



DATE: 10 JULY 2024

REPORT TO: EXECUTIVE MAYOR AND COUNCIL

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**1. ITEM NUMBER**

**2. SUBJECT**

**SUPPLY CHAIN MANAGEMENT:  
REPORT FOR PERIOD 1 APRIL 2024 TO 30 JUNE 2024 AND ANNUAL REPORT  
FOR 2023/24**

**VERSKAFFINGSKETTINGBESTUUR:  
VERSLAG VIR DIE TYDPERK 1 APRIL 2024 TOT 30 JUNIE 2024 EN  
JAARVERSLAG VIR 2023/24**

**ULAWULO LOBONELELO NGEMPAHLA EKWIZIKO:  
INGXELO YESITHUBA ESISUSELA KWO1 KUTSHAZIIMPUZI UKUYA KOWAMA  
30 KWEYESILIMELA 2024**

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 2024 TO 30 JUNE 2024 AND ANNUAL REPORT FOR 2023/24

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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:

- ☐ 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 2024 TO 30 JUNE 2024 AND ANNUAL REPORT FOR 2023/24" BE NOTED.

### AANBEVELING

DAAR WORD AANBEVEEL DAT DAAR KENNIS GENEEM WORD VAN DIE INHOUD VAN DIE VERSLAG "VOORSIENINGSKANAALBESTUURSVERSLAG VIR DIE TYDPERK 1 APRIL 2024 TOT 30 JUNIE 2024 EN JAARVERSLAG VIR 2021/22".

### ISINDULULO

KUNDULULWE UKUBA MAKUQWALASELWE IZIQULATHO ZENGXELO ESIHLOKO "INGXELO ENGOLAWULO LOBONELELO NGEMPAHLA EKWIZIKO YESITHUBA ESISUSELA KOWO1 KUTSHAZIIMPUZI UKUYA KOWAMA 30 KWEYESILIMELA 2024".

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## ANNEXURES

### ANNEXURE A

**Making progress possible. Together.**

REPORT FOR PERIOD 1 APRIL 2024 TO 30 JUNE 2024 AND ANNUAL  
REPORT FOR 2023/24

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## FOR FURTHER DETAILS CONTACT

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SIGNATURE : DIRECTOR	<div>Adiel Bloew</div>		

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## CHIEF FINANCIAL OFFICER

NAME Kevin Jacoby COMMENT:

DATE

SIGNATURE



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

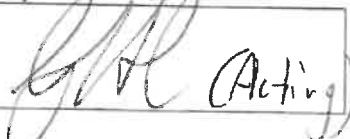
## MAYORAL COMMITTEE MEMBER

NAME Cllr Siseko Mbandezi COMMENT:

DATE

SIGNATURE

18/07/24



## LEGAL COMPLIANCE

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

NAME COMMENT:

DATE

SIGNATURE

Joan-Mari Holt

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For information.

**CITY MANAGER**

NAME

Lungelo Mbandazayo

COMMENT:

DATE

SIGNATURE

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**EXCUTIVE MAYOR**

NAME


Geordin Hill-Lewis

COMMENT:

DATE

24/07/2024

SIGNATURE





## ANNEXURE 1

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### 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 contracts. 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 2023/24 Demand Plan**

The implementation of the 2023/24 demand plan has progressed well. The total quantum of the demand plan for the 2023/24 financial year is approximately 289 tenders, which includes 10 tenders that were in progress at the end of the previous financial year. This amounts to 61 less tenders than the 2022/23 demand plan, which consisted of 350 tenders.

The demand plan is discussed in collaboration 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.

The tender completion rate was 100% as at the end of Quarter 4 of the 2023/24 financial year and is reflected in Table 01 below:

**Table 01: 2023/24 Demand Plan for Tenders**

The table below reflects the breakdown of the 100% of tenders completed by the different statuses.

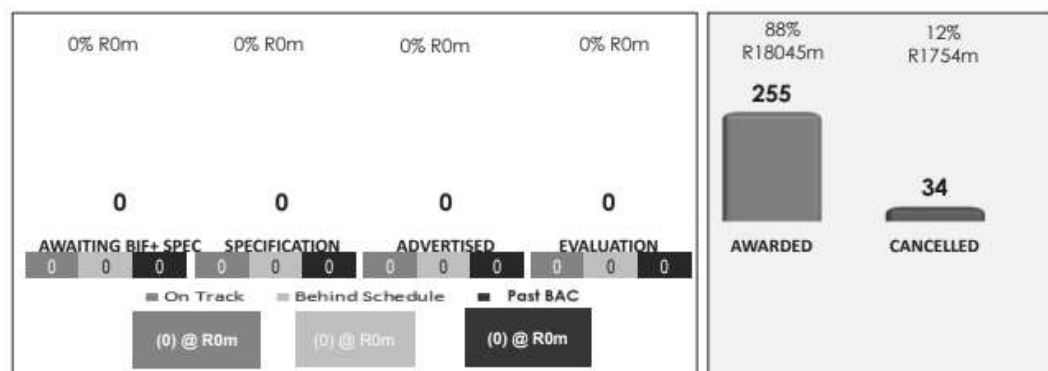
<b>2023/24 Approved Demand Plan</b>	
Total number of tenders on approved plan	289
Number of tenders successfully awarded	255
Number of tenders cancelled	34
Number of tenders in progress	0
<b>Implementation rate</b>	<b>100%</b>

As can be seen from Table 01, 255 tenders (88.23%) of the total required tenders have been awarded and 34 tenders (11.76%) were cancelled as at 30 June 2024.

Tenders to the value R18 045million for the financial year have already been awarded, and tenders to the value of R1 754million 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 (2023/24)**



0 Tenders to the value of R0 million are currently still in process of finalization at different stages [Specification (0 tenders), Advertised (0 tenders) and Evaluation (0 tenders)]. 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 in June 2022, to strengthen the implementation of the demand plan:

- All specifications for repeatable tenders and the associated BIF must be submitted to a SCM Tenders: SPO, 18 months in advance of the CRBD (Contract Required By date) (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.
- The timeline must provide at least 90 days after the BAC award and prior to CRBD, in order for the appeal period, contract signing and other administrative processes to be concluded.

The Demand Plan supports the capital and operating budget spending by ensuring that all projects which requires a tender is linked to the Demand Plan for the MTREF period. 96.20% Percentage of the approved budget for 2023/24 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 2023/24**

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 2023/24 demand plan as at 30 June 2024 is depicted in Table 02 below.

**Table 02: Tenders not awarded per Directorate 2023/24**

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

As per Table 02 above, 0 tenders are in progress of which 0 tenders are past their planned BAC award date and 0 tenders are behind schedule. Based on the above, a further analysis of tenders behind schedule and budget source is not required for this report.

The tender completion rate of 100% as at 30 June 2024 far exceeds the planned target of 90% for Quarter 4 of the 2023/24 financial year. A remarkable achievement due to improvement measures set in place during the prior financial year.

### 6.1.3 Cancelled tenders analysis for the period 01 July 2023 to 30 June 2024

34 tenders (11.76% of tenders) were cancelled to date during the 2023/24 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 2023 to 30 June 2024**

<b>Reasons for cancellation</b>	<b>Number</b>	<b>Estimated value</b>
No acceptable bids received	13	R718 612 562
PPPFA Non-Compliance	8	R311 502 876
No offers received	8	R387 400 000
Funds are no longer available	3	R323 990 000
Market related price not achieved	2	R12 000 000
<b>Grand total</b>	<b>34</b>	<b>R1 753 505 438</b>

Thirteen (13) of the 34 tender cancellations, representing 38%, are due to no acceptable bids received.

SCM has Top 300 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 alerts 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.

The 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.

Of the cancelled tenders, eleven (11) have been added back to the demand plan for the 2024/25 and 2025/26 years, five (5) have completed the tender process and awards have been made (active contracts) and one (1) cancelled tender will follow a deviation process to ensure service delivery.

For the remaining 17 tenders, ongoing efforts are being made to conduct further market research. This research is essential to obtain a comprehensive understanding of the existing constraints within the market concerning available product and service offerings. The findings from this research will play a pivotal role in refining specifications and determining whether the tender process remains the most suitable procurement mechanism for meeting our procurement requirements.

In addition to the aforementioned market research, various line departments are actively exploring cross-functional opportunities to address their respective procurement needs.

#### **6.1.4 Appeals analysis 2023/24**

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 136 appeals during the financial year up to 30 June 2024. Of these, 36 appeals were upheld, 92 appeals dismissed, 4 appeals were withdrawn and 4 appeals are pending an outcome from the Appeals Authority.

SCM is working continuously to improve processes and implement controls to ensure that the SCM system is sufficiently robust to minimise the number of successful appeals and subsequent delays in the process.

#### **6.1.5 Implementation of the 2024/25 Demand Plan**

The implementation of the 2024/25 demand plan is in its early stages but progressing well with a completion rate of 52%, however there are tenders for this period which need to start within the current financial year in order to be awarded in time for implementation as required by the CRbD.

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 2024, only 3 tender specifications for the 2024/25 demand plan has not been received and is behind schedule. The SCM unit is also specifically focusing 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 48 tenders across various commodities and services will be consolidated into City-wide tenders. This project intends leveraging the buying power of the City as well as standardizing products and pricing for these commodities or services.

This 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.

#### **6.1.6.1 Procurement Transparency Report**

The Procurement Transparency Report was made public on 27 November 2023 by the Executive Mayor. As per the Strategy Brief 2024/25 MTREF, the next iteration of the Transparency Report is due in August 2025. SCM is currently engaging with Mayor's office to finalise related scope and timeline.

### **6.1.7 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 by an application for invitation through the secretariat as part of good governance.

The BAC has convened 14 meetings via skype during Quarter 4 of the 2023/24 financial year. BAC resolutions and minutes are processed within the target of 7 to 10 working days.

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

### **6.1.8 SCM Bid Committees**

The BSC and BEC Chairperson appointments are for a two-year period after which the appointment is reviewed by the 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 38 Bid Specification Committee (BSC) and Bid Evaluation Committee (BEC) Chairperson re-appointments were made during Quarter 4 of the 2023/24 financial year for the various Directorates. A total amount of 129 appointments were made during the 2023/24 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). Continuous training is provided to ensure Bid Committee Members are informed, advised of any changes and equipped to maintain a high standard of compliance.

### 6.1.9 Procurement below R750 000

In order to procure goods or services which involves a transaction value over R2 000 and up to R750 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 activity in our procurement processes.

For the period 1 April 2024 until 30 June 2024, a total of 2 972 RFQ's were advertised on the City's website. 22 723 responses were received equating to a response ratio of 7.65 for each RFQ advertised. Table 04 below refers:

**Table 04: RFQ Advertisements vs Responses Received for the period 1 April 2024 until 30 June 2024**

Month	Goods			Services		
	RFQ's Advertised	RFQ Responses	Ratio	RFQ's advertised	RFQ responses	Ratio
Apr 2024	926	8 703	9.40	316	1 076	3.41
May 2024	904	7 970	8.82	249	1 085	4.36
Jun 2024	447	3 476	7.78	130	413	3.18
<b>Total</b>	<b>2 277</b>	<b>20 149</b>	<b>8.85</b>	<b>695</b>	<b>2 574</b>	<b>3.70</b>

Total RFQ's advertised	2 972
Total responses	22 723
Ratio	7.65

The SCM Regulations require a minimum of three (3) responses. The ratio of 7.65 is good and shows that suppliers are interested in doing business with the City.



For the 2023/24 financial period, a total of 13 617 RFQ's have been advertised on the City's website with 89 443 responses to these RFQ's. This equates to an average response ratio of 6.57 against a target of 3 responses per RFQ. Table 05 below refers.

**Table 05: RFQ Advertisements vs Responses received for the 2023/24 Financial Year.**

Period	Goods			Services		
	RFQ's Advertised	RFQ responses	Ratio	RFQ's advertised	RFQ responses	Ratio
Quarter 1	3 584	23 669	6.61	697	2 026	2.91
Quarter 2	2 576	18 405	6.48	686	1 590	2.32
Quarter 3	2 496	19 325	7.78	606	1 705	2.81
Quarter 4	2 277	20 149	8.66	695	2 574	3.70
<b>Total</b>	<b>10 933</b>	<b>81 548</b>	<b>7.46</b>	<b>2 684</b>	<b>7 895</b>	<b>2.94</b>

Total advertised	13 617
Total responses	89 443
Ratio	6.57

The average response ratio of 6.57 is not only above the norm but also above the previous year's average response ratio of 5.10 and a good indicator of competitiveness in the procurement under R750 000 space. This is reflective that 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 1 April 2024 until 30 June 2024.

**Table 06: B-BBEE Purchase Orders for the period 1 April 2024 until 30 June 2024**

B-BBEE Level	PO Count	% PO Count	No. of vendors	% of Vendors	Order value	% Order value
					R	
1	29 949	50.78%	555	39.22%	1 529 781 460	44%
2	5 719	9.70%	101	7.14%	365 155 741	10%
3	1 657	2.81%	14	0.99%	48 120 002	1%
4	2 613	4.43%	70	4.95%	82 952 315	2%
5	23	0.04%	1	0.07%	5 538 512	0%
6	7	0.01%	2	0.14%	109 833 613	3%
7	36	0.06%	3	0.21%	43 765 842	1%
8	89	0.15%	5	0.35%	13 742 285	0%
<b>Subtotal level 1-8</b>	<b>40 093</b>	<b>68%</b>	<b>751</b>	<b>53%</b>	<b>2 198 889 769</b>	<b>63%</b>
0	18 886	32%	664	47%	1 316 712 091	37%
<b>Total</b>	<b>58 979</b>	<b>100%</b>	<b>1415</b>	<b>100%</b>	<b>3 515 601 860</b>	<b>100%</b>

Approximately 751 B-BBEE suppliers have conducted business with the City in Quarter 4 of the 2023/2024 financial year. This which equates to 53% of the overall number of suppliers the City conducted business with, are on B-BBEE levels 1 to 8 and of these 670 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 40 093 purchase orders, with a total value of R2 198 889 769 were issued to the B-BBEE suppliers which equates to 68% of the total of purchase orders processed and 63% of the total spending for this period. The procurement relating to *B-BBEE level 0* amounting to R 1 316 712 091 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, measuring the preference on specific goals rather than B-BBEE contribution status. The reporting reflects both spend against B-BBEE levels and HDI/ RDP goals approach, including how the procurement rand spent supports Small Medium Enterprises.

During Quarter 4 of the 2023/24 financial year, 51 tenders were awarded under the Preferential Procurement Regulations of 2022; of which 67% (34/51) of the awards were in terms of the HDI/RDP goals and 33% (17/51) awards made did not score in terms of the HDI/RDP goals.

The Table 07 below depicts the awards made per HDI/RDP category with the total award amount.

**Table 07: HDI/ RDP Total Award Value per Category for the period 01 April 2024 to 30 June 2024**

<b>HDI/RDP Goals</b>	<b>Number per Category</b>	<b>Total Award Value per Category</b>
Women	4	R224 200 000.00
Black	16	R1 553 238 827.66
Disabilities	0	R0
SMME	0	R0
No HDI/RDP Goal	14	R665 421 847.34
More than one HDI/RDP Goals	17	R627 291 914.13
<b>Total</b>	<b>51</b>	<b>R3 070 152 589.13</b>

During the 2023/24 financial year, 173 tenders were awarded under the Preferential Procurement Regulations of 2022; of which 78% (134/173) of the awards were in terms of the HDI/RDP goals and 22% (39/173) awards made did not score in terms of the HDI/RDP goals.

The Table 08 below depicts the awards made per HDI/RDP category with the total award amount.

**Table 08: HDI/ RDP Total Award Value per Category for the period 01 July 2023 to 30 June 2024**

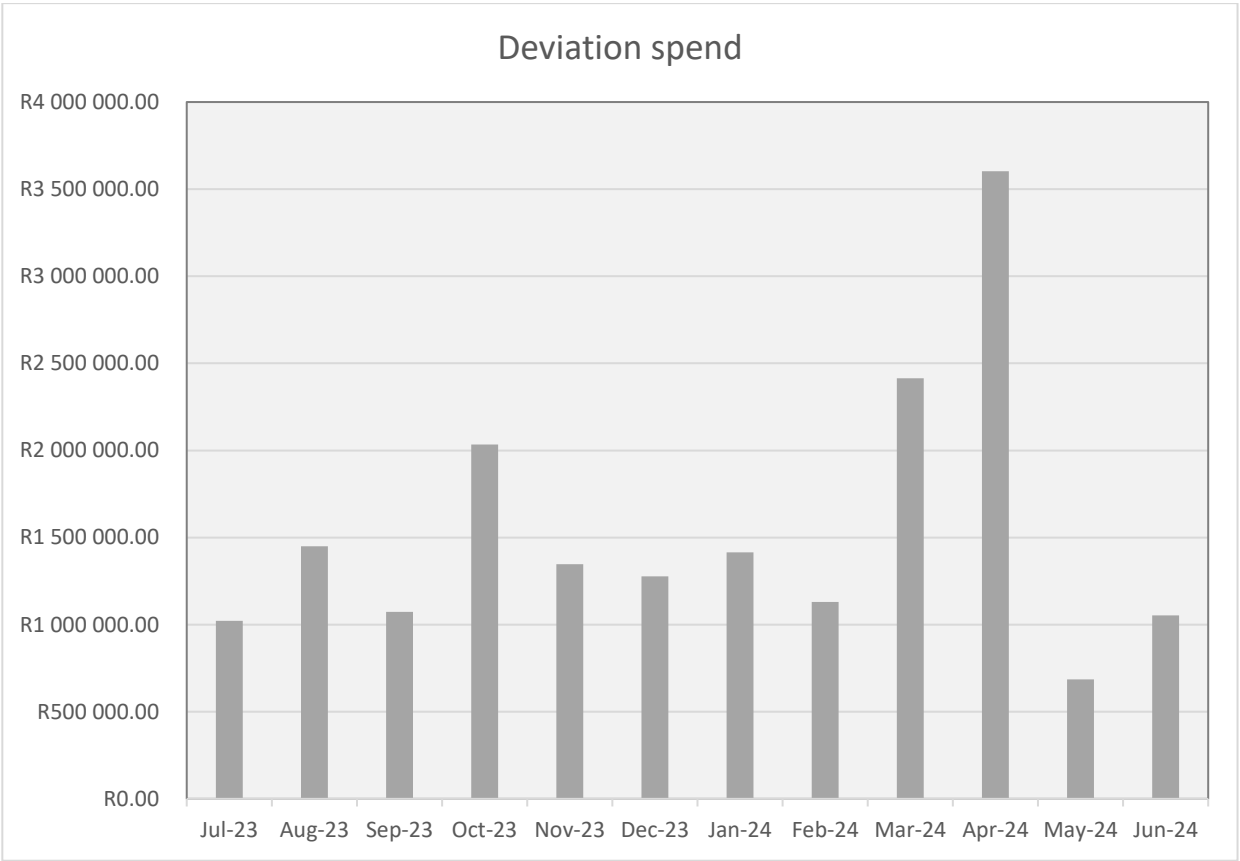
<b>HDI/RDP Goals</b>	<b>Number per Category</b>	<b>Total Award Value per Category</b>
Women	5	R228 800 000
Black	48	R8 720 205 912.58
Disabilities	0	R0
SMME	11	R380 831 060.89
No HDI/RDP Goal	39	R2 658 324 20.12
More than one HDI/RDP Goals	70	R2 107 006 313.35
<b>Total</b>	<b>173</b>	<b>R14 095 167 496.94</b>

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. Since the implementation, 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 deviations



The deviations under R750 000 has reduced by approximately **76% for a 12 month period** as at 30 June 2024, from approximately R76 million to R18 million when compared to the status in June 2023 last year.

This is a 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, there are 1 478 Community Based Suppliers, representing an increase of 4 Community Based Suppliers who have been registered on the City's database since the end Quarter 3. Table 07 under paragraph 6.2.2 refers.

The monthly Community Based Supplier spending for Quarter 4 of the 2023/24 financial year is summarised as per Table 09 below.

**Table 09: Monthly Community Based Supplier Spending**

<b>Details</b>	<b>Apr 24</b>	<b>May 24</b>	<b>June 24</b>	<b>Quarter 4</b>
Number of awards	6	24	19	49
Award values	R 97 968.2	R 177 114.50	R 38 235.59	R313 318.29

**Table 10: Year-on-Year Community Based Supplier Spending**

<b>Details</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Number of awards	193	264	51	87
Award values	R3 181 798	R4 325 968	R1 309 794	R771 868.02

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 and 100% for 2023/24, has consequently resulted in a decrease of procurement below R750 000 (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 2023 to 30 June 2024 is shown in Table 11 below.

**Table 11: Supplier Database Statistics 2022/23 vs 2023/24**

Details	2022/23 Totals	2023/24 Totals
Accredited Suppliers on the City Database	17 639	18 719
Central Supplier Database registered (CSD)	16 085	17 157
Total E-Procurement registered suppliers	6 244	7 453
Community Based Suppliers (CBS)	1 434	1 478

As at the end of the 2023/24 financial year, the City had a total of 18 719 accredited suppliers, of which 17 157 suppliers are CSD registered. These statistics include 7 453 registered E-Procurement suppliers and 1 478 Community Based Suppliers.

The quarterly comparable new approved supplier registration statistics are included in Table 12 below.

**Table 12: New approved supplier registration statistics 2022/23 vs 2023/24**

Period	2022/23 Totals	2023/24 Totals
Quarter 1	338	285
Quarter 2	256	257
Quarter 3	212	272
Quarter 4	290	256
<b>Total for Financial Year</b>	<b>1 096</b>	<b>1 070</b>

A total of 1 070 new supplier registration applications were approved for the 2023/24 financial year, compared to a total of 1 096 new supplier registration applications approved during the previous financial year.

This increase in over 1000 new suppliers for a second consecutive year 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**

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 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 13 below, a total of 22 151 staff declaration/s of interest/s were assessed by SCM during the 2023/24 financial year.

**Table 13: Staff Declaration of Interest (DOI's) and Private Work applications reviewed during the 2023/24 financial year**

<b>Applications and declarations reviewed by SCM</b>	<b>2022/23 FY</b>	<b>2023/24 FY</b>
Electronic DOI's	25 945	16 955
Manual DOI's and private work applications	6 514	5 196
<b>Total</b>	<b>32 459</b>	<b>22 151</b>



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 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 14 below.

**Table 14: Supplier Performance Management for the 2023/24 Financial Year**

<b>Defaulting and Poor Performing Suppliers</b>	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>	<b>Total</b>
Poor performance	1	3	3	3	10
Non-delivery	3	4	1	1	9
Reputational Risk	0	0	7	1	8
False Documentation	0	0	0	2	2
Overcharging	1	0	0	0	1
False Declaration	1	0	0	3	4
Abuse	3	1	1	3	8
<b>Total</b>	<b>9</b>	<b>8</b>	<b>12</b>	<b>13</b>	<b>42</b>

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:

- Three (3) case relating to poor or non-performance has been flagged on the redlist for noting and consideration, prior to any subsequent awards being made to the respective supplier(s),
- One (1) case 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),
- Three (3) cases relating to abuse has been flagged on the red list for noting and consideration, prior to any subsequent awards being made to the respective supplier(s).
- One (1) cases relating to Reputational Risk has been flagged on the redlist for noting and consideration, prior to any subsequent awards being made to the respective supplier(s).
- Two (2) cases relating to False Documentation has been flagged on the redlist for noting and consideration, prior to any subsequent awards being made to the respective supplier(s).
- Three (3) cases relating to False Declaration has been flagged on the redlist for noting and consideration, prior to any subsequent awards being made to the respective supplier(s)

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 quantity 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.

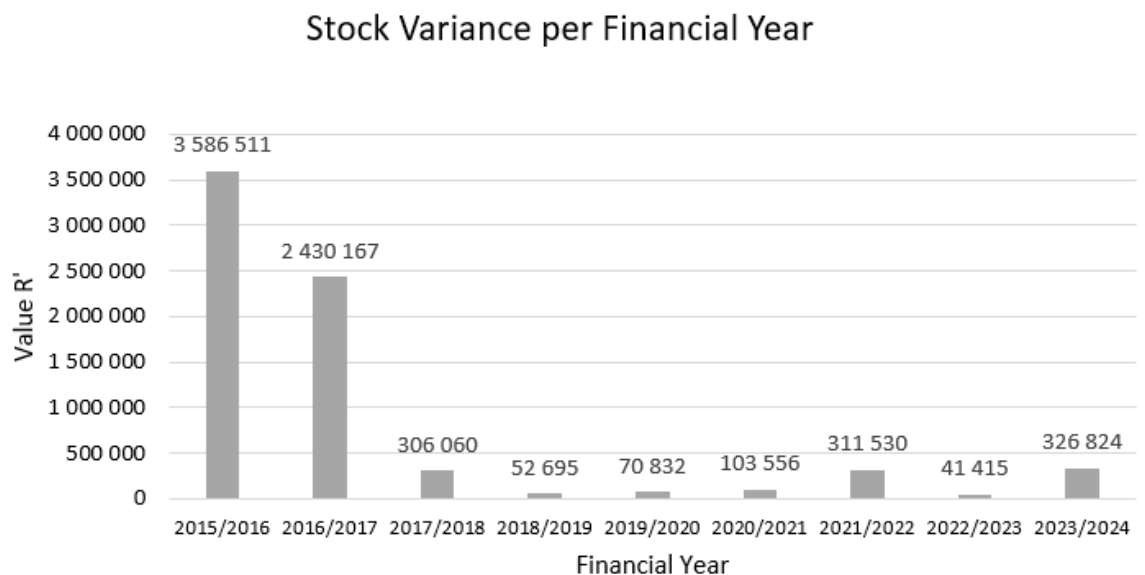
In total, the City has 34 different stores and 18 Fuel sites. There are 13 349 different materials and 23 561 bins maintained.

### 6.3.1 Annual Stock Take results

The MFMA requires that inventory be verified at least once per financial year. The Annual stock take result amounted to a net loss adjustment of R326 824.56. The inventory stock losses were assessed and formally reported to the Chief Financial Officer and approved % authorized for write-off. Shortages on Fuel, Cables, Electrical Components, Hardware and Tools 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 2023/24 financial year end.

**Graph 02: Stock Variances**



The net result for the year is a loss of R326 824.56 (Loss of R513 015.47 less the surplus of R186 190.91).

The net loss represents 0.024% of inventory issued to end users as at 26 June 2024.

The main contributors to the net loss stock adjustment to the value of R326 824.56 are:

- Stock shortages to the value of R513 015.47
- Surplus stock amounted to R186 091.91

## **Loss**

*Electricity Cables* – losses noted at 2 stores with a total value of approx. R6 000, was attributed to end of drum tolerances expected in the manufacturing process. The remaining approx. R237 000 emanated from 1 Store, where in negligence was identified. Relevant consequence management is being conducted to address the negligence identified and will be concluded by 31 July 2024.

*Fuel* – losses at 5 Fuel Sites with a total value of approx. R6 700 (317 litres), was attributed to fluctuations with this highly volatile item that is affected by temperature, vapour losses, and dipstick inaccuracies, which are inherent with this type of commodity. This is below the tolerable threshold of 0.5%.

The remaining approx. R177 000 (8 322 litres) emanated from 8 Fuel Sites, and is under further investigation. It is however noted that the total loss of 8 639 litres of fuel represents 0.35% of the total 2 480 030 litres that was issued over the financial year 2023/24.

*Cartridges* – Losses occurred at 1 Store for this commodity with a value of approx. R28 000 (9 items) was attributed to negligence. Relevant consequence management is being conducted to address the negligence identified and will be concluded by 31 July 2024.

*Electrical components, Fasteners, Fittings, Hardware, Paint, Refreshments, Stationary and Water Meters* – losses were found in 6 Stores across the City with a total value of approx. R56 000.

Approx. R50 000 (89%) of this value was because of negligence in 3 Stores. Relevant consequence management is being conducted to address the negligence identified and will be concluded by 31 July 2024.

Supplier shortages contributed approx. R5 000 to the loss. Investigations are underway in order to recover monies due to the City.

Incorrect issuing of stock resulted in a loss of approx. R1 000. Training will be provided to all staff in order to prevent recurrence of this incident by 31 July 2024.

### **Surplus**

The main contributor to the surplus stock related to rolled electricity cables at a value of approx. R137 000, wherein a tolerance for “over and short” is noted due to the manufacturing and packaging process. Amidst the former, it was determined that there was negligence identified at one of the stores which resulted in the high variance. Relevant consequence management is being conducted to address the negligence identified and will be concluded by 31 July 2024.

Fuel came in second at approx. R18 000 and this was due to the fluctuations with this highly volatile item that is affected by temperature, vapour losses, and dipstick inaccuracies. The approx. amount of R18 000 reflects 0.033% of the total fuel cost issued in the FY2023/24. This is below the tolerable threshold of 0.5%

### **Mitigating measures going forward**

Refresher training to all staff will be conducted to ensure that staff are reminded of ISM processes to be followed and completed by 31 July 2024.

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 R513 015.47 is not significant compared to an average stock holding of R560 million. This means that 99.91% of the City’s stock inventory is strictly controlled and accounted for in terms of the MFMA.

### 6.3.2 Stock comparative results

Comparative results for the last two financial years are indicated in Table 15 below:

**Table 15: Results for Quarter 4 - 2022/23 and 2023/24**

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)		
2022/23	560 971 486	557 798 077	343 477 452	2.44	200 836
2023/24	559 542 355	572 269 524	351 727 031	2.43	201 166
% Change	- 0.25%	2.59%	2.40%	- 0.01	0.16%

The quarterly comparable stock value relatively remained the same an overall percentage change of 0.25% (01 April 2023 to 31 June 2023 compared to 01 April 2024 to 30 June 2024). The closing inventory balance change of 0.25% resulted from the positive effects of a more stable manufacturing sector, with no loadshedding experienced in the entire 4<sup>th</sup> quarter. Notwithstanding the uninterrupted power supply, SCM had to maintain its inventory holding as a mitigation strategy for the supply chain disruptions experienced in the Logistics sector. Port congestion still played a significant role in the impeded supply of imported goods (raw materials and finished goods). The top contributing material groups remain unchanged for this quarter, compared to the 4<sup>th</sup> quarter of the previous financial year (Electrical components, Cables, ICT Hardware, Water Meters, Clothing and Footwear).

In comparison to the 4<sup>th</sup> quarter of the previous fiscal year, the stock turnover rate reduced slightly from 2.44 to 2.43. A higher turnover ratio is a measure of how well inventory is managed. SCM will continue with its inventory control strategies, until the ratio target of 3.5 is reached.

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 the 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 increased by R8.24 million (2.40%) (01 April 2023 to 30 June 2023 compared to 01 April 2024 to 30 June 2024). The reason was mainly attributable to the increased demand for chemicals required for the water purification process, refuse bags and electrical goods. In Quarter 1 of 2024/25, SCM will undertake a review of inventory usage values to assess reasons for increased demand and its impact.

The number of inventory transactions increased by 0.16% when compared with the 4<sup>th</sup> quarter of the previous fiscal year indicating the increased demand for goods.

Comparative results for the last two financial years are indicated in Table 16 below:

**Table 16: Annual results for 2022/23 and 2023/24 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)		
2022/23	560 971 486	538 537 757	1 286 197 161	2.36	754 567
2023/24	559 521 164	580 151 873	1 366 780 652	2.32	805 726
<b>% Change</b>	<b>- 0.25%</b>	<b>7.72%</b>	<b>6.27%</b>	<b>- 0.04</b>	<b>6.88%</b>

There was a 6.27% increase in annual stock utilization as compared to the previous fiscal year, with a slight reduction in the overall stock turnover rate from 2.36 to 2.32.

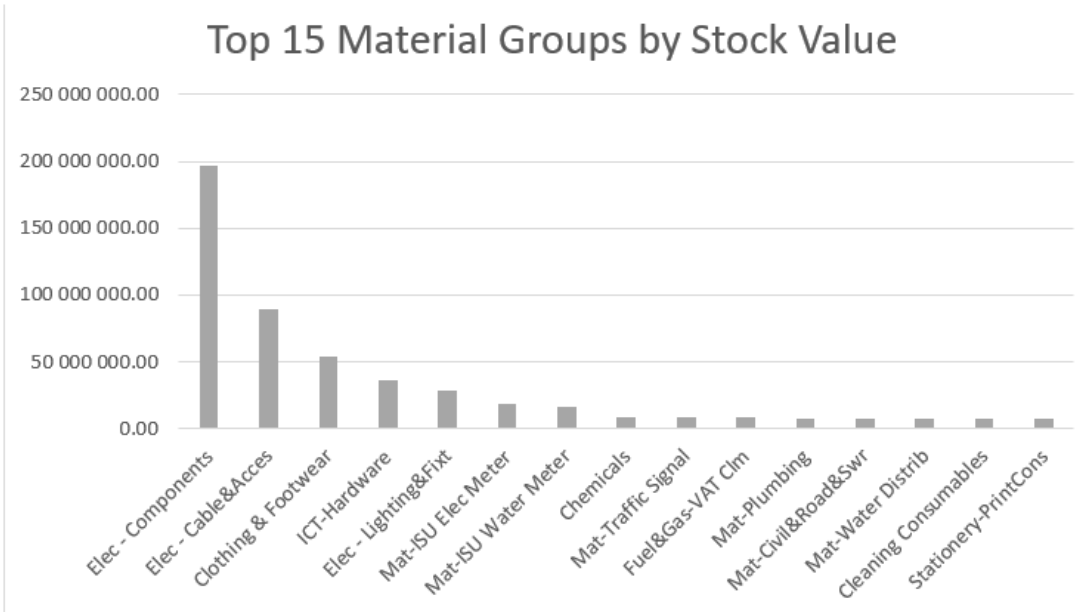
Top 15 materials that contributed to the higher annual usage were from Energy, Water, ICT, Roads and Public Housing. Consequently, there was a 6,88% increase in the number of transactions for the year. The closing inventory balance remained minisculy reduced at 0.25% as a result of stabilization in the manufacturing sector due to no loadshedding since 26 March 2024. However, port congestion still hindered the importation of raw materials and finished products.

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 Top 15 Material Groups - Stock Value as at 30 June 2024

Graph 03 below indicates the relative importance of the Top 15 material groups in terms of stock / rand value in the fourth quarter of 2023/24.

**Graph 03: Top 15 Material Groups Stock Values as at 30 June 2024**



The information as per Graph 03 shows the top 15 Material groups which make up 90% of the total inventory holding, at a value of R504.24m. It is noted that 76.81% (R387.31m) of these materials are Electricity goods with a stock turnover rate of 2,59. This is attributable to inventory kept as strategic stock for upcoming projects, with long lead times. The remaining 23.19% (R116.92m) had an average turnover rate of 3,98.

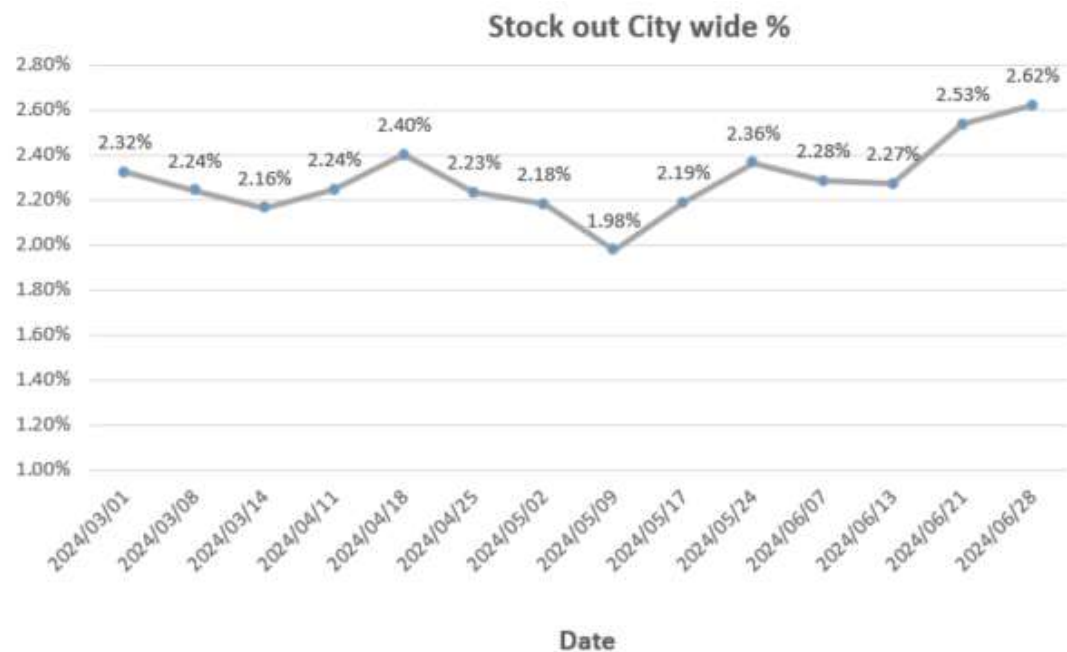


### 6.3.4 Stock out percentages as at 28 June 2024

The stock out percentage increased from 2.24% at the beginning of Quarter 4 to 2.62% as at 28 June 2024. The top 5 contributing material groups were Clothing & Footwear, Hardware, Stationery, Tools and Water Distribution. Suppliers have faced difficulty in sourcing imported goods for manufacture and resale due to port congestions.

Graph 04 below indicates the stock out percentage as at the end of Quarter 4 of the 2023/24 financial year.

**Graph 04: Stock out City wide % as at 28 June 2024**



The stock availability achievement as at the end of Quarter 4 was 97.38%. This represents an over-achievement of 5.38% 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. Additional controls which relates to the reputational damage due to corporate crime (corruption, fraud and misconduct) as well as reputational damage due to potential supplier collusion, fraudulent behavior and abuse of the SCM Policy were included in the risk register during the 2023/24 Quarter 3 review. SCM is satisfied that known risks are being adequately managed and monitored. The latest update to the Fraud Transversal Risk register was approved in April 2024 whilst the Finance: Supply Chain Management risk register was approved on the 28<sup>th</sup> March 2024.

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

**Table 14: Comparable disposal revenue (2022/23 and 2023/24 financial years)**

Category	2022/23 Revenue R	2023/24 Revenue R
Disposal of scrap metals	9 664 855.89	12 143 652.86
Disposal of waste paper	159 576.48	300 415.37
Disposal of oils	718 531.05	611 066.15
Disposal of Scrap Transformers	2 819 696.50	5 505 763.00
Auction	40 031 557.78	87 588 665 .40
<b>Total</b>	<b>53 394 217.70</b>	<b>106 149 562.78</b>

As can be seen in Table 14, a total of R106 149 562.78 disposal revenue was generated for the financial year, compared to R53 394 217.70 (2022/23). The increase in disposal revenue was largely attributable to more vehicles being available for auction and the frequency of online auctions during the financial 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 01 July 2023 to 30 June 2024, the SCM department made 103 permanent appointments. These details are as follows:

- 1 x Director
- 2 x Managers
- 7 x Heads
- 2 x Logistics Officer
- 10 x Senior Professional Officers
- 6 x Professional Officer
- 6 x Assistant Professional Officers
- 5 x Administrative Officer 1
- 1 x Project Administrator
- 4 x Stores Clerk
- 1 x Specialist Clerk
- 46 x Senior Clerks
- 7 x Clerks
- 2 x Office Assistants
- 1 x Senior Worker
- 1 x Asset Disposal attendant
- 1x Demand & Risk Analyst: SCM

During the period ending 30 June 2024, the SCM department had 19 active EPWP workers employed within the department. Furthermore, the department created a total of 43 EPWP opportunities for the 2023\_2024 financial year (Q1 – Q4).

The SCM staff establishment consists of 377 approved positions (which includes 10 graduate APOs and 2 Student positions). At the end of June 2024, there were 42 vacant positions (including 3 Student opportunities) of which 12 have already been filled.

It should be noted that offers were made to officials for the following positions. The employment period will commence in July/August 2024.

- 1 x Head: Inventory and Stores Coordination
- 3 x Senior Stores Assistants
- 3 x Storekeepers

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 through 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 Procurement Excellence and Governance Unit track the audit action plan regularly. The annual AGSA external audit for the 2022/2023 financial year concluded during December 2023. The SCM department has developed an audit action plan which is aimed at addressing audit findings and mitigating risks in the compliance processes.

All audit actions emanating from 2021/22 audit action plan were implemented. The audit action plan emanating from the 2022/23 audit has been developed, of which all of the actions required has already been implemented.

Pro-active measures are ongoing in preparation for the following AGSA audit cycle.

#### **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 300 project managers are held in order to sensitise the line directorates on key matters.

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 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.

Each department within SCM has a committee representing their branch- and the process is underway to draft a culture plan for 2024/25 and will be implemented within the first quarter of 2024/25.

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.

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 at making the cost of doing business cheaper for suppliers, increasing efficiency and speed in tenders and improved audit trails. A tender, calling the market to respond to bids for the supply, installation and maintaining a supply chain management solution (demand management, supplier on-boarding and sourcing), was issued to the market in Quarter 1. It is anticipated that an e-tendering system will be piloted by December 2024.

#### **6.4.6 Supply Chain Management Policy review**

National Treasury, through the Minister of Finance, issued revised competitive bidding thresholds for the procurement of goods and services and competitive bidding, thereby amending the Municipal Supply Chain Management Regulations issued under General Notice No. 868 of 30 May 2005.

Key to this change is the amendment of Regulation 12, range of procurement processes, in that the competitive bidding threshold has been increased to R750 000 for Metropolitan municipalities as well as contracts in which the duration exceeds twelve (12) months. In line with the above amendments, Regulation 14, 18, 19 and 35 have been amended to cater for the context of the increased threshold.

The SCM policy annual reviewed and update is currently underway, and is anticipated to be tabled at Council by August 2024.

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