

DATE: 08 OCTOBER 2019

REPORT TO: EXECUTIVE MAYOR

LC2 3492

**1. ITEM NUMBER**

**2. SUBJECT**

**SUPPLY CHAIN MANAGEMENT:  
REPORT FOR THE PERIOD 1 JULY 2019 TO 30 SEPTEMBER 2019**

**VERSKAFFINGSKETTINGBESTUUR:  
VERSLAG VIR DIE TYDPERK 1 JULIE 2019 TOT 30 SEPTEMBER 2019**

**ULAWULO LOBONELELO NGENKONZO YOKUTHENGA NOKUTHENGISA  
IIMPAHLA ZEZIKO:  
INGXELO ESUSELA KWISITHUBA SOMHLA  
WOKU-1 JULAYI 2019 UKUYA KOWAMA-30 SEPTEMBER 2019**

**3. DELEGATED AUTHORITY**

In terms of delegation

This report is

- ☐ 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). Which 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 implements 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 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

Legal Compliance ☐

4.2. Staff Implications ☐ Yes ☒ No

4.3. Risk Implications ☐ Yes ☒ No

## 5. RECOMMENDATIONS

IT IS RECOMMENDED THAT THE CONTENTS OF THE REPORT ENTITLED SUPPLY CHAIN MANAGEMENT REPORT FOR THE PERIOD 1 JULY 2019 TO 30 SEPTEMBER 2019 BE NOTED.

### AANBEVELING

DAAR WORD AANBEVEEL DAT DAAR KENNIS GENEEM WORD VAN DIE INHOUD VAN DIE VERSLAG GETITELD VERSKAFFINGSKETINGBESTUUR: VERSLAG VIR DIE TYDPERK 1 JULIE 2019 TOT 30 SEPTEMBER 2019

### ISINDULULO

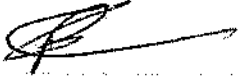
KUNDULLULWE UKABA MAKUQATSHELWE ULWAZI OLUQULETHEW KULE ISIHLOKO SITHI ULAWULO LOBONELELO NGENKONZO YOKUTHENGA NOKUTHENGISA IIMPAHLA ZEZIKO: INGXELO ESUSELA KWISITHUBA SOMHLA WOKU-1 JULAYI 2019 UKUYA KOWAMA-30 SEPTEMBER 2019

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**ANNEXURES:**

**ANNEXURE 1**


**FOR FURTHER DETAILS CONTACT**

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DIRECTORATE	FINANCE SCM	FILE REF NO.	
SIGNATURE : DIRECTOR			

**EXECUTIVE DIRECTOR**

NAME KEVIN JACOBY COMMENT:

DATE 09.10.2019

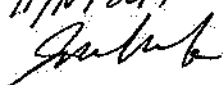
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**LEGAL COMPLIANCE**

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

NAME Jan-Mari Hofe COMMENT:

DATE 11/10/2019 For information JMH.

SIGNATURE 

**CITY MANAGER**

NAME LUNGELO MBANDAZAYO COMMENT:

DATE 2019 -10- 14

SIGNATURE 

**EXECUTIVE MAYOR**

NAME ALD DAN PLATO COMMENT:

DATE

SIGNATURE

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## ANNEXURE 1

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### 1. STRATEGIC INTENT

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

### 2. PURPOSE

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

### 3. FOR NOTING BY MAYOR

For information of the 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

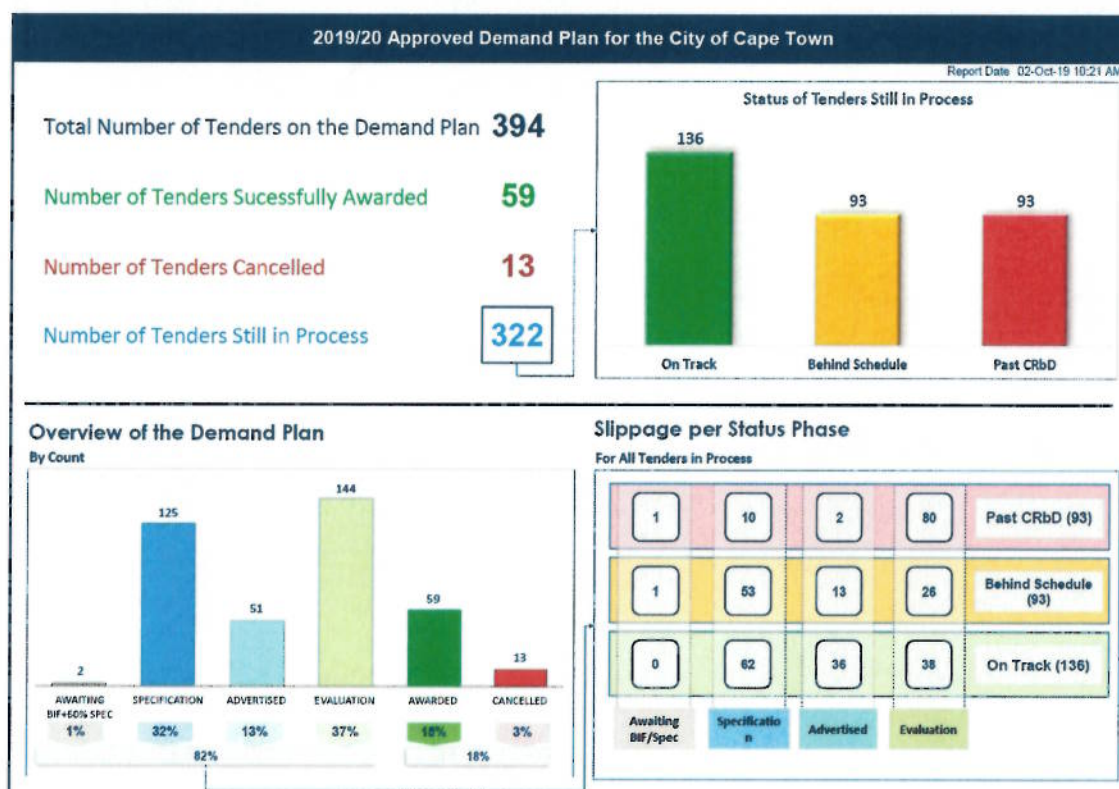
There were no changes to the risk register in the first quarter of the financial year.

### 5.1.2 Demand Management

#### 5.1.2.1 Implementation of the 2019/20 Demand Plan

The information below (Table 1) illustrates an overview of the demand plan of the City for the current financial year. The demand plan for the financial year has now stabilised. Given the past performance of the SCM system it should be possible to process all the required tenders before the end of the financial year. This will however require concerted effort by all role players.

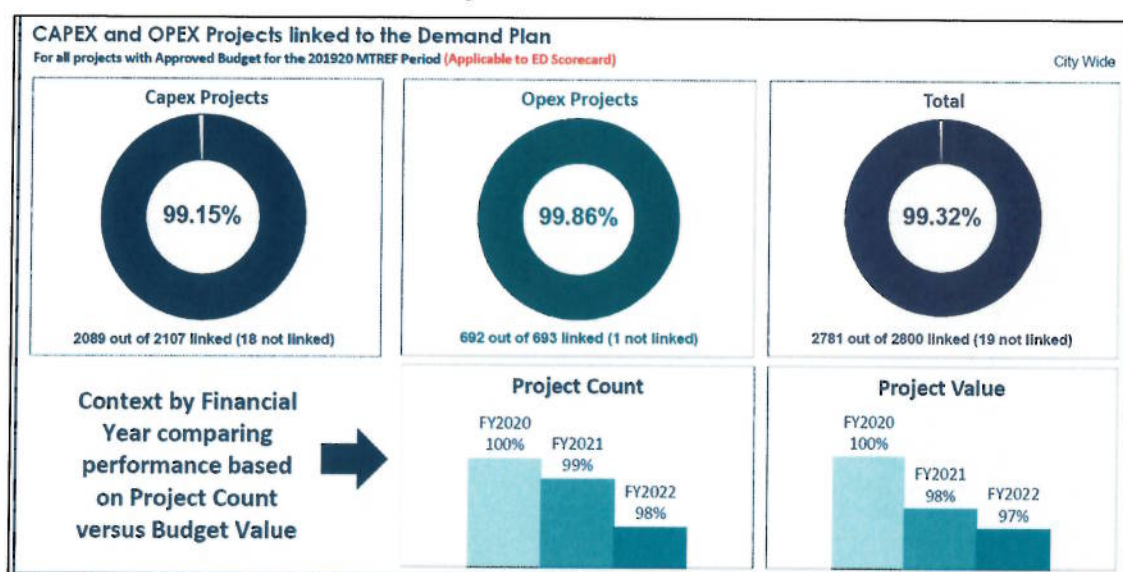
**Table 1: Approved Demand Plan 2019/20**



Of the 394 contracts required 59 has been awarded.

The graphic below (Table 2) illustrates the percentage of projects linked as described above.

**Table 2: CAPEX and OPEX Projects**



Over 99% of Capex and Opex projects have been linked to the Demand Plan and Budget. Projects which are created in the Project Portfolio Management (PPM) system for the current MTREF period are linked to the applicable strategy to deliver the project. This could be an existing or new tender, RFQ process or non-SCM process.

The information below illustrates the extent of the carry-over as well as the progress made in concluding the tender process. Table 3 shows the total number of tenders in each stage as at the 1 July 2019.

**Table 3: Current status of Carry-over**

CURRENT STATUS OF CARRY-OVER	Awaiting BIF+60% Spec	Specification	Advertised	Evaluation	Awarded	Cancelled	Grand Total	Successful Award Rate	Completion Rate
Community Services & Health				5	9		14	64%	64%
Corporate Services		4		4	3		11	27%	27%
Economic Opportunities & Asset Management			1	9	1		11	9%	9%
Energy & Climate Change				8	6	2	16	38%	50%
Finance				1	2		3	67%	67%
Human Settlements				5	1	2	8	13%	38%
Office of the City Manager				1			1	0%	0%
Safety & Security				4	1		5	20%	20%
Transport		1		11	1		13	8%	8%
Urban Management					1		1	100%	100%
Water & Waste	2	10		18	9	2	41	22%	27%
<b>Grand Total</b>	<b>2</b>	<b>15</b>	<b>1</b>	<b>66</b>	<b>34</b>	<b>6</b>	<b>124</b>	<b>27%</b>	<b>32%</b>

The above 124 tenders have advanced in the tender process as illustrated in Table 3 below. By way of example, there were 97 tenders in Evaluation, now there are 66 in evaluation, 34 Awarded and 6 Cancelled.

#### 5.1.2.2 Strategic Sourcing (Transversal Contracts) Initiatives

The Demand Management unit is in the early stages of implementing strategic sourcing (transversal contracts) initiatives in the City. This involves



the identification of opportunities to consolidate multiple individual tenders into single tenders for City-wide use. The desired outcome is to not only reduce the number of tenders processed by the administration through the SCM system, but to better leverage the buying power of the City. This will result in better pricing for those commodities.

An analysis of 8 categories of similar goods and services involving 60 different tenders has been conducted. Each tender associated to each category has been mapped in terms of timelines to help determine the best opportunity to introduce the transversal contract into the system. The planning then includes the appropriate strategy to ensure that there is continuity of service delivery during the transition to the transversal tender.

The fencing requirements of the City is a pilot tender in the roll-out of this strategy. The role players are identified and discussions are underway to consolidate the requisite specifications and variations into a single draft specification.

This process of conversion to strategic sourcing is going to take at least 3 years to complete due to current contractual commitments which must be honoured. The CFO is due to release a memorandum in early October 2019 detailing the process around transversal contracts moving forward.

### **5.1.3 Disposal Management**

The Disposal unit is responsible for the sale of redundant movable assets as well as scrap materials. This is done through a public auction process or contracts with scrap dealers.

The unit has generated R 13 080 173.64 revenue in the financial year thus far. The next auction has been set for November 2019.

## **5.2 Tenders and Contract Administration**

### **5.2.1 Turnaround times**

**Table 4: Tender turnaround times**

<b>Tender Complexity</b>	<b>Current average weeks</b>	<b>Target</b>
Regular	27.1	22
Complex	40.1	35

### **5.2.2 Appeals**

There were 44 appeals. 18 were dismissed, 6 upheld and 20 are pending.



### **5.2.3 Improvements Undertaken**

- Monthly CAPEX meetings are convened between the CFO and Line Departments to monitor capital expenditure.
- Monthly SCM forum meetings are held with the City Manager to report progress on SCM matters.
- The unit undertook to capacitate chairpersons and members of the BSC and BEC. A total of 57 project managers were trained.
- There has been an absorption of the 7 shared services SCM SPO's into the bid committee system in order to fast track the number of tenders processed and increase the value offering to the organisation.
- The tenders have been distributed evenly amongst the SCM Practitioners and Management is tracking the performance.
- Management is to provide tender performance reports to the Director SCM on a weekly basis.
- In order to provide an effective and efficient SCM service the Manager Tenders and Contracts was appointed in July 2019. The posts of a further Manager: Tenders and Contracts as well as 2 Heads and a Junior Accountant were advertised and interviews are currently in process.

## **5.3 Procurement**

### **5.3.1 Community Based Procurement**

One of the strategic focus areas of the City of Cape Town's Integrated Development Plan is to "drive economic inclusion in order to improve quality of life, promote greater levels of self-determination, and create an enabling environment for economic growth" through the encouragement of small business development. One of the measures identified by the City to achieve these goals was the development and implementation of community based procurement in various Wards and Sub-councils. At the end of Quarter 1 there were 716 registered community based suppliers on the City's supplier database.

In providing this vital support to the Community Based Suppliers the City of Cape Town would achieve the following positive benefits;

- Increase in Community Based Suppliers
- Increase in Supplier RFQ responses
- Development of Community Based suppliers
- Increased competition in Community based request for quotations

### **5.3.2 Request for Quotations (RFQ) Advertisements Vs Responses received for Quarter 1 (July 2019 to 30 September 2019)**

In order to procure goods or services which involves a transaction value over R2000 and up to R200 000, written price quotations must be obtained. SCM tracks the ratio between RFQs that have been advertised and the number of responses received in order to establish the supplier activity in our procurement processes.

For quarter one 7252 RFQs was advertised on the City's website, receiving 28 200 responses to these RFQs.

**Table 5: RFQ Advert vs. Responses July 2019 – September 2019**

	GOODS			Services		
	RFQ Advertised	RFQ Responses	Ratio	RFQ Advertised	RFQ Responses	Ratio
Jul'19	1259	6145	4.88	592	1438	2.43
Aug'19	1565	7371	4.71	878	2201	2.51
Sep'19	1868	8470	4.53	1090	2575	2.36
	<b>4692</b>	<b>21986</b>	<b>4.69</b>	<b>2560</b>	<b>6214</b>	<b>2.43</b>

**Total Advertised** 7,252 **Average Ratio** 3.89

**Total Responses** 28,200

### 5.3.3 Volume and Value of Purchase Orders for B-BBEE Spend

The table below illustrates the number of purchase orders, and their values, processed by the City for each B-BBEE status level of contributor.

**Table 6: B-BBEE vs PO spend for the Quarter 1 July 2019 to 30 September 2019**

B-BBEE Level	Vendors	% Vendors	PO's	% PO's	PO Value (R)	% PO Value
1	749	37.47%	29,293	56.01%	1,300,765,087.40	27.87%
2	220	11.01%	6,387	12.21%	1,134,826,046.72	24.31%
3	109	5.45%	3,041	5.81%	598,529,691.53	12.82%
4	230	11.51%	5,851	11.19%	429,062,538.36	9.19%
5	8	0.40%	102	0.20%	75,612,352.45	1.62%
6	8	0.40%	54	0.10%	194,909,762.59	4.18%
7	5	0.25%	28	0.05%	538,642.93	0.01%
8	12	0.60%	112	0.21%	43,268,609.73	0.93%
0	658	32.92%	7,430	14.21%	890,000,927.86	19.07%
<b>Grand Total</b>	<b>1,999</b>	<b>100.00%</b>	<b>52,298</b>	<b>100.00%</b>	<b>4,667,513,659.57</b>	<b>100.00%</b>
<b>B-BBEE</b>	<b>1341</b>	<b>67.08%</b>	<b>44868</b>	<b>85.79%</b>	<b>R3,777,512,731.71</b>	<b>80.93%</b>

The number of B-BBEE suppliers who have conducted business with the City in this quarter (1 July 2019 to 30 September 2019) were 1341 and this equates to 67.08% of the overall number of suppliers used.

A total of 44 868 (85.79%) purchase orders were issued to the B-BBEE suppliers with a total spend of R3 777 512 731.71 which is equivalent to 80.93% of our total expenditure for this period.

### **5.3.4 e-Procurement**

The City of Cape Town's Supply Chain Management (SCM) department embarked on the first phase of an eProcurement initiative in 2016 in which it sought to build a custom, self-service foundation for Suppliers to engage electronically with the City.

eProcurement phase I went live in November 2017 targeting specific Suppliers for self-service (goods only). SCM was satisfied with the sustainability of the phase I solution and has thus extended the implementation of the solution to services commodities as well (pilot of 4 commodities).

eProcurement phase II which commenced on the 1 July 2019 focuses on an improvement of the eProcurement project that will see the addition of the following below functions:

- Online Purchase Order Tracking
- Online Purchase Order Acknowledgement
- Supplier Rotation Program [Algorithm]
- Online Services RFQ Submissions

## **5.4 Inventory and Stores Management (ISM)**

### **5.4.1 Improvements and Focus Areas**

The main purpose of the Inventory and Stores Management (ISM) branch is to provide the right quality of materials at the right time and quantities to other user departments in the City. This is done to enable effective service delivery to the citizens of Cape Town. ISM strives to keep the right balance between stock levels and working capital investment. There is a continuous focus on the improvement of stock turn, material availability, customer service, quality of materials received, stock accuracy, employee safety, facilities maintenance, business processes and training & development.

There are currently 35 operational SAP stores in the City and 15 Fuel sites. There are 13 534 different materials and 23 936 bins maintained. During the first quarter of 2019/20 the average stock value was R374 330 465 and the closing balance of stock for the quarter was R373 786 749. There were 213 746 goods movement transactions during the financial year.

### **5.4.2 Results**

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

**Table 7: 1<sup>st</sup> Quarter Results**

1st Quarter	Stock Value at end of Quarter (R)	Ave Stock Value during Quarter (R)	Usage Value during Quarter (R)	Annualised Stock Turns	No of Transactions during Quarter
2018/19	369 160 469	382 273 717	286 386 871	2.93	211 462
2019/20	373 786 749	374 330 465	265 386 196	2.77	213 746
% Change	1.25%	-2.08%	-7.33%	-0.16	1.08%

The usage value reduced by 7.33% (01 July 2019 to 30 September 2019 compared to 01 July 2018 to 30 September 2018). The reason was mainly attributable to a reduction of the usage on water meters because last year there was a higher demand in water meters due to the drought.

The quarterly comparable stock turn reduced by 0.16 (01 July 2019 to 30 September 2019 compared to 01 July 2018 to 30 September 2018). This was mainly due to:

- Stock that was ordered for the broadband project that was subsequently placed on hold.
- Electricity switchgear and panels that were procured, but not collected by users due to a project being halted.

The situation will be continuously monitored with the line department. Management is working on increasing the stock turns.

#### 5.4.3 Top 15 Stores and Material Groups

The graph below provides an analysis of the stock material groups as at the end of the first quarter of 2019/20.

**Graph 1: Analysis of Stock Material Groups July 2019 to September 2019**



This graph indicates the relative importance of the top 15 material groups for stock materials in terms of stock value at the end of the first quarter of 2019/20.

## **5.5 Supplier Management and Administration Services**

### **5.5.1 SCM Bid Adjudication Committee**

The SCM Bid Adjudication Committee (SCMBAC) and the SCM Immoveable 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 meeting is open to the public as part of good governance.

A new SCMBAC was appointed from 01 July 2019.

### **5.5.2 Supplier Management**

#### **5.5.2.1 Supplier Database**

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, capable of doing business with the City, that must be maintained in order to adhere to SCM regulations. Continued support is provided to internal and external stakeholders and further vetting accuracy of supplier data through due diligence processes.

**Table 8: Supplier registered for the period July – September 2019**

<b>Registrations approved for 1<sup>st</sup> Quarter</b>	
July	117
August	143
Sept	89
<b>Total</b>	<b>349</b>

For the first quarter 349 new supplier applications were reviewed and approved. This is a positive indication that suppliers want to engage the City to access procurement opportunities.

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 face-to-face with their CSD registrations.

**Table 9: CSD new registrations and updates for the period July – September 2019**

<b>CSD Registration &amp; Updates</b>	
	<b>1<sup>st</sup> Quarter</b>
New applications - July 2019	<b>109</b>
Profile updates - July 2019	<b>247</b>
New applications - August 2019	<b>110</b>
Profile updates - August 2019	<b>168</b>
New applications – September 2019	<b>90</b>
Profile updates - September 2019	<b>179</b>
<b>Totals</b>	<b>903</b>

The above table reflects that new applications received were dealt with and supplier profiles were updated.

### **5.5.3 Supplier Due Diligence**

Continuous due diligence checks are being performed to ensure compliance with clauses 44 and 45 of the SCM Regulations. There has been a continuous enhancement of detection tools to ensure the City does not do business with any person in service of the state. The "Red List" continues to provide assurance and acts as an internal monitoring tool for suppliers who are not performing satisfactory or who has committed abuse of the SCM system. Poor performing suppliers are performance managed by the relevant project managers within line departments. Where deemed necessary non-performance or abuse matters are referred to Legal for further action. Such suppliers may be reported to National Treasury in instances where the supplier has defaulted and must be restricted.

**Table 10: Supplier Default and Performance for the period July – September 2019**

<b>Defaulting and Poor Performing Suppliers</b>	
	<b>1<sup>st</sup> Quarter</b>
False Declaration of Interest	<b>0</b>
Non- Delivery of Goods/ Services	<b>5</b>
Poor Performance	<b>18</b>
Collusion	<b>0</b>
Abuse of SCM Policy	<b>0</b>
Matters sent to Forensics	<b>1</b>
Matters sent to Legal	<b>4</b>
Matters sent to National Treasury for restriction	<b>0</b>
<b>Total</b>	<b>28</b>

#### **5.5.4 Training and Development**

The SCM department has undertaken a series of training interventions through the National School of Government (NSG). For the quarter the following training intervention has been rolled out namely; Bid Committee, Demand Management, Basic and Advanced Project Management, Inventory Management and Ethics Management. A total of 140 City Officials has attended from various directorates. Training interventions will continue to be rolled out in an effort to reach all role players within the supply chain management system.

#### **5.5.5 SCM Capacitation**

The SCM Department has embarked on a business improvement strategy in order to provide an effective and efficient SCM service to the City. Among others, this strategy includes the staffing of the department with suitably qualified and experienced employees.

For the period July 2019 to September 2019 the SCM department made 17 permanent appointments. Among these appointments is the appointment of the Manager Tenders and Contracts, SPO Procurement and SPO Demand and Risk Management. We made five (5) Administrative Officer 1 appointments, six (6) Stores Clerk appointments and three (3) senior clerk appointments.

The SCM Department has experienced difficulty in attracting and appointing suitably skilled and specialised staff and will continue to engage Human Resources to find alternative recruiting strategies for this scarce skill. It has also been identified there is a risk of poaching SCM staff which can impact the performance of the SCM system. This has been highlighted to the HR Department.

### **5.7 Management and Change Interventions**

A change in the Tenders & Contracts structure whereby seven (7) SCM shared services resources have been redirected to the Bid Committee processes has been initiated to speed up the tender processing.

An SCM Strategy Session was held in September 2019 at which management robustly reflected on challenges and expectations for the financial year. All six (6) business units within SCM developed action plans which was reviewed and a plan for further improvements within SCM as per the City Pulse 2019 outcomes, for the financial year.

SCM has also engaged with the City's Organisational Effectiveness unit and have commenced with change management sessions focussing on organisational values and culture. These sessions will continue into the next financial year.



Meetings with the City Manager on various supply chain issues and interventions is continuing on a monthly basis at the SCM Forum meeting.

New procedures to enhance controls and improve efficiency were developed, approved and implemented by the ISM and Procurement units within SCM. The Tenders and Contract and Supplier Management units have commenced similar reviews and the expectation is that revised procedures will be implemented before December 2019.

**FOR FURTHER DETAILS, CONTACT:**

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