



CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

Report will go to MAYCO ON 01 August 2017
COUNCIL ON 24 " "

Report NOTED BY COUNCIL ON THE

24/08/17

11024

DATE: 07 JULY 2017

REPORT TO: COUNCIL

LC18681

1. ITEM NUMBER

2. SUBJECT

SUPPLY CHAIN MANAGEMENT:

REPORT FOR THE PERIOD 1 APRIL 2017 TO 30 JUNE 2017
AND ANNUAL REPORT FOR 2016/2017

VERSKAFFINGSKETTINGBESTUUR:

VERSLAG VIR DIE TYDPERK 1 APRIL 2017 TOT 30 JUNIE 2017
EN JAARVERSLAG VIR 2016/2017

ULAWULO LOBONELELO NGENKONZO YOKUTHENGA NOKUTHENGISA
IIMPAHLA ZEZIKO:

INGXELO ESUSELA KWISITHUBA SOMHLA

WOKU-1 EPRELI 2017 UKUYA KOWAMA-30 JUNI 2017

NENGXELO YONYAKA-MALI KA-2016/2017

[LSU: 4878]

3. DELEGATED AUTHORITY

In terms of delegation

This report is

☐ Committee name :

☒ The Executive Mayor to Delegated authority

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

☒ Council

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MMH

4. DISCUSSION

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

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

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

In accordance with Clause 12 of our SCM policy, the City Manager must submit quarterly reports to the Executive Mayor and, within 30 days of the end of each financial year, on the implementation of this policy.

Financial implications ☒ None ☐ Opex ☐ Capex

☐ Capex: New Projects

☐ Capex: Existing projects requiring additional funding

☐ Capex: Existing projects with no additional funding requirements

Legal Compliance ☐

Staff Implications ☐ Yes ☒ No

5. OUTCOMES OF DISCUSSIONS WITH MAYCO MEMBER

The MAYCO member notes the content of the report.

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6. RECOMMENDATIONS

It is recommended that the contents of the report entitled **SUPPLY CHAIN MANAGEMENT: REPORT FOR THE PERIOD 1 APRIL 2017 TO 30 JUNE 2017 AND ANNUAL REPORT 2016/17** be noted.

AANBEVELING

Daar word aanbeveel dat daar kennis geneem word van die inhoud van die verslag getiteld **VERSLAG VIR DIE TYDPERK 1 APRIL 2017 TOT 30 JUNIE 2017 EN JAARVERSLAG VIR 2016/17**.

ISINDULULO

Kundululwe ukuba makuqatshelwe ulwazi oluqulethwe kule ngxelo isihloko sithi: **ULAWULO LOBONELELO NGENKONZO YOKUTHENGA NOKUTHENGISA IIMPAHLA ZEZIKO: INGXELO ESUSELA KWISITHUBA SOMHLA WOKU-1 EPRELI 2017 UKUYA KOWAMA-30 JUNI 2017 NENGXELO YONYAKA-MALI KA-2016/2017**

ANNEXURES

FOR FURTHER DETAILS CONTACT

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E-MAIL ADDRESS		
DIRECTORATE	Finance	FILE REF No
SIGNATURE : DIRECTOR		

EXECUTIVE DIRECTOR

NAME

Kevin Jacoby

COMMENT:

DATE

10/07/2017

SIGNATURE



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EXECUTIVE DIRECTOR: FINANCE

NAME

COMMENT:

DATE

SIGNATURE

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

Jean-Mari Holt

COMMENT:

DATE

13/07/2017

For information. JMH.

SIGNATURE

JMH

EXECUTIVE MAYOR (ACTING)

☒ SUPPORTED

☐ NOT SUPPORTED

NAME

ID NEILSON

COMMENT:

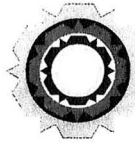
DATE

19/7/2017

SIGNATURE

[Signature]

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ANNEXURE 1

1. STRATEGIC INTENT

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

2. PURPOSE

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

3. FOR NOTING BY THE EXECUTIVE MAYOR

For information of the Executive Mayor.

4. EXECUTIVE SUMMARY

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

4.1. Other Services Consulted

Not applicable

5. Salient Details of Supply Chain Management Activities

Major SCM activities are summarised below, for information.

5.1 Demand and Risk Management

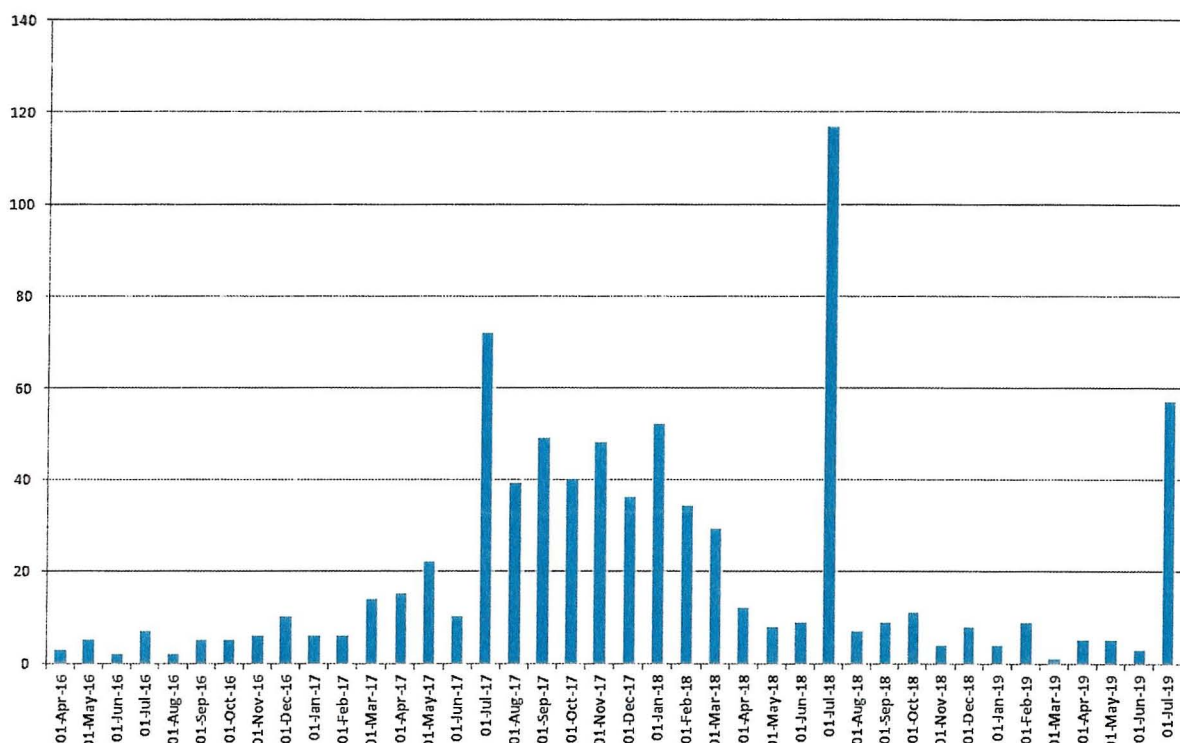
5.1.1 Risk Management

The Supply Chain Management risk register remains unchanged.

5.1.2 Demand Management

The demand plan of the City shows another decline in the number of tenders planned for July of each year, as well as a slight increase in the number of tenders planned during the rest of the year. This area of demand planning requires ongoing attention.

Graph 1:



The SCM department received 121 tender requests during the 2016/17 financial year which were requested to be awarded within the financial year. This is a huge improvement from the previous year.

5.2 Database of Accredited Suppliers

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

Table 1: Registration of Suppliers for Quarter 4 2016/2017

	Apr-17	May-17	Jun-17	Total
Applications approved for the quarter	151	241	224	616
Total number of applications approved 2016-2017				2142

For the fourth quarter 616 new supplier applications were considered and approved. These new applications are an indication that suppliers want to engage the City to access procurement opportunities. A total of 2142 new supplier applications were created for the 2016-2017 financial year.

5.2.1 List of Accredited Prospective Suppliers

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

There are 15 854 active suppliers on the database of which 10 535 have been successfully registered on the CSD database. This is a great achievement as the City remains the only municipality who have a CSD walk-in-centre in the Western Cape and the highest number of registered suppliers. To this end we have increased the physical and human resource capacity to process to support CSD registrations.

Graph 2: Central Supplier Database Registration: Walk-in Centre: Quarter 4

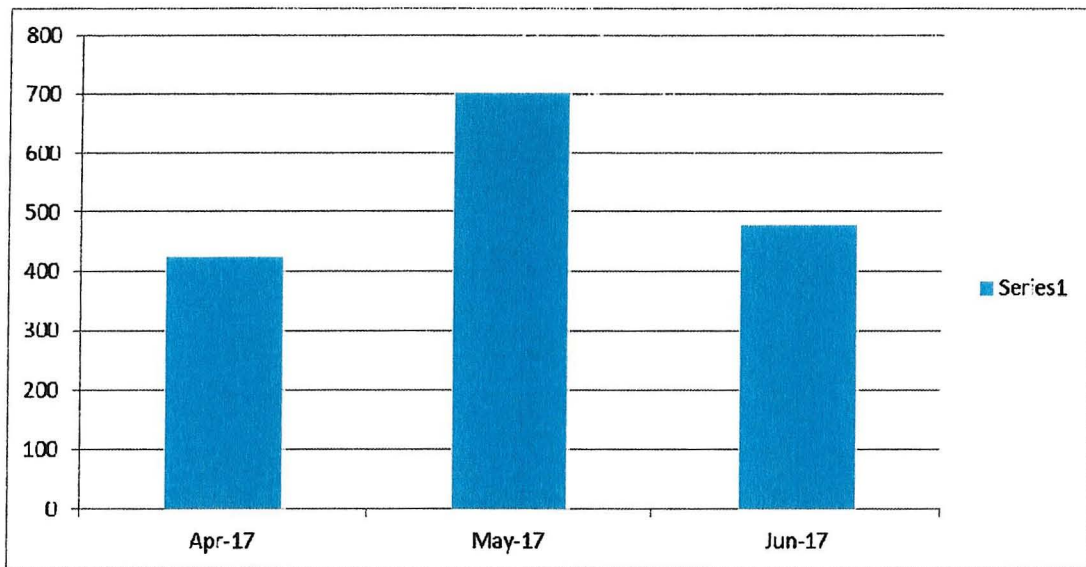


Table 2: CSD Registration of Suppliers for Quarter 4

Central Supplier Database Walk-in Centre	Apr-17	May-17	Jun-17	Total
CSD Registrations approved	425	703	477	616
Total number of CSD registrations for 2016-2017				10 535

5.2.2 Supplier Due Diligence

Continuous due diligence checks are being performed to ensure compliance pertaining to SCM regulation 44 and 45 by not doing business with any person in the service of the state. The "Red List" for listing supplier defaults is updated regularly as an internal monitoring tool of suppliers to track performance and abuse of the SCM Policy.

Table 3: Defaulting and Poor performing suppliers

Quarter and Annual 2016 - 2017 Defaulting and Poor Performing Suppliers					
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual Total
False DOI	1	3	36	0	40
Non- Delivery of Goods/ Services	2	4	11	5	22
Poor Performance	14	21	22	25	82
Repeat of Withdrawal of RFQ	0	2	1	0	3
Collusion	0	0	2	0	2
Abuse of SCM Policy	2	4	1	0	7
Total	19	34	73	30	156
Matters sent to Legal	4	5	43	1	53
Matters sent to National Treasury for restriction	0	0	13	9	22

The above table reflects statistics relating to poor performance and defaulting suppliers. Upon notification or determination of poor performance, false declaration or default of a supplier, SCM engages with the supplier to resolve the problem or to establish the facts. In most instances the problems are resolved and in some instances the matters are referred to the Legal Services Department for further interrogation and processing. Upon recommendations to initiate steps in terms of the Combating Abuse of the SCM Policy a restriction of a supplier is sent to National Treasury.

5.3 Inventory and Stores Management (ISM)

The main purpose of the Inventory and Stores section is to provide the right quality of materials at the right time and in the correct quantities to the all departments in the City. This is done to enable effective service delivery to the citizens of Cape Town.

There are 36 operational SAP stores in the City and 19 fuel sites with 12 429 different materials and 22 585 bins. During 2016/17 the average stock value was R267,951 263 with a record annual stock usage value of more than R10 120 417 354. There were 858 252 goods movement transactions during the financial year.

The Inventory and Stores section was also responsible for the sale of movable assets that are redundant, obsolete or scrapped up until 30 June 2017.

5.3.1 Achievements

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

- The average Stock Availability during 2016/17 was approximately 96%.
- Returns to stock averaged at less than 0.02% of goods issues. This is an indication that the users were satisfied with the quality of materials that they received from the stores and that the quality management system performed well
- 100% of the SCM assets were verified during the annual asset verification
- A large number of capex and maintenance projects to the value of approximately R12 million were completed. These included the alteration of the Hillstar Store, CCTV installations at four facilities and the replacement of asbestos roofs at three stores
- The spend of the capex is approximately 97%

5.3.2 Results

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

Table 4: Fourth Quarter Results

4th Quarter	Stock Value at end of Quarter (Rands)	Ave Stock Value during Quarter (Rands)	Usage Value during Quarter (Rands)	Annualised Stock Turns	No of Transactions during Quarter
2015-16	222 667 588	233 581 970	286 884 324	4.91	227 867
2016-17	277 901 805	290 435 870	304 391 426	4.19	224 931
% Change	25%	24%	6%	-15%	-1%

Table 5: Annual Results

Financial Year	Stock Value at Year End (Rands)	Average Stock Value (Rands)	Usage Value (Rands)	Annual Stock Turns	No of Transactions
2015-16	222 667 588	230 820 567	880 355 943	3.81	837 674
2016-17	277 901 805	267 951 363	1 012 417 354	3.78	858 252
% Change	25%	16%	15%	-0.8%	2.5%

The net stock write-off for 2016/17 was approximately R1 million. The main reason for the stock write-off was obsolete Pre-Paid Electrical Metering Equipment which was ordered at the request of Electricity Department in 2011. A materials requirement planning process is being more stringently implemented to monitor slow moving stock. There were two incidents of theft at all the stores which amounted to a combined value of approximately R20 000 and has been investigated. SCM and the line departments will be looking at securing the parameter fencing where the stock is located.

5.3.3 Income from Assets Sold (Provisional as at 3 July 2017)

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

Table 6: Redundant Asset Sale Income

Asset Class	Source	Income 4 th Quarter (Rands)	Income 2016/17 (Rands)
Movable Assets	Public Auctions	9 616 396	21 130 396
Scrap Metal	Tender/Contract	3 717 755	11 351 575
Electrical Distribution Equipment	Tender/Contract	4 020 358	6 693 245
Used Transformer Oil	Tender/Contract	301 270	822 637
Used Lubricants	Tender/Contract	49 875	198 238
Waste Paper	Tender/Contract	3 867	36 201
Total		17 709 520	40 232 291

The table above reflects income generated from assets and consumables sold which have reached its useful life.

5.4 Procurement

5.4.1 Engagements with Internal Customers

Supplier Performance Management through the Vendor Default Procedure (None/ Poor Performance):

A stringent supplier default process has been maintained on an as-required, on-going basis, as a means to,

- Assist line departments with regard to contract management post-award,
- Ensure Supplier compliance to specifications, conditions of contract, legislation, performance agreements.
- Ratify deviations to specifications, deviations from desired quality / substandard workmanship, poor performance and non-performance and breach of contract
- Resolve areas of poor performance. Afford suppliers the opportunity to remedy any areas of breach, non-conformance.
- Advice and guide line on recourse in line with conditions of contract, e.g. levy penalties, termination of contract, restriction of suppliers.

5.4.2 Community Based Procurement

In order to aid and facilitate local economic development and job creation in communities, SCM is implementing the registration of Community Based Suppliers (CBS). This required a review and revision of the Community Based Standard Operating Procedure to afford new businesses to compete for procurement opportunities within their respective communities, for projects less than R30, 000.

SCM has initiated the following:

- Revised the standard operating procedure: Targeted procurement of Community Based Suppliers
- Developed a new simplified supplier registration form for CBS's
- Met with the Area Directors and some Area Mayco Members to present and promote CBS's procurement and to collaborate on process.
- Attended an estimated 15 ODTP "Taking the City to the people" roadshows across the metro to promote CBS program.

Planned Future Actions

- Each Sub-Council to appoint CBS champion
- Training of champions
- On boarding of Line Departments f
- Line departments to identify procurement opportunities
- Continue to collaborate with the Area Base directors to promote CBS procurement.
- Promote the registration process with the Sub-councils' to get CBS's on the supplier database.
- Continue to promote this initiative at Business Support roadshows of Economic Development.
- Provide Supplier Support.

5.4.3 RFQ Advert vs Responses for April to June 2017

This quarter has seen us place Requests for quotes on the City's website and received responses to our advertised requests for quotations and we have produced Purchase orders to the value.

Table 7: QIF Advert vs Responses for Jul 16 to Jun 17

	GOODS			Services				
	RFQ Advertised	RFQ Responses	Ratio	RFQ Advertised	RFQ Responses	Ratio		
Jul'16	720	2787	3.87	417	1896	4.55		
Aug'16	1274	5481	4.30	594	3446	5.80		
Sep'16	1384	5408	3.91	560	3257	5.82		
Oct'16	1132	5871	5.19	420	1995	4.75		
Nov'16	1234	8220	6.66	556	1616	2.91		
Dec'16	900	6067	6.74	158	1040	6.58		
Jan'17	1090	5528	5.07	301	525	1.74		
Feb'17	1273	4218	3.31	297	1643	5.53		
Mar'17	1582	10515	6.65	379	1298	3.42		
Apr'17	990	5338	5.39	263	1002	3.81		
May'17	1743	8090	4.64	369	1097	2.97		
Jun'17	1232	5945	4.82	335	1467	4.38		
14554			73468	5.05	4649		20282	4.36
Total Advertised			19 203	Total Ratio			4.88	
Total Responses			93 750					

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

Number of B-BBEE Vendors utilised for the Financial year July 2016 to June 2017

The number B-BBEE service providers who have conducted business with the City in this Financial Year (1 July 2016 to 30 June 2017) were 2754 and this equates to 87.04% of the overall number of service providers used.

A total of 216865 purchase orders were issued to the B-BBEE vendors which equates to 94.49% of the total and, the spend is which is equivalent to of our total expenditure for this period.

Table 8: B-BBEE vs PO spend for the Fin Year July 2016 to June 2017

B-BBEE Level	Vendors	% Vendors	PO's	% PO's	PO Value	% PO Value
1	1216	38.43%	129115	56.26%	3 861 357 397.69	26.30%
2	412	13.02%	30032	13.09%	4 026 095 302.80	27.42%
3	369	11.66%	23641	10.30%	2 873 408 880.08	19.57%
4	574	18.14%	26511	11.55%	1 692 734 287.36	11.53%
5	57	1.80%	1525	0.66%	491 576 883.54	3.35%
6	52	1.64%	2437	1.06%	247 474 668.53	1.69%
7	30	0.95%	1275	0.56%	291 461 072.09	1.99%
8	44	1.39%	2329	1.01%	127 193 618.03	0.87%
9	7	0.22%	127	0.06%	4 372 460.75	0.03%
0	403	12.74%	12517	5.45%	1 065 580 505.56	7.26%
Grand Total	3164	100.00%	229509	100.00%	14 681 255 076.43	100.00%
B-BBEE	2754	87.04%	216865	94.49%	R13 611 302 110.12	92.71%

Number of B-BBEE Vendors utilised for the quarter April to June 2017

The number B-BBEE service providers who have conducted business with the City in this quarter (1 April 2017 to 30 June 2017) were 1901 and this equates to 89.80% of the overall number of service providers used.

A total of purchase orders were 54756 issued to the B-BBEE vendors which equates to 94.62% of the total and, the spend is which is equivalent to of our total expenditure for this period.

Table 9: B-BBEE vs PO spend for the Quarter April 2017 to June 2017

B-BBEE Level	Vendors	% Vendors	PO's	% PO's	PO Value	% PO Value
1	882	41.66%	33079	57.16%	928 318 581.27	29.12%
2	294	13.89%	7615	13.16%	810 949 464.04	25.44%
3	236	11.15%	5466	9.45%	605 452 832.17	18.99%
4	371	17.52%	6686	11.55%	329 330 677.79	10.33%
5	41	1.94%	405	0.70%	123 630 657.91	3.88%
6	29	1.37%	620	1.07%	67 101 444.39	2.10%
7	15	0.71%	345	0.60%	37 485 751.91	1.18%
8	33	1.56%	540	0.93%	37 579 525.41	1.18%
9	3	0.14%	47	0.08%	352 964.62	0.01%
0	213	10.06%	3067	5.30%	247 686 231.62	7.77%
Grand Total	2117	100.00%	57870	100.00%	3 187 888 131.13	100.00 %
B-BBEE	1901	89.80%	54756	94.62%	R2 939 848 934.89	92.22%

5.5 Tenders and Contract Administration

5.5.1 Tender Statistics

Table 10: Tender Statistics for 2016/2017:

Advertised	385
Submissions received	2704
Awarded	314
Cancelled	29

The estimated value of tenders awarded is R10,4 billion. Some of the tenders are rates based and hence estimated value is recorded.

5.5.2 Turnaround times

The average turnaround time of 19.27 is an improvement as compared to the previous financial year end (20.08). This is due to the year-on-year improvement in tender turnaround time from 17.21 (2015/2016) to 16.04 (2016/2017).

5.6 Supply Chain Management Bid Adjudication Committee & Support Services

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

5.6.1 Current Interventions

5.6.1.1 e-Procurement

The e-Procurement project started in April 2017 and will allow for the online supplier registration process and the automation of the quotations and purchase order cycle for work below R200 000. The system design and development is almost complete with user acceptance testing currently taking place.

Briefing sessions were held with approximately 200 suppliers for the related commodities and SCM staff awareness sessions have been

conducted. The expected 'go-live' date in September 2017 for certain categories of procurement is planned.

5.6.1.2 Training and Development

The SCM department has undertaken a series of training interventions with the National School of Government. Training interventions such as Demand management, Municipal SCM, Promoting Anti -Corruption in the Public Service, Strategic Sourcing, Contract Management, and MFMA Bid Committees are some of the training programs already undertaken since July 2016. Such interventions will continue for the next year and will include Inventory Workshop, Inventory Management, Ethics Management in Local Government, Advanced Acquisition Management, Detecting and Combatting of Bid Rigging.

Bid Committee Chairpersons for Transport and Urban Development Authority and Informal Settlements, Water and Waste Services will attend the MFMA Bid Committees training in July 2017. The Bid Committee training will eventually be rolled out to all stakeholders in the City. The Competitions Commission will conduct Preventing Bid Rigging training in July 2017.

5.6.1.3 Management and Change Interventions

An assessment of the SCM department was undertaken and a three-year business improvement plan has been developed to address areas of capacity, upskilling, turnaround times, policy and processes as well as staff morale. Seven key pillars driving the change journey in supply chain are providing strategic and enabling support, a procurement culture shift, skilled staff, E-Procurement, project based supply chain, motivated and productive staff and creating a centre of excellence. In order to encourage change within the SCM team, six Change Mobilisation roadshows were held during the year. In addition, management and team meetings engage on various challenges that need to be addressed in supply chain. A strategy session was held during September 2016 with senior supply chain staff.

5.6.1.4 SCM Capacitation

To address the challenge of poor tender turnaround times, The SCM department has made a number of resource changes. In the Tenders and Contracts branch seven Senior SCM Specialists were appointed. In order to establish a centre of excellence for shared services three Senior SCM Specialists for Safety and Security, Assets and Facilities Management and Social Services have been appointed. SCM is vigorously trying to recruit Shared Service SCM specialists for the remainder of the directorates.

To strengthen Demand Planning and Management, a Senior Demand Analyst has been appointed to start in the new financial year.

In support of the SCM Centre of Excellence the post of Manager: Procurement Excellence and Head: SCM and Governance, Head: Procurement, Head Data Integrity and Senior SCM Specialist are being processed for recruitment and selection.

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

In order to strengthen supplier management a post of Head: Data Integrity and Supplier Performance has been created and will be filled in the next quarter. In addition, the review of the procurement team has taken place and a post of Head: Procurement has been advertised.

These senior resources will assist in stabilizing supply chain management functions and processes.

5.6.1.5 Digitization of Tenders System

Since March, both the SCM and IT department engaged SAP to undertake a feasibility analysis to determine how best to automate the tendering processes. This has been concluded as at 30 June and will pave the way forward for creating a digital platform for tenders.

5.6.1.6 SCM Policy

A review of the SCM policy was undertaken during the financial year and has been rolled-out to the organization. Monthly reports on the performance of supply contracts have also been submitted to the City Manager.

FOR FURTHER DETAILS CONTACT:

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