



DATE: 02 OCTOBER 2023

REPORT TO: EXECUTIVE MAYOR

1. ITEM NUMBER

2. SUBJECT

**SUPPLY CHAIN MANAGEMENT:
REPORT FOR THE PERIOD 1 JULY 2023 TO 30 SEPTEMBER 2023**

**VERSKAFFINGSKETTINGBESTUUR:
VERSLAG VIR DIE TYDPERK 1 JULIE 2023 TOT 30 SEPTEMBER 2023**

**ULAWULO LOBONELELO NGENKONZO YOKUTHENGA NOKUTHENGISA
IIMPAHLA ZEZIKO:
INGXELO ESUSELA KWISSITHUBA SOMHLA WOKU-1 JULAYI 2023 UKUYA
KOWAMA-30 SEPTEMBER 2023**

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.

John Laing Smale
Digitally signed by
John Laing Smale
Date: 2023.10.04
14:15:23 +02'00'

Making progress possible. Together.

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:

John Laing
Smale

Digitally signed by
John Laing Smale
Date: 2023.10.04
14:15:35 +02'00'

Making progress possible. Together.

- ☐ 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 JULY 2023 TO 30 SEPTEMBER 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 JULIE 2023 TOT 30 SEPTEMBER 2023.

ISINDULULO

KUNDULULWE UKUBE MAKUQWALASELWE IZIQULATHO ZENGXELO ESIHLOKO 'INGXELO ENGOLAWULO LOBONELELO NGEMPAHLA EKWIZIKO' YESITHUBA ESISUSELA KWISITHUBA SOMHLA WOKU-1 JULAYI 2023 UKUYA KOWAMA-30 SEPTEMBER 2023

ANNEXURES

ANNEXURE A

John Laing
Smale


Digitally signed by
John Laing Smale
Date: 2023.10.04
14:15:50 +0200

Making progress possible. Together.

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>Arno Vorster</div><div>Digitally signed by Arno Vorster Date: 2023.10.02 11:53:56 +02'00'</div></div>		

CHIEF FINANCIAL OFFICER

NAME	Kevin Jacoby	COMMENT:	
DATE			
SIGNATURE	<div><div></div><div>Digitally signed by Kevin Jacoby Date: 2023.10.02 15:08:38 +02'00'</div></div>		

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

LEGAL COMPLIANCE

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

NAME			COMMENT:	
DATE				
SIGNATURE	<div><div>John Laing Smale</div><div>Digitally signed by John Laing Smale Date: 2023.10.04 14:16:38 +02'00'</div></div>	<div>For information.</div>		

CITY MANAGER


NAME

Lungelo Mbandazayo

COMMENT:

DATE

SIGNATURE


Digitally signed by
Lungelo Mbandazayo
Date: 2023.10.06
19:31:58 +02'00'

EXECUTIVE MAYOR

NAME

Ald Geordin Hill-Lewis

COMMENT:

DATE

10/10/23

SIGNATURE



John Laing
Smale

Digitally signed by
John Laing Smale
Date: 2023.10.04
14:16:10 +02'00'

Making progress possible. Together.



ANNEXURE A

1. STRATEGIC INTENT

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

2. PURPOSE

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

3. FOR NOTING BY EXECUTIVE MAYOR/COUNCIL

For information only

4. EXECUTIVE SUMMARY

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

5. OTHER SERVICES CONSULTED

Not applicable.

6. SALIENT DETAILS OF SUPPLY CHAIN MANAGEMENT ACTIVITIES

Major SCM activities are summarised below, for information.

6.1 Demand and Acquisition Management

The Demand Management unit has been instrumental in driving the planning for tenders and contracts for the Medium Term Revenue and Expenditure Framework (MTREF) cycle. This aids the organisation in planning three (3) years in advance for tenders for various goods and services. The demand plan is reconciled to the capital and operating budgets to ensure that budgets are informed by planned contracts. Regular interactions and collaboration sessions with executives and line departments take place to ensure progress is made towards the planning for tenders Citywide.

6.1.1 Implementation of the 2023/24 Demand Plan

The total quantum of the demand plan for the 2023/24 financial year is 301 tenders, which includes 10 tenders that were in progress at the end of the previous financial year.

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

The tender completion rate was 78% as at the end of Quarter 1 of the 2023/24 financial year and is reflected in Table 01 below:

Table 01: 2023/24 Demand Plan for Tenders

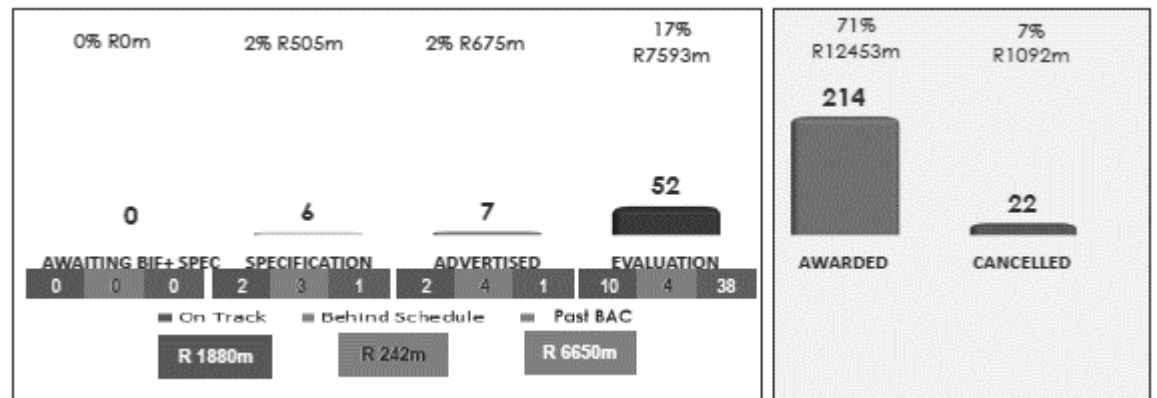
2023/24 Approved Demand Plan	
Total number of tenders on approved plan	301
Number of tenders successfully awarded	214
Number of tenders cancelled	22
Number of tenders in progress	65
Implementation rate	78%

As can be seen from Table 01, 214 tenders (71%) of the total required tenders have been awarded and 22 tenders (7%) were cancelled as at 30 September 2023.

Tenders to the value R12 453 million for the financial year have already been awarded, and tenders to the value of R1 092 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: 2023/24 Graphical View of the Demand Plan



65 tenders to the value of R8 773 million are currently in process of finalisation. Cancelled tenders are discussed in more detail in paragraph 6.1.3 below.

Measures to Improve Tender Processing

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

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

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

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. 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 September 2023 is depicted in Table 02 below.

Table 02: 2023/24 Tenders not awarded per Directorate

Implementing Directorate	Number of tenders in progress			
	On Track	Behind Schedule	Overdue	Grand Total
Community Services & Health	0	1	5	6
Corporate Services	2	0	5	7
Economic Growth	0	0	0	0
Energy	3	5	3	11
Finance	0	0	2	2
Future Planning & Resilience	0	0	1	1
Human Settlements	0	0	10	10
Office of the City Manager	0	0	0	0
Safety & Security	2	1	0	3
Spatial Planning & Environment	2	0	1	3
Urban Mobility	2	1	5	8
Urban Waste Management	1	0	0	1
Water & Sanitation	2	3	8	13
Grand Total	14	11	40	65

As per Table 02 above, 65 tenders are in progress of which 40 tenders are past their BAC award date and 11 tenders are behind schedule. These tenders are closely monitored to drive the conclusion thereof expeditiously.

The tender completion rate of 78% as at 30 September 2023 far exceeds to planned target of 20% for Quarter 1 of the 2023/24 financial year. A remarkable achievement due to improvement measures set in place during the prior financial year.

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

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

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

Demand Plan Status				
Directorate	Specification	Advertised	Evaluation	Grand Total
Community Services & Health	0	0	5	5
Corporate Services	0	0	5	5
Economic Growth	0	0	0	0
Energy	0	0	3	3
Finance	0	0	2	2
Future Planning & Resilience	0	0	1	1
Human Settlements	1	1	8	10
Office of the City Manager	0	0	0	0
Safety & Security	0	0	0	0
Spatial Planning & Environment	0	0	1	1
Urban Mobility	0	0	5	5
Urban Waste Management	0	0	0	0
Water & Sanitation	0	0	8	8
Grand Total	1	1	38	40

The table 02A shows the number of overdue tenders. The percentages breakdown is as follows: 2.5% for specification, 2.5% for advertisement, and 95% for evaluation. Processes have been implemented to prioritize and track the awards in the evaluation stage.

The approximate award values and budget source of the 40 overdue awards are depicted in Table 02B below:

Table 02B: Budget source on tenders overdue as at 30 September 2023

Directorate	CAPEX R	CAPEX & OPEX R	OPEX R	Grand Total R
Community Services & Health	R250 000 000	R100 000 000	R173 000 000	R523 000 000
Corporate Services	-	R444 257 982	R65 000 000	R509 257 982
Economic Growth	-	-	-	-
Energy	-	R202 022 177	R72 000 000	R274 022 177
Finance	-	-	R158 000 000	R158 000 000
Future Planning & Resilience	-	-	R36 000 000	R36 000 000
Human Settlements	R1 563 890 000	R78 960 000	R100 000 000	R1 742 850 000
Office of the City Manager	-	-	-	-
Safety & Security	-	-	-	-
Spatial Planning & Environment	-	-	R50 000 000	R50 000 000
Urban Mobility	R795 164 268	R900 000 000	-	R1 695 164 268
Urban Waste Management	-	-	-	-
Water & Sanitation	R1 170 000 000	R71 000 000	R420 600 000	R1 661 600 000
Grand Total	R3 779 054 268	R1 796 240 159	R1 074 600 000	R6 649 894 427

6.1.3 Cancelled tenders analysis for the 2023/24 financial year

22 tenders (7% of tenders) were cancelled during Quarter 1 of 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 September 2023

Reasons for cancellation	Number	Estimated value R
No acceptable bids received	12	673 612 562
PPPFA non-compliance	1	78 000 000
No offers received	7	128 400 000
Funds are no longer available	1	210 000 000
Market related price not achieved	1	2 000 000
No longer a need for the services, works or goods	-	-
Grand total	22	R1 092 012 562

12 of the 22 tender cancellations, representing 50%, 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 alert potential suppliers that a tender is going to be advertised so that the supplier industry can prepare for bidding. The issuance of a market prompt in a local government context ensures transparency, fairness, and competitiveness in the procurement process, allowing a wide range of potential suppliers to have an equal opportunity to offer their solutions and compete for the government contract. It enables local government to obtain the best value for public funds while promoting a level playing field for businesses interested in providing goods or services to the local community.

SCM Department follows up with project managers after the cancellation of tenders to determine the way forward. The Tender Management unit gives these tenders priority in order to ensure they are awarded as soon as possible in order to support service delivery and reduce the risk of deviations and irregular expenditure.

10 of the cancelled tenders have been added back to the demand plan and are currently in the various stages of the procurement process. Regarding the outstanding 12 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 40 appeals during Quarter 1 of the 2023/24 financial year. The number of appeals is also a sign that there is a level of trust in the Appeals Authority to resolve dissatisfaction in a fair and objective manner. Of the 40 appeals lodged, 3 appeals were upheld, 22 appeals dismissed, 2 appeals were withdrawn and 13 appeals are pending an outcome from the Appeals Authority. 7.5% 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 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 13%, 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 30 September 2023, only 8 (13%) tender specifications for the 2024/25 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 and has proven fruitful whereby duplicated projects have been consolidated into transversal contracts open for Citywide use. This project intends leveraging the buying power of the City as well as standardising products and pricing for these commodities or services. There are currently 25 Active Strategic Transversal Contracts on the City's Demand Plan with 15 more in process.

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.

There is ongoing development in terms of the methodologies and processes applied to strategic sourcing all of which will be communicated to the organisation as they are concluded.

6.1.7 SCM Bid Adjudication Committee (SCMBAC)

The City has a transparent BAC process, which is open to the public to attend. The SCM Bid Adjudication Committee (BAC) continues to meet weekly and remains instrumental in achieving maximum awards within a quick turn-around time. The BAC meeting is open to the public as part of good governance.

The BAC has convened 14 meetings via skype during Quarter 1 of 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 Bid Specification Committee (BSC) and Bid Evaluation Committee (BEC) Chairperson appointments are for a two-year period after which the appointment is

reviewed by relevant Executive Directors. Only staff who are at a T-level 14 and above are appointed and only nominations accompanied by proof of the required SCM training are considered for appointment.

A total of 21 BSC and BEC Chairperson Re-appointments were made during Quarter 1 of the 2023/24 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. 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 July 2023 until 30 September 2023, a total of 4 281 RFQ's were advertised on the City's website. 25 695 responses were received equating to a response ratio of 6.00 for each RFQ advertised.

Table 04: RFQ Advertisements vs Responses Received for the period 1 July 2023 to 30 September 2023

Month	Goods			Services		
	RFQ's advertised	RFQ responses	Ratio	RFQ's advertised	RFQ responses	Ratio
Jan 23	1 113	8 335	7.49	237	650	2.74
Feb 23	1 292	9 129	7.07	235	757	3.22
Mar 23	1179	6 205	5.26	225	619	2.75
Total	3 584	23 669	6.61	697	2 026	2.91

Total RFQ's advertised	4 281
Total responses	25 695
Ratio	6.00

The SCM Regulations require a minimum of three (3) responses. The ratio of 6.00 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 July 2023 to 30 September 2023.

Table 05: B-BBEE Purchase Orders for the period 01 July 2023 to 30 September 2023

B-BBEE level	PO Count	% PO Count	No. of vendors	% of Vendors	Order value	% Order value
					R	
1	36 351	50.12%	511	36.87%	3 458 796 046	41%
2	7 805	10.76%	95	6.85%	590 614 136	7%
3	1698	2.34%	14	1.01%	171 990 980	2%
4	3 540	4.88%	63	4.55%	248 863 042	3%
5	103	0.14%	2	0.14%	19 545 336	0%
6	11	0.02%	5	0.36%	162 536 053	2%
7	52	0.07%	2	0.14%	318 857 600	4%
8	141	0.19%	2	0.00%	29 833 193	0%
Subtotal level 1-8	49 701	69%	694	50%	5 001 036 387	60%
0	22 829	31%	692	50%	3 345 102 452	40%
Total	72 530	100%	1386	100%	8 346 138 839	100%

Approximately 694 B-BBEE suppliers who have conducted business with the City for Quarter 1 of the 2023/2024 financial year, which equates to 50% of the overall number of suppliers the City conducted business with, are on B-BBEE levels 1 to 8. 620 or 89% of these suppliers are on B-BBEE levels 1 to 3, which are entities with more than 50% black ownership.

A total of 49 701 purchase orders, with a total value of R5 001 036 387 were issued to the B-BBEE suppliers which equates to 69% of the total of purchase orders processed and 60% of the total spending for this period. The procurement relating to *B-BBEE level 0* amounting to R 3 345 102 452 includes payments to other Government Departments, Leases, Bursaries and City Improvement Districts.

On 4 November 2022 (Government Gazette No. 47452, Vol. 689) was published introducing the latest Preferential Procurement Policy Framework Act (5/2000): Preferential Procurement Regulations with an implementation date of 16 January

2023. The requirements relating to B-BBEE were removed from the Regulations and replaced with specific goals requirements, meaning specific goals as contemplated in section 2(1)(d) of the Act which may include contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender and disability including the implementation of programmes of the Reconstruction and Development Programme as published in Government Gazette No. 16085 dated 23 November 1994.

The change in legislation resulted in all tenders advertised after 16 January 2023, to measure preference on specific goals rather than B-BBEE contribution status. The reporting reflects both spend against B-BBEE levels and HDI/ RDP goals approach, including how the procurement rand spent supports Small Medium Enterprises.

The dual reporting will be in place until such time that all tenders advertised prior to 16 January 2023 are phased out of the reporting cycles.

During the Quarter 1 of the 2023/24 financial year, 40 tenders were awarded under the Preferential Procurement Regulations of 2022; of which 85% (34/40) of the awards were in terms of the HDI/RDP goals and 15% (6/40) awards made did not score in terms of the HDI/RDP goals.

The Table 06 below depicts the awards made per HDI/RDP category with the total award amount.

Table 06: HDI/ RDP Total Award Value per Category for the period 01 July 2023 to 30 September 2023

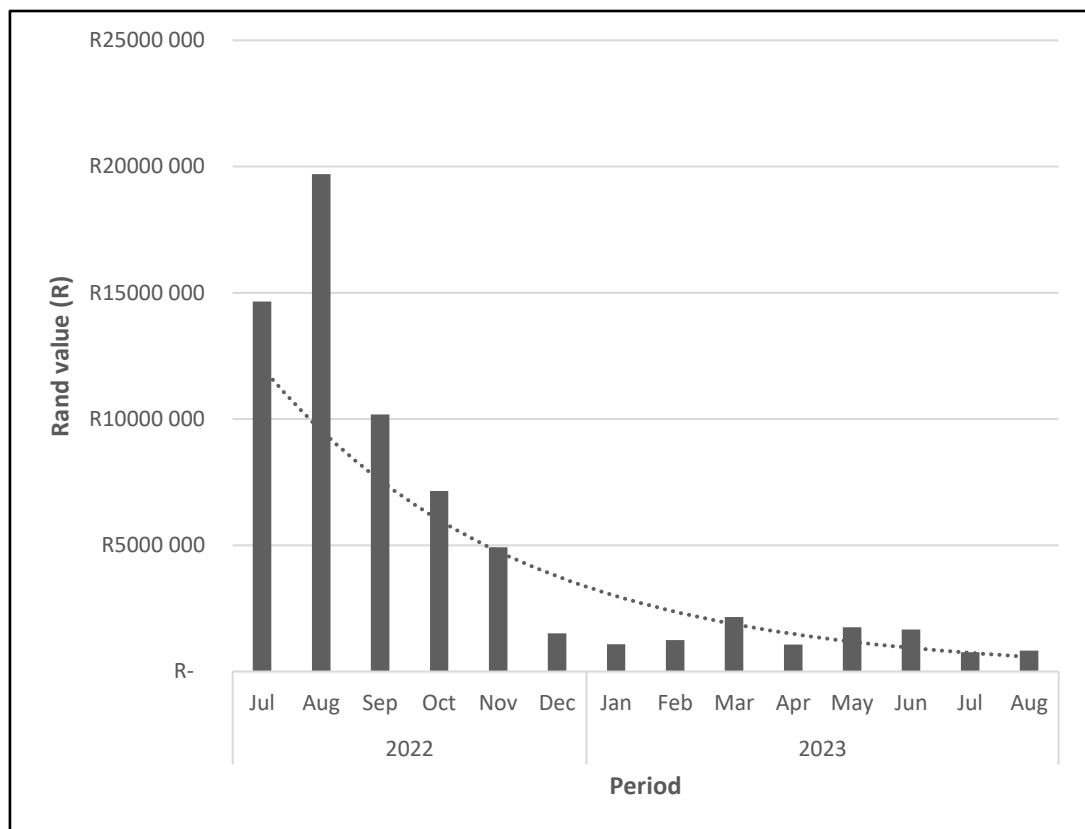
HDI/RDP Goals	Number per Category	Total Award Value per Category
Women	1	R 4 600 000.00
Black	15	R 667 802 984.93
Disabilities	0	-
SMME	3	R 23 035 000.00
No HDI/RDP Goal	6	R 207 790 557.31
More than one HDI/RDP Goals	15	R 189 643 804.83
Total	40	R 1 092 872 347.07

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 Fleet deviation spending



The fleet deviations under R200 000 has reduced by approximately **92%** as at 30 September 2023, compared to the status in September 2022 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 1, a total of 1 434 Community Based Suppliers, representing an increase of 38 Community Based Suppliers since the end Quarter 4, have been registered on the City's database. Table 08 under paragraph 6.2.2 refers

The monthly Community Based Supplier spending for the 2023/24 financial year is summarised as per Table 07 below

Table 07: Monthly Community Based Supplier Spending

Details	Jul 23	Aug 23	Sept 23	Quarter 1
Number of awards	0	1	5	6
Award values	R0	R29 190	R125 549	R154 739

The City's 95% demand plan achievement in the 2021/22 financial year, followed by a 97% demand plan achievement rate for the 2022/23 has consequently resulted in a decrease of procurement below R200 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 September 2023 is shown in Table 08 below.

Table 08: Supplier Database Statistics as at 30 September 2023

Details	Total suppliers registered
Accredited Suppliers on the City Database	17 919
Central Supplier Database registered (CSD)	16 371
Total E-Procurement registered suppliers	6 548
Community Based Suppliers (CBS)	1 449

As at the end of Quarter 1 of the 2023/24 financial year, the City had a total of 17 919 accredited suppliers, of which 16 371 suppliers are CSD registered. These statistics include 6 548 registered E-Procurement suppliers and 1 449 Community Based Suppliers.

Table 09: New approved supplier registration statistics for the period 1 July 2023 to 30 September 2023:

SCM Supplier Support Service	July	August	September
CSD new registrations	85	109	86
New suppliers created	85	110	86

A total of 281 new supplier registration applications were approved for Quarter 1 of 2023/24.

6.2.3 Due Diligence processes

The City has over the years implemented robust preventative and detective controls in testing potential, apparent and direct conflict of interests with it 32 000 staff and over 17 000 vendors. Strong action including legal consequences and restriction of suppliers and formal disciplinary action of staff is taken when an irregular relationship is discovered.

All City staff and Councilors declaration/s of interest/s are assessed for possible conflicts to the SCM system. Where conflicts are detected due to misrepresentation or incorrect information supplied to the City, relevant action is taken.

Continuous due diligence reviews are being performed to ensure compliance with clauses 44 and 45 of the Municipal SCM Regulations. Controls have been put in

place to ensure that the City does not do business with any person in service of the state. A dual verification process ensures the completeness of both the declaration of interest process and the family reporting note in the financial statements. The Consumer Profile Bureau reporting tool is being used to perform due diligence checks on both the staff and the suppliers.

As per Table 10 below, a total of 5 658 staff declaration/s of interest/s were assessed by SCM during the first quarter of the 2023/24 financial year.

Table 10: Staff Declaration of Interest (DOI's) and Private Work applications reviewed during Quarter 1 of the 2023/24 financial year

Staff DOI's reviewed by SCM	Number
Electronic DOI's	4 034
Manual DOI's and private work applications	1 624
Total	5 658

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

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

6.2.4 Supplier Performance Management

Supplier performance management, potential matters of fraud and corruption are monitored and placed on the City's internal monitoring tool namely the "*Red List*" which tracks information on suppliers who are not performing satisfactorily or who have possibly committed abuse of the SCM system. These matters are then investigated fully with the relevant actions being.

The quarterly supplier performance management statistics are contained in Table 11 below:

Table 11: Supplier Performance Management for the period 1 July 2023 to 30 September 2023

Defaulting and Poor Performing Suppliers	Quarter 1
Poor performance	1
Non-delivery	3
False documentation	1
Possible Abuse	3
Possible overcharging	1
Total	9

All the above matters per Table 11 have been registered on the “*Red list*” in the respective categories, where applicable.

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 14085 different materials and 24 610 bins maintained.

6.3.1 Stock comparative results

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

Table 12: Stock Value for the period 1 July 2023 to 30 September 2023

Quarter 1	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	488 682 284	491 968 027	306 660 244	2.44	187 634
2023/24	563 007 098	568 881 322	313 180 478	2.15	203 501
% Change	15%	16%	2%	-0.29	8.5%

The quarterly comparable stock value has increased by 15% (01 July 2022 to 30 September 2022 compared to 01 July 2023 to 30 September 2023). The 15% (R74 million) increase resulted from a combination of lower consumption of certain materials and the increased demand on other goods. The higher demand of these goods necessitated the increase of stockholding to ensure service delivery.

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 material requirements planning processes. 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 R6.52 million (2%) (01 July 2022 to 30 September 2022 compared to 01 July 2023 to 30 September 2023). The reason was mainly attributable by increased demand in electrical components, water meters, refuse bags, paper and medical PPE.

The number of inventory transactions increased by 8.5% when compared with the first quarter of the previous fiscal year. This was mainly attributable to the increased consumption of electrical components, water meters, stationery, fuel and cleaning consumables.

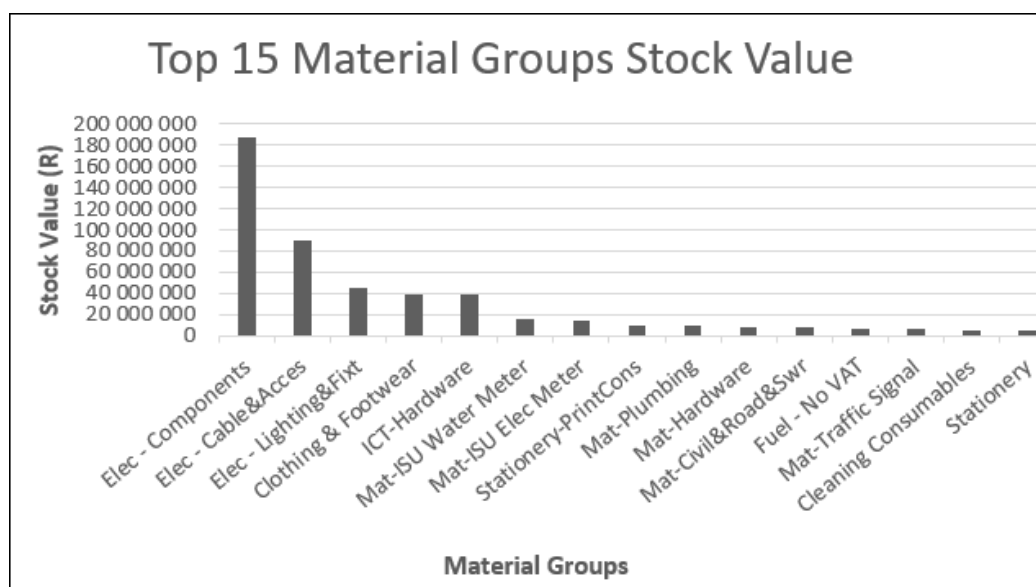
The stock turnover rate of 2.15 in this quarter, indicated in a reduction of 0.29 in comparison to the first quarter of the previous fiscal year. It is predicted that through

current strict adherence to inventory management practices, the stock turnover rate will improve, until the ratio reaches the target of 3.5.

6.3.2 Top 15 Material Groups - Stock Value as at 30 September 2023

Graph 02 below indicates the relative importance of the Top 15 material groups in terms of stock / rand value in the first quarter of 2023/24.

Graph 02: Top 15 Material Groups Stock Values as at 30 September 2023



The information as per Graph 02 shows the top 15 Material groups make up 86% of total inventory holding, at a value of R486.36M. It is noted that 69.23% (R336.71M) of the Top 15 Material Groups are Electric components with an average stock turnover rate of 3.43, which is attributable to stock kept as strategic stock with long lead times and for upcoming projects. The remaining 30.77% (R149.64M) had an average turnover rate of 4.91, which is well above the target of 3.5.

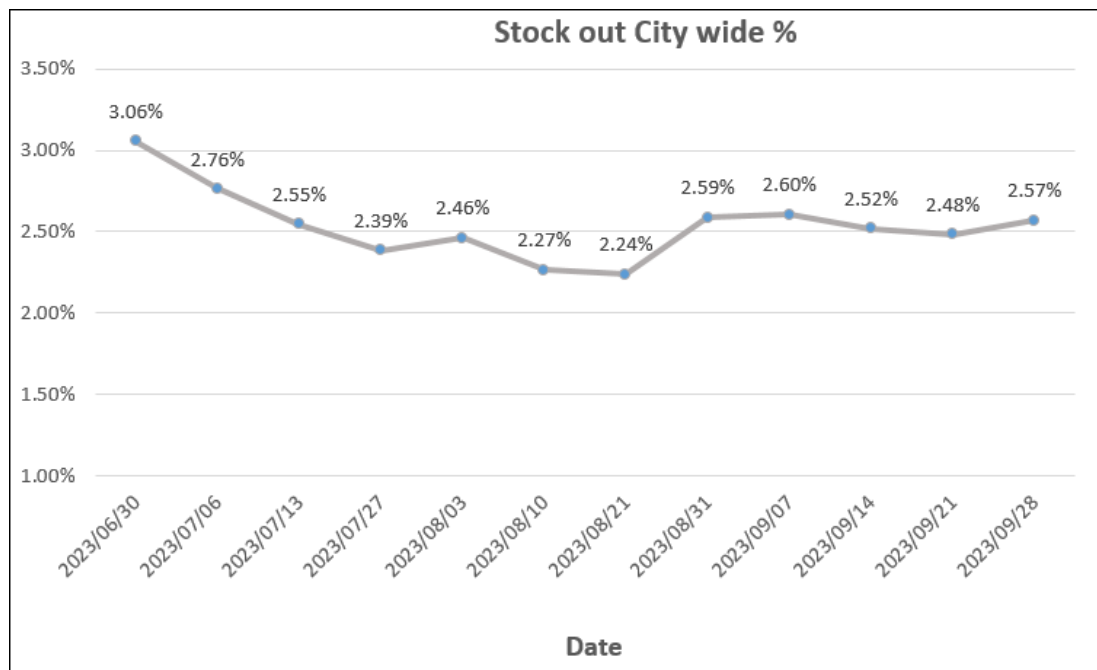
Many items are high value items and have long lead times such as mini-substations, transformers and switchgear, which requires advance purchases for capital projects due to their critical need in the City of Cape Town.

6.3.3 Stock out percentages as at 30 September 2023

The stock out percentage decreased from 3.06% at the beginning of Quarter 1 to 2.57% as at 30 September 2023. Notwithstanding the disruption in supply due to the high stages of load shedding experienced by manufacturers, the improvement in the stock out rate was attributable to the proactive and collaborative approach of ISM with Procurement.

Graph 03 below indicates the stock out percentage as at the end of Quarter 1 of the 2023/24 financial year.

Graph 03: Stock out Citywide % as at 30 September 2023



The stock availability achievement as at the end of Quarter 1 was 97.43%. This represents an over-achievement of 5.43% 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 1 review. SCM is satisfied that known risks are being adequately managed and monitored. The latest update to the Fraud Transversal Risk register was approved on 20 September 2023. It is anticipated that the Finance: Supply Chain Management risk register will be approved by 3 October 2023. The next review will take place during Quarter 3 of 2023/24.

6.4.2 Disposal Management

The SCM Demand & Disposal unit is responsible for the disposal of redundant movable assets and scrap. Disposal of scrap metals, oil, paper and transformers is achieved through competitive contracts with dealers in these categories of scrap.

The revenue generated for each of these categories is reflected in Table 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 July 2023 to 30 September 2023

Category	2023/24 Revenue R
Disposal of movable assets	11 809 160.83
Disposal of scrap metals	1 688 750.63
Disposal of waste paper	61 570.31
Disposal of oils	149 684.19
Disposal of transformers	1 785 202.50
Total	15 494 368.46

As per Table 13 above, a total of R15 494 368.46 disposal revenue was generated in Quarter 1 of the 2023/2024 financial year. The next auction is scheduled to take place on 22 November 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 01 July 2023 to 30 September 2023, the SCM department made 16 permanent appointments. These details are as follows:

- 3 x Heads
- 2 x Senior Professional Officers
- 3 x Professional Officers
- 1 x Assistant Professional Officer
- 2 x AO 1 (Buyers)
- 5 x Senior Clerks

During Quarter 1 of 2023/24, the SCM department also made 20 EPWP appointments.

The SCM staff establishment consists of 368 approved positions (includes 10 graduate APOs). At the end of September 2023, there were 35 vacant positions.

It should be noted that offers were made to officials which were accepted, for the following positions. The employment period will commence from October/November 2023.

- 2 x Managers Tenders and Contracts
- 1 x Senior Professional Officer
- 1 x Assistant Professional Officers
- 1 x Clerk
- 1 x Senior worker

Furthermore, offers were made to multiple successful candidates by the end of September 2023, which is still awaiting acceptance.

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 2022/23 audit is currently underway. As at 30 September 2023, the audit is predominantly still in the planning phase with no findings received. The SCM department has developed an audit action plan which is aimed at addressing audit findings and mitigating risks in the compliance processes. The Procurement Excellence and Governance Unit track the 2021/22 audit action plan regularly. All audit actions emanating from 2021/22 audit action plan were implemented.

There was a significant reduction in non-compliance and irregular expenditure in the 2021/22 financial year. These improvements were attributed to the effective monitoring of audit findings that resulted in non-compliance in past audit cycles, the implementation of departmental self-reviews , the implementation of a key control monitoring tool as well as sufficient human resource capacitation. Corrective measures have been instituted in order to bring about a culture of compliance, good governance and efficiency.

Pro-active measures are ongoing in preparation for the current 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 were held in Quarter 1 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.

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 of 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

The annual SCM policy review is currently underway, and is anticipated to be tabled at Council by March 2024.

FOR FURTHER DETAILS, CONTACT:

NAME	Basil Chinasamy
CONTACT NUMBERS	021 400 3190
E-MAIL ADDRESS	basil.chinasamy@capetown.gov.za
DIRECTORATE	Finance – Supply Chain Management
File Ref No	