCM: A Centre of Excellence. Change management initiatives are ongoing to drive a positive, motivated, accountable and ethical culture. This is to encourage staff to drive good governance and a clean audit for the coming year.

An internal staff survey was conducted and showed the improvement against various indicators highlighted in the previous City Pulse results. The response rate was very good at 73% with a lot of insightful and positive information.

The SCM Director had 11 direct engagements sessions (360 degree sessions) with all SCM staff from junior to senior level to engage on challenges experienced, staff morale, culture, trying to create a positive work space and renewed work ethic.

The Procurement Excellence and Governance Unit assists the SCM Director to drive departmental culture programs which has been created to address the outcome of the City Pulse and internal survey results. These programs deal with a new culture and the change process, staff motivation, productivity etc. and is closely monitored. Various team motivation sessions were held such as Green Day to celebrate the Clean Audit, Halloween Day, Summer Day, Easter Day, Staff Braai's and team sessions to help staff and management bond and create an innovative and caring space.

SCM is also supporting the CFO Collaboration meetings as well as partaking in the newly implemented Efficiency Barometer process, measuring 7 key areas in the SCM environment.

Comments and workshops were held with the National Treasury and Provincial Treasury on how to create more enabling legislation within the municipal environment. The SCM Legislative constraints have been presented to the Regulators and proposals made for enabling and balancing good governance with faster service delivery.

One of the challenges that the City's supply chain faces is the potential infiltration of the construction mafia into the supply chain system. These risks are managed by the necessary law enforcement authorities.

SCM continues to drive its seven pillars of: Culture Shift, Motivated and Productive Staff, Centre of Excellence, Skills Development, Project Based SCM, E-Procurement and becoming a Strategic support function that supports Core business.

A key journey towards Digitisation of Tenders has begun in 2022. The vision is to design and automate supply chain tendering, demand planning, supplier/ vendor management, ordering processes, bid committee processes. This is aimed of making the cost of doing business cheaper for suppliers, increasing efficiency and speed in tenders and improved audit trails.

6.4.6 Supply Chain Management Policy review

The revised SCM Policy was adopted by Council and implemented on 26 January 2023. A total of 13 training interventions were held during Quarter 3. The target audience included all SCM staff, BAC members, Top 500 and Top 200 project managers. Special sessions were also arranged with Forensic Services and individual Directorates on request.

The training interventions aimed to raise awareness of the changes to the SCM Policy and to ensure consistent application of the policy changes throughout the organisations.

The next policy review is will commence in the new financial year

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