

REPORT TO: EXECUTIVE MAYOR

1. ITEM NUMBER

2. SUBJECT

**SUPPLY CHAIN MANAGEMENT:
REPORT FOR THE PERIOD 1 JANUARY 2023 TO 31 MARCH 2023**

**VERSKAFFINGSKETTINGBESTUUR:
VERSLAG VIR DIE TYDPERK 1 JANUARIE 2023 TOT 31 MAART 2023**

**ULAWULO LOBONELELO NGEMPAHLA EKWIZIKO:
INGXELO YESITHUBA ESISUSELA KOWO 1 KWEYOMQUNGU UKUYA
KOWAMA 31 KWEYOKWINDLA 2023**

M3273

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.

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.

Making progress possible. Together.

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 MANAEMENT REPORT FOR THE PERIOD 1 JANUARY 2023 TO 31 MARCH 2023 BE NOTED.

AANBEVELING

DAAR WORD AANBEVEEL DAT DAAR KENNIS GENEEM WORD VAN DIE INHOUD VAN DIE VERSLAG GETITELD VERSKAFFINGSKETTINGBESTUUR: VERSLAG VIR DIE TYDPERK 1 JANUARIE 2023 TOT 31 MAART 2023.

ISINDULULO

KUNDULULWE UKUBA MAKUQWALASELWE IZIQULATHO ZENGXELO ESIHLOKO 'INGXELO ENGOLAWULO LOBONELELO NGEMPAHLA EKWIZIKO' YESITHUBA ESISUSELA KOWO 1 KWEYOMQUNGU UKUYA KOWAMA 31 KWEYOKWINDLA 2023.

ANNEXURES

ANNEXURE 1

FOR FURTHER DETAILS CONTACT

NAME	BASIL CHINASAMY	CONTACT NUMBER	021 400 3190
E-MAIL ADDRESS	Basil.chinasamy@capetown.gov.za		
DIRECTORATE	021 400 3190	FILE REF NO	
SIGNATURE : DIRECTOR	<div><div>Basil Chinasamy</div><div>Digitally signed by Basil Chinasamy Date: 2023.04.02 12:02:05 +02'00'</div></div>		

CHIEF FINANCIAL OFFICER

NAME

Kevin Jacoby

COMMENT:

DATE

SIGNATURE

Kevin
Jacoby

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

LEGAL COMPLIANCE

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

NAME

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DATE

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For information.

CITY MANAGER

NAME

Lungelo Mbandazayo

COMMENT:

DATE

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EXECUTIVE MAYOR

NAME

Geordin Hill Lewis

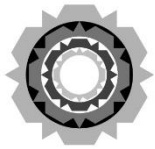
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Andrews

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ANNEXURE 1

1. STRATEGIC INTENT

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

2. PURPOSE

Compliance with clause 12 of the City's Supply Chain Management (SCM) Policy.

3. FOR NOTING BY 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 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 2022/23 Demand Plan

The implementation of the 2022/23 demand plan is progressing well. The total quantum of the demand plan for the 2022/23 financial year is approximately 352 tenders, which includes 16 tender that were in progress at the end of the previous financial year. This amounts to 41 more tenders than the 2021/22 demand plan, which consisted of 311 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 92% as at the end of Quarter 3 of the 2022/23 financial year and is reflected in Table 01 below:

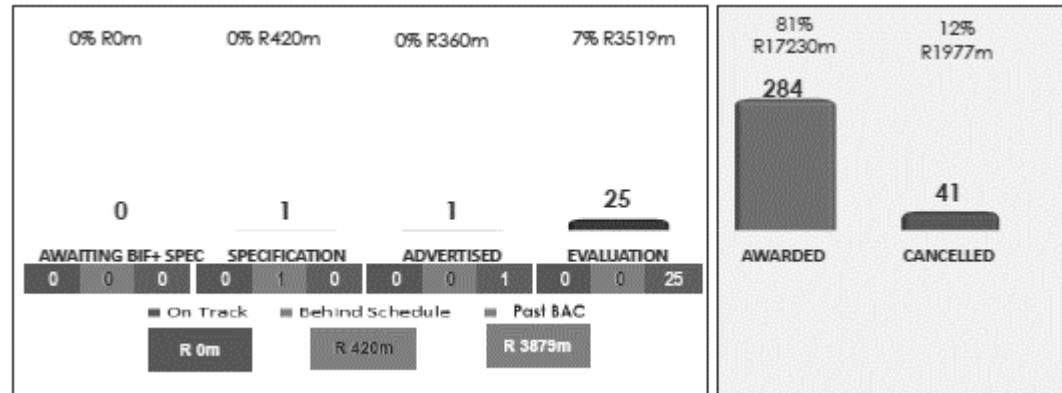
Table 01: 2022/23 Demand Plan for Tenders

2022/23 Approved Demand Plan	
Total number of tenders on approved plan	352
Number of tenders successfully awarded	284
Number of tenders cancelled	41
Number of tenders in progress	27
Implementation rate	92%

As can be seen from Table 01, 284 tenders (81%) of the total required tenders have been awarded and 41 tenders (11%) were cancelled as at 31 March 2023. Tenders to the value R17 230 million for the financial year have already been awarded, and tenders to the value of R1 977 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)



27 Tenders to the value of R4 299 million are currently in still in process of finalisation at different stages [Specification (1 tender), Advertised (1 tender) and Evaluation (25 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 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.

- The timeline must provide at least 90 days after the BAC award and prior to CRD, 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. 99,69% Percentage 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 31 March 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		3	3
Corporate Services	0		7	7
Economic Growth	0		1	1
Energy	0		3	3
Finance	0			
Future Planning & Resilience	0			
Human Settlements	0	1	7	8
Office of the City Manager	0			
Safety & Security	0		1	1
Spatial Planning & Environment	0		1	1
Urban Mobility	0			
Urban Waste Management	0		1	1
Water & Sanitation	0		2	2
Grand Total	0	1	26	27

As per Table 02 above, 27 tenders are in progress of which 26 tenders are past their BAC award date and 1 tender is behind schedule. These tenders are closely monitored to drive the conclusion thereof expeditiously.

Detailed Demand Plan Management information is sent fortnightly to Executive Directors 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 department to resolve slippages 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 31 March 2023.

Table 02A: Demand Plan status – tenders overdue as at 31 March 2023

	Demand Plan Status						
Directorate	Advertised	Evaluation	Drafting PB Report	Drafting Report	Preferred Bidder	Report Ready	Grand Total
Community Services & Health			1	1	1		3
Corporate Services		2	2	1	2		7
Economic Growth		1					1
Energy		1		1		1	3
Finance							
Future Planning & Resilience							
Human Settlements	1	2	1	3			7
Office of the City Manager							
Safety & Security		1					1
Spatial Planning & Environment			1				1
Urban Mobility							
Urban Waste Management				1			1
Water & Sanitation				1		1	2
Grand Total	1	7	5	8	3	2	26

As per Table 02A above, 67% (Drafting Report=8; Drafting PB Report=5; Preferred Bidder=3; Report Ready=2) of overdue awards are in the post evaluation stage of the tender process and with 1% (Report Ready=2) ready to serve at the next BAC. Processes are in place to ensure that the awards in advertising and evaluation phases are prioritised and actively monitored.

6.1.3 Cancelled tenders analysis for the period 01 July 2022 to 31 March 2023

41 tenders (11% 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 31 March 2023

Reasons for cancellation	Number	Estimated value R
No acceptable bids received	33	1 866 090 000
PPPFA non-compliance	5	39 650 859
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	41	1 976 740 859

33 of the 41 tender cancellations, representing 81%, are due to no acceptable bids received. Line departments 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. 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.

31 of the cancelled tenders have been added back to the demand plan and they are currently in the various stages, 7 of the cancelled tenders are in awaiting BIF and Specification and 3 cancelled tenders is no longer required. Remedial action and the lessons learnt from such findings are shared with the Top 300 project managers during the SCM workshops and Bid Committee Chairperson's training sessions

6.1.4 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 141 appeals during the financial year up to 31 March 2023. Of these, 22 appeals were upheld, 109 appeals dismissed and 10 appeals are pending an outcome from the Appeals Authority. 15,6% 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 43%, however there are many 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 31 March 2023, only 15 (5%) tender specifications for the 2023/24 demand plan has not been received. 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

A project has been initiated as part of procurement transparency initiative to provide more information on prices the city pays for goods and services. The project is in its final stages and the report will be released publicly during the beginning of the next quarter.

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 as part of good governance. The BAC has convened 11 meetings via skype during Quarter 3 of 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 3 to safeguard BAC information and guard against unauthorise 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 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 35 Bid Specification Committee (BSC) and Bid Evaluation Committee (BEC) Chairperson re-appointments were made during Quarter 3 of the 2022/23 financial year for the various Directorates. 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 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 January 2023 until 31 March 2023, a total of 4 459 RFQ's were advertised on the City's website. 22 037 responses were received equating to a response ratio of 4.94 for each RFQ advertised. Table 04 below refers:

Table 04: RFQ Advertisements vs Responses Received for the period 1 January 2023 to 31 March 2023

Month	Goods			Services		
	RFQ's advertised	RFQ responses	Ratio	RFQ's advertised	RFQ responses	Ratio
Jan 23	844	5 056	5.99	330	1 249	3.78
Feb 23	1 388	7 914	5.70	298	744	2.50
Mar 23	1290	6 384	4.95	309	690	2.23
Total	3 522	19 354	5.50	937	2 683	2.86

Total RFQ's advertised	4 459
Total responses	22 037
Ratio	4.94

The SCM Regulations require a minimum of three (3) responses. The ratio of 4.94 is good and shows that suppliers are interested in doing business with the City.

6.1.10 B-BBEE Purchase Orders

Table 05 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 January 2023 to 31 March 2023.

Table 05: B-BBEE Purchase Orders for the period 01 January 2023 to 31 March 2023

B-BBEE level	PO Count	% PO Count	No. of vendors	% of Vendors	Order value	% Order value
					R	
1	14 845	51.38%	493	40%	1 381 052 280	44%
2	2 821	9.76%	114	9%	395 401 231	13%
3	287	0.99%	16	1%	32 444 210	1%
4	891	3.08%	55	4%	32 706 785	1%
5	103	0.36%	3	0%	18 064 264	1%
6	6	0.02%	2	0%	1 907 599	0%
7	15	0.05%	6	0%	26 941 555	1%
8	26	0.09%	5	0%	4 154 747	0%
Subtotal level 1-8	18 994	65.74%	694	57%	1 892 672 671	61%
0	9 900	34.26%	531	43%	1 214 288 953	39%
Total	28 894	100.00%	1225	100%	3 106 961 624	100%

Approximately 694 B-BBEE suppliers who have conducted business with the City for Quarter 3 of the 2022/2023 financial year, which equates to 57% of the overall number of suppliers the City conducted business with, are on B-BBEE levels 1 to 8, 623 or 50% of these suppliers are on B-BBEE levels 1 to 3, which are entities with more than 50% black ownership.

A total of 18 994 purchase orders, with a total value of R 1 892 672 671 were issued to the B-BBEE suppliers which equates to 57 % of the total of purchase orders processed and 61 % of the total spending for this period.

The procurement relating to *B-BBEE level 0* amounting to R 1 214 288 953 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 may impact on the B-BBEE spent in the future as the new Regulations are rolled out.

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 of these key tenders, the number of deviations has decreased significantly.

Table 06: Fleet services and Pump related tender status update as at 31 March 2023

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

Since tenders have been awarded and is currently active, a decline in the number and value of deviations has been noted as a result of the implementation of the tenders.

6.2 Supplier Development, Empowerment and Management

6.2.1 Supplier Empowerment (Community Based Suppliers)

At the end of Quarter 3, a total of 1 396 Community Based Suppliers, representing an increase of 88 Community Based Suppliers since the end Quarter 1, have been registered on the City's database. Table 08 under paragraph 6.2.2 refers

The monthly Community Based Supplier spending for the 2022/23 financial year is summarised as per Table 07 below:

Table 07: Monthly Community Based Supplier Spending

Details	Jan 23	Feb 23	Mar 23	Quarter 3
Number of awards	1	2	3	6
Award values	R23 000	R57 667	R48 330	R128 997

Table 07 above depicting the Quarter 3 results indicates a total of 6 awards (R 128 997) made to Community Based Suppliers. The year to date awards to Community Based Suppliers amounts to 40 (R1 104 838.01).

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 31 March 2023 is shown in Table 08 below.

Table 08: Supplier Database Statistics as at 31 March 2023

Details	Total suppliers registered
Accredited Suppliers on the City Database	17 349
Central Supplier Database registered (CSD)	15 787
Total E-Procurement registered suppliers	5 971
Community Based Suppliers (CBS)	1 396

As at the end of Quarter 3 of the 2022/23 financial year, the City had a total of 17 349 accredited suppliers, of which 15 787 suppliers are CSD registered. These statistics include 5 971 registered E-Procurement suppliers and 1 396 Community Based Suppliers.

The monthly comparable new approved supplier registration statistics for the period 01 January 2023 to 31 March 2023 are included in Table 09 below.

Table 09: New approved supplier registration statistics for the period 1 October 2022 to 31 March 2023:

SCM supplier support service	Jan 23	Feb 23	March 23	Total
CSD new registrations	49	98	63	210
New suppliers created	49	99	64	212

A total of 212 new supplier registration applications were approved for Quarter 3.

6.2.3 Due Diligence processes

Continuous due diligence reviews are being performed to ensure compliance with clauses 44 and 45 of the Municipal SCM Regulations. Controls have been put in place to ensure that the City does not do business with any person in service of the state. A dual verification process ensures the completeness of both the declaration of interest process and the family reporting note in the financial statements. The Consumer Profile Bureau reporting tool is being used to perform due diligence checks on both the staff and the suppliers. All City staff and Councilors declaration/s of interest/s are assessed for possible conflicts to the SCM system. Where conflicts are detected due to misrepresentation or incorrect information supplied to the City, relevant action is taken.

As per Table 10 below, a total of 6 175 staff declaration/s of interest/s were assessed by SCM during Quarter 3 of the 2022/23 financial year.

Table 10: Staff Declaration of Interest (DOI's) and Private Work applications reviewed during Quarter 3 of the 2022/23 financial year

Applications and declarations reviewed by SCM	Number
Electronic DOI's	4 430
Manual DOI's and private work applications	1 745
Total	6 175

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 11 below:

Table 11: Supplier Performance Management for 1 January 2023 to 31 March 2023

Defaulting and Poor Performing Suppliers	Details
Poor performance	2 suppliers
Non-delivery	4 suppliers
False documentation	2 suppliers
Abuse	2 suppliers
Sent to National Treasury (To restrict)	1 suppliers
Total	11 suppliers

All the above suppliers have been registered on the "Red list" in the respective categories, where applicable. The following is in respect of Quarter 3:

- 2 (two) cases relating to poor or non-performance has been flagged on the red list for noting and consideration, prior to any subsequent awards being made to the respective supplier(s),

- 4 (four) 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),
- 2 (two) cases relating to false documentation has been flagged on the red list for noting and consideration, prior to any subsequent awards being made to the respective supplier(s),
- 2 (two) 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),
- 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 quality of materials at the right time. This is done to facilitate the efficient delivery of services to the inhabitants of Cape Town. ISM seeks to maintain a healthy balance between inventory levels and working capital investments. In total the City has 34 different stores and 14 Fuel sites. There are 13 965 different materials and 23 902 bins maintained.

6.3.1 Stock comparative results

Comparative results for the last two financial years are indicated in Table 12 below:

Table 12: Results for Quarter 3 - 2021/22 and 2022/23

Quarter 3	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	545 087 433	546 116 491	319 672 490	2.34	177 416
2022/23	553 406 577	568 662 829	301 842 064	2.12	177 063
% Change	2%	4%	-6%	-0.22	-0.2%

The quarterly comparable stock value has increased by 2% (01 January 2022 to 31 March 2022 compared to 01 January 2023 to 31 March 2023). The 2% (R8.3M) increase was mainly attributed to a lower demand in certain material types. The top contributing material types were electrical components, water meters, ferric sulphate and hand sanitizer.

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.

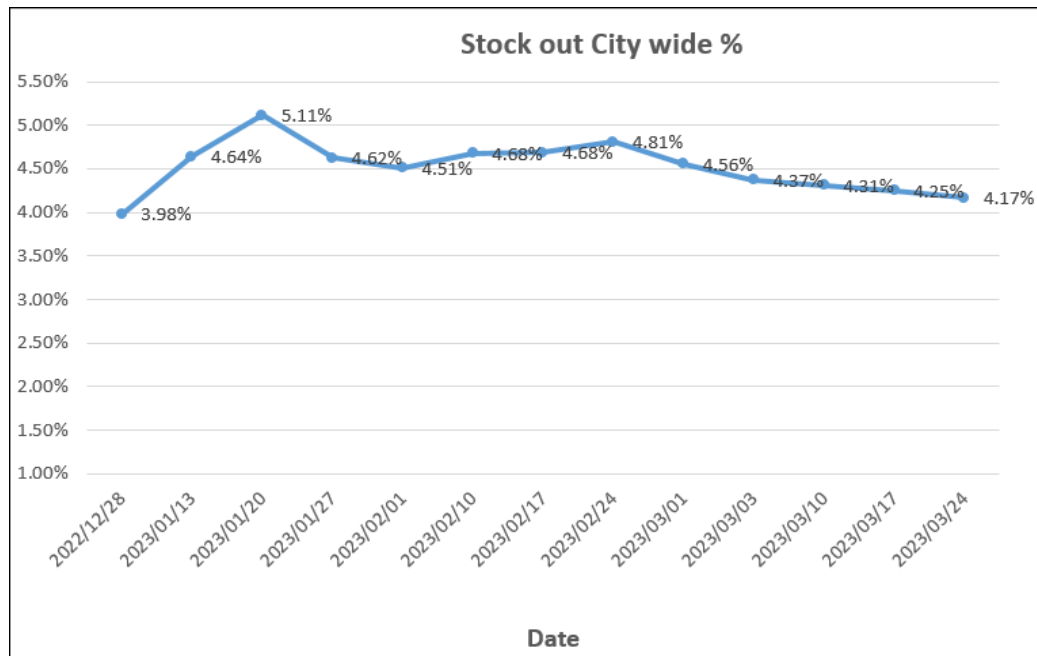
The quarterly usage value decreased by R17.83 million (6%) (01 January 2022 to 31 March 2022 compared to 01 January 2023 to 31 March 2023). The reason was mainly attributable by the lower demand in electrical components, ferric sulphate for water treatment plants and hand sanitizers.

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. Department are required inform supply chain to set the correct stock level and their material requirements levels to prevent stockpiling and holding up working capital.

6.3.3 Stock out percentages as at 28 March 2023

Graph 02 below indicates the stock out percentage as at the end of Quarter 3 of the 2022/23 financial year.

Graph 02: Stock out City wide % as at 28 March 2023



The stock out percentage increased from 3.98% at the beginning of Quarter 3 to 4.17% as at 28 March 2023. The increase could be attributable to the disruption in supply due to the high stages of load-shedding experienced by manufacturers, which was further compounded by the builders holiday period. It is also noted that the proactive approach by ISM, resulted in a gradual downward trend in the stock out percentage.

The stock availability achievement as at the end of Quarter 3 was 95,83%. This represents an over-achievement of 3.83% 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. Pro-active need assessments are necessary to effectively ensure stock availability.

6.4 Supply Chain Management Overall

6.4.1 Risk Management

The SCM risk registers and mitigating plans are reviewed on an ongoing basis. SCM is satisfied that known risks are being adequately managed and monitored. The latest update to the Fraud Transversal Risk register was approved on 16 March 2023. The Finance: Supply Chain Management risk register was reviewed together with Risk, Ethics and Governance on 9 March 2023. The next review will take place during Quarter 4.

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 13: Disposal revenue for the period 01 January 2023 to 31 March 2023

Category	Revenue R
Disposal of scrap metals	1 776 962.25
Disposal of waste paper	65 673.29
Disposal of oils	261 482.85
Disposal of Scrap Transformers	955 753.50
Auction	9 634 841.71
Total	12 694 713.60

As per Table 13 above, a total of R12 694 713.60 disposal revenue was generated in Quarter 3 of the 2022/2023 financial year. The next auction is scheduled to take place on 10 May 2023.

6.4.3 SCM Capacitation and Development

The SCM business improvement strategy, which focus is to provide an effective and efficient SCM service to the City, *inter alia*, provides for the staffing of the SCM

unit with suitably qualified and experienced employees. For the period 1 January 2023 to 31 March 2023, the SCM department made 17 permanent appointments and 1 external transfer to SCM.

The SCM staff establishment consists of 342 approved positions. There are currently 30 positions vacant due to consequential vacancies and some new positions created which are at various stages of the recruitment process. To fill scarce skills, open recruitment and referral and head hunting, is being conducted. Finding SCM talent is difficult due to high demand for these skills within other organs of state and the private sector. SCM is also in the process of implementing an SCM graduate internship program which will see the appointment of 10 graduates placed within the various sections within SCM. The programme will commence during Quarter 4 of the 2022/23 financial year.

To support the growth of the capital budget, increase in volume of tenders and relieve the volumes of work on current staff, additional Senior Practitioner positions has been created and will be filled during Quarter 4 of 2022/23.

The SCM department also made 18 EPWP appointments during Quarter 3.

6.4.4 SCM Audit Action Plan and AGSA

The annual AGSA external audit for the 2021/2022 financial year concluded during December 2022. The AGSA highlighted significant improvements within SCM's core business function.

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. 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 300 project managers were held in June/July in order to sensitise the line directorates on key matters. Close to 500 people attended these learning sessions. 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.

SCM celebrated the team effort to achieve a clean audit by having a successful Green Day event (Green for Clean Audit). This is to encourage staff to drive good governance and a clean audit for the coming year. Also the SCM department celebrated its year-end awards ceremony to recognise staff for good performance and hard work.

An internal staff survey was conducted and shows the improvement in staff morale. There are programs to deal with a new culture and change process but it does take time. Management is monitoring this monthly and hopes to achieves its culture objectives within the next 18 months.

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.

6.4.6 Supply Chain Management Policy review

The SCM Policy was adopted by Council and implemented on 26 January 2023. A total of 13 training interventions where held during Quarter 3. The target audience included all SCM staff, BAC members, Top 300 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.

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