



DATE: 01 JANUARY 2023

REPORT TO: EXECUTIVE MAYOR

1. ITEM NUMBER

2. SUBJECT

**SUPPLY CHAIN MANAGEMENT:
REPORT FOR THE PERIOD 1 OCTOBER 2022 TO 31 DECEMBER 2022**

**VERSKAFFINGSKETTINGBESTUUR:
VERSLAG VIR DIE TYDPERK 1 OKTOBER 2022 TOT 31 DESEMBER 2022**

**ULAWULO LOBONELELO NGENKONZO YOKUTHENGA NOKUTHENGISA
IIMPAHLA ZEZIKO:
INGXELO ESUSELA KWISSITHUBA SOMHLA WOKU-1 EYEDWARHA 2022 UKUYA
KOWAMA-31 ETIMNGA 2022**

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.

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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.

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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 OCTOBER 2022 TO 31 DECEMBER 2022, ANNEXURE A BE NOTED.

AANBEVELING

DAAR WORD AANBEVEEL DAT DAAR KENNIS GENEEM WORD VAN DIE INHOUD VAN DIE VERSLAG GETITELD VERSKAFFINGSKETTINGBESTUUR: VERSLAG VIR DIE TYDPERK 1 OKTOBER 2022 TOT 31 DESEMBER 2022 BYLAE A.

ISINDULULO

KUNDULULWE UKUBE MAKUQWALASELWE IZIQULATHO ZENGXELO ESIHLOKO 'INGXELO ENGOLAWULO LOBONELELO NGEMPAHLA EKWIZIKO' YESITHUBA ESISUSELA KWISITHUBA SOMHLA WOKU-1 EYEDWARHA 2022 UKUYA KOWAMA-31 ETIMNGA 2022 ISIHLOMELO-A.

ANNEXURES

ANNEXURE A

FOR FURTHER DETAILS CONTACT

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E-MAIL ADDRESS	Basil.chinasamy@capetown.gov.za		
DIRECTORATE	021 400 3190	FILE REF NO	
SIGNATURE : DIRECTOR	<div>Arno Vorster Digitally signed by Arno Vorster Date: 2023.01.02 09:45:25 +02'00'</div>		

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CHIEF FINANCIAL OFFICER

Wayne Muller (Acting CFO)

NAME

COMMENT:

DATE

SIGNATURE

Wayne
Muller

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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

COMMENT:

DATE

SIGNATURE



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Jason Sam Liebenberg
Date: 2023.01.04
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For information.

CITY MANAGER

NAME

Lungelo Mbandazayo

COMMENT:

DATE

SIGNATURE



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EXECUTIVE MAYOR

NAME

Geordin Hill Lewis

COMMENT:

DATE

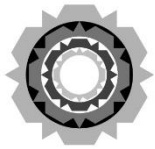
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Would like detail on late/overdue
tenders when this comes to
May Co

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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 COUNCIL

For information of Council.

4. EXECUTIVE SUMMARY

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

5. OTHER SERVICES CONSULTED

Not applicable.

6. SALIENT DETAILS OF SUPPLY CHAIN MANAGEMENT ACTIVITIES

Major SCM activities are summarised below, for information.

6.1 Demand and Acquisition Management

The Demand Management unit has been instrumental in driving the planning for tenders and contracts for the MTREF cycle. The demand plan is reconciled to the capital and operating budgets to ensure that budgets are informed by planned contracts. Regular interactions with executives and line departments take place to ensure progress is made towards the planning for tenders City wide.

6.1.1 Implementation of the 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 353 tenders, which includes 16 tender that were in progress at the end of the previous financial year. This amounts to 42 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 87% as at the end of Quarter 2 of the 2022/23 financial year and is reflected in Table 01 below:

Table 01: 2022/23 Demand Plan for Tenders

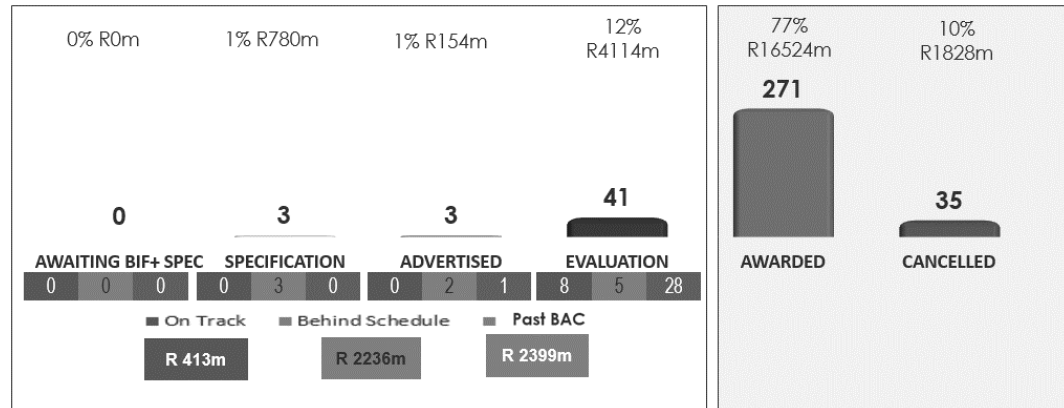
The table below reflects the breakdown of the 87% of tenders completed by the different statuses.

2022/23 Approved Demand Plan	
Total number of tenders on approved plan	353
Number of tenders successfully awarded	271
Number of tenders cancelled	35
Number of tenders in progress	47
Implementation rate	87%

As can be seen from Table 1, 271 tenders (77%) of the total required tenders have been awarded and 35 tenders (10%) were cancelled as at 31 December 2022. Tenders to the value R16 524 million for the financial year have already been awarded, and tenders to the value of R1 828 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)



47 Tenders to the value of R5 048 million are currently in still in process of finalisation at different stages [Specification (3 tenders), Advertised (3 tenders) and Evaluation (41 tenders)]. Cancelled tenders are discussed in more detail in paragraph 6.1.3 below.

Measures to Improve Tender Processing

The emphasis at this stage is to ensure that the demand plan is implemented timeously in order to support service delivery. The following steps were introduced in June 2022, to strengthen the implementation of the demand plan:

- All specifications for repeatable tenders and the associated BIF must be submitted to a SCM Tenders: SPO, 18 months in advance of the 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. 99,72% 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 December 2022 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	0	6	6
Corporate Services	3	4	5	12
Economic Growth	1	1	0	2
Energy	0	1	6	7
Finance	0	0	0	0
Future Planning & Resilience	0	0	1	1
Human Settlements	1	3	4	8
Office of the City Manager	0	0	0	0
Safety & Security	1	0	1	2
Spatial Planning & Environment	1	0	2	3
Urban Mobility	0	0	0	0
Urban Waste Management	1	0	0	1
Water & Sanitation	0	1	4	5
Grand Total	8	10	29	47

As per Table 02 above, 47 tenders are in progress of which 29 tenders are past their BAC award date and 10 tenders are behind schedule. These tenders are closely monitored to drive the conclusion thereof expeditiously.

Detailed demand plan management information is sent to Executive Directors and Mayco members each week to enable management to monitor the progress and address slippages with tenders, 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.

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

35 tenders (10% 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 December 2022

Reasons for cancellation	Number	Estimated value R
No acceptable bids received	31	1 800 090 000
PPPFA non-compliance	3	17 500 000
No longer a need for the services, works or goods	1	10 000 000
Grand total	35	1 827 590 000

31 of the 35 tender cancellations, representing 89%, 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. 26 of the cancelled tenders are in the process of being added to the demand plan, 1 cancelled tender will follow a deviation process, 2 of the cancelled tenders are in the reporting stage and 6 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 105 appeals during the financial year up to 31 December 2022. Of these, 18 appeals were upheld, 79 appeals dismissed and 8 appeals are pending an outcome from the Appeals Authority. 6% of appeals were upheld and is indicative of the fact that majority of tenders are processed in a 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 30%, 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 December 2022, only 38 (13%) 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 to as part of procurement transparency initiative to provide more information on prices the city pays for goods and services. The project will be completed in the next quarter and the report will be released publicly.

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 12 meetings via skype during Quarter 2 of the 2022/23 financial year. BAC resolutions and minutes are processed within the target of 7 to 10 working days.

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 39 Bid Specification Committee (BSC) and Bid Evaluation Committee (BEC) Chairperson re-appointments were made during Quarter 2 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

In order to procure goods or services which involves a transaction value over R2 000 and up to R200 000, written price quotations must be obtained. SCM tracks the ratio between Requests for quotations (RFQ's) that have been advertised and the number of responses received in order to establish the supplier activity in our procurement processes.

For the period 01 October 2022 until 31 December 2022, a total of 5 532 RFQ's were advertised on the City's website. 26 410 responses were received equating to a response ratio of 4.77 for each RFQ advertised. Table 04 below refers:

Table 04: RFQ Advertisements vs Responses Received for the period 01 October 2022 to 31 December 2022

Month	Goods			Services		
	RFQ's advertised	RFQ responses	Ratio	RFQ's advertised	RFQ responses	Ratio
Oct 22	1 509	8 743	5.79	861	3 410	3.96
Nov 22	1 541	8 326	5.40	858	3 724	4.34
Dec 22	490	1 328	2.71	273	879	3.22
Total	3 540	18 397	5.20	1 992	8 013	4.02

Total RFQ's advertised	5 532
Total responses	26 410
Ratio	4.77

The SCM Regulations require a minimum of three (3) responses. The ratio of 4.77 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 October 2022 to 31 December 2022.

Table 05: B-BBEE Purchase Orders for the period 01 October 2022 to 31 December 2022

B-BBEE level	PO Count	% PO Count	No. of vendors	% of Vendors	Order value	% Order value
					R	
1	19 865	53.58%	566	38.98%	1 588 397 421	46%
2	4 670	12.60%	132	9.09%	463 835 190	13%
3	399	1.08%	17	1.17%	50 110 912	1%
4	1 474	3.98%	90	6.20%	88 439 275	3%
5	67	0.18%	3	0.21%	10 138 787	0%
6	8	0.02%	2	0.14%	9 949 540	0%
7	8	0.02%	4	0.28%	9 630 709	0%
8	42	0.11%	3	0.21%	5 906 528	0%
Subtotal level 1-8	26 533	72%	817	56%	2 226 408 362	64%
0	10 540	28%	635	44%	1 263 465 061	36%
Total	37 073	100%	1452	100%	3 489 873 424	100%

Approximately 817 B-BBEE suppliers who have conducted business with the City for Quarter 2 of the 2022/2023 financial year, which equates to 56% of the overall number of suppliers the City conducted business with, are on B-BBEE levels 1 to 8, 715 or 49.24% of these suppliers are on B-BBEE levels 1 to 3, which are entities with more than 50% black ownership.

A total of 26 533 purchase orders, with a total value of R 2 226 408 362 were issued to the B-BBEE suppliers which equates to 72 % of the total of purchase orders processed and 64 % of the total spending for this period.

The procurement relating to *B-BBEE level 0* amounting to R 1 263 465 061 includes payments to other Government Departments, Leases, Bursaries and City Improvement Districts.

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.

Table 06: Fleet services and Pump related tender status update as at 31 December 2022

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)

Economic and Supplier Development (ESD) facilitates information sessions with Community Based Suppliers during which assistance is provided to new and emerging suppliers on how to conduct business with the City, how to register, how to submit RFQ's, requirements for submitting City tenders and how to complete the City's tender documents.

A total of 23 awards (R 626 041.79) were made to Community Based Suppliers during Quarter 2 of the 2022/2023 financial year. At the end of Quarter 2, a total of

1 351 Community Based Suppliers, representing an increase of 43 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	Oct 22	Nov 22	Dec 22	Quarter 2
Number of awards	2	16	5	23
Award values	R48 487.40	R456 814.39	R120 740.00	R626 041.79

A total of 11 awards (R 349 799.22) were made to Community Based Suppliers during Quarter 1 of the 2022/2023 financial year. Table 07 above depicting the Quarter 2 results is thus indicative of a steady improvement in the support to Community Based Suppliers. The year to date awards to Community Based Suppliers amounts to 34 (R975 841.01).

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 December 2022 is shown in Table 08 below.

Table 08: Supplier Database Statistics as at 31 December 2022

Details	Total number of suppliers registered
Accredited Suppliers on the City Database	17 716
Central Supplier Database registered (CSD)	15 569
Total E-Procurement registered suppliers	5 773
Community Based Suppliers (CBS)	1351

As at the end of Quarter 2 of the 2022/23 financial year, the City had a total of 17 716 accredited suppliers, of which 15 569 suppliers are CSD registered. These statistics include 5 773 registered E-Procurement suppliers and 1 351 Community Based Suppliers.

The monthly comparable new approved supplier registration statistics for the period 01 October 2022 to 31 December 2022 are included in Table 09 below.

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

SCM supplier support service	Oct 2022	Nov 2022	Dec 2022	Total
CSD new registrations	163	137	85	385
New suppliers created	163	139	88	390

A total of 390 new supplier registration applications were approved for Quarter 2.

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 8 976 staff declaration/s of interest/s were assessed by SCM during Quarter 2 of the 2022/23 financial year.

Table 10: Staff Declaration of Interest (DOI's) and Private Work applications reviewed during Quarter 2 of the 2022/23 financial year

Applications and declarations reviewed by SCM	Number
Electronic DOI's	8 127
Manual DOI's and private work applications	849
Total	8 976

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 October 2022 to 31 December 2022

Defaulting and Poor Performing Suppliers	Details
Poor performance	1 supplier
Non-delivery	1 supplier
Sent to National Treasury (To restrict)	2 suppliers
Total	4 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 2:

- 1 (one) case 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),

- 1 (one) case relating to non-delivery has been flagged on the red list for noting and consideration, prior to any subsequent awards being made to the respective supplier(s),
- 2 (two) cases 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 14 211 different materials and 23 334 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 2 - 2021/22 and 2022/23

Quarter 2	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	547 301 353	528 672 852	235 114 554	1.74	160 101
2022/23	571 691 196	533 693 625	301 991 171	2.21	171 708
% Change	4%	1%	28%	0.47	7.2%

The quarterly comparable stock value has increased by 4% (01 October 2021 to 31 December 2021 compared to 01 October 2022 to 31 December 2022). The closing inventory balance increase of 4% was as a result of higher demand for materials. This rise in demand necessitated the increase in inventory holding. The 4% increase was mainly attributed to a higher demand in electrical components. The top contributing material groups were electrical poles, mini-substations and

transformers. In Quarter 3, SCM will undertake a review of inventory holding values to assess reasons for increased inventory holdings and its impacts.

In order to minimize overstocking and achieve optimal working capital management, the ISM management team ensured that only necessary goods were ordered by following stringent inventory management procedures in the material requirements planning. This will ensure that ISM is moving in the proper direction in order to achieve a 3.5 stock turn target.

The quarterly usage value increased by R66.87 million (28%) (01 October 2021 to 31 December 2021 compared to 01 October 2022 to 31 December 2022). The reason was mainly attributable by the increase in fuel diesel due to load shedding, water meters, carbon powder & ferric sulphate for water treatment plants, mini substations, transformers, circuit breakers and switchgears required.

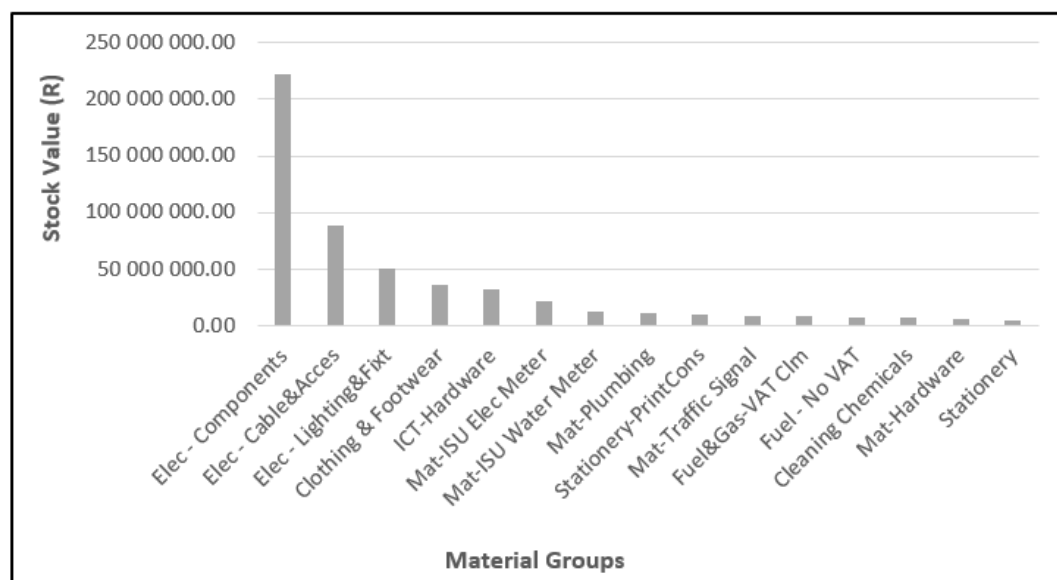
The number of inventory transactions increased by 7.2% when compared with the second quarter of the previous fiscal year. This was mainly attributable to the lifting of Covid-19 restrictions (projects/programmes previously on hold have now resumed).

In comparison to the second quarter of the previous fiscal year, the stock turnover rate improved by 0.47. A higher turnover ratio is a measure of how well inventory is managed, and it is predicted that the improvement will continue until the ratio reaches the target of 3.5.

6.3.2 Top 15 Material Groups - Stock Value as at 31 December 2022

Graph 01 below indicates the relative importance of the Top 15 material groups in terms of stock / rand value in the second quarter of 2022/23.

Graph 01: Top 15 Material Groups Stock Values as at 31 December 2022



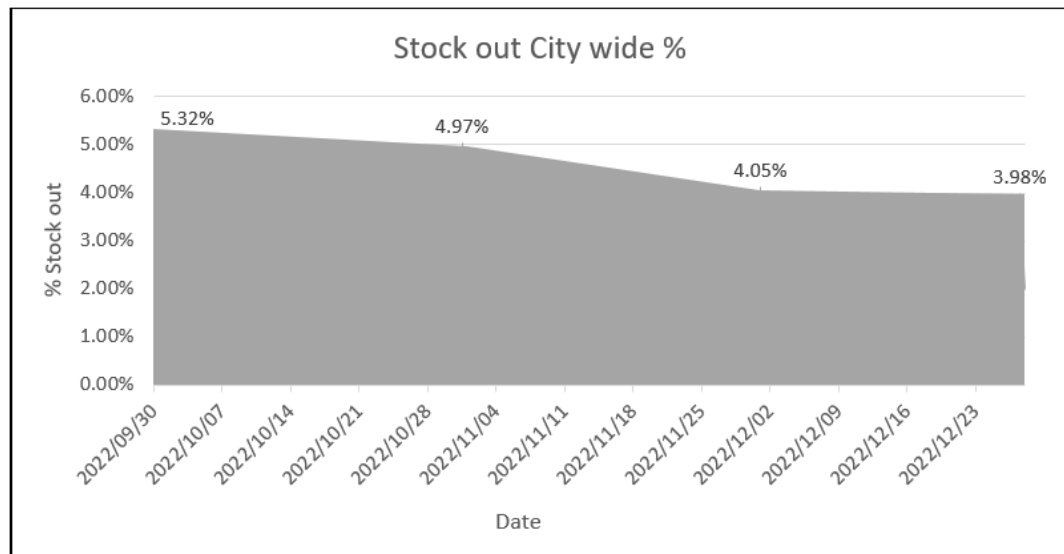
The information as per Graph 01 shows the top 15 Material groups make up 92% of total inventory holding, at a value of R527.55m. It is noted that 73% (R383.76m) of these materials are Electricity materials with a stock turnover rate of less than 2, which is attributable to stock kept as strategic stock with long lead times and for upcoming projects. The remaining 27% (R44m) had an average turnover rate of 4.96.

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 28 December 2022

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

Graph 02: Stock out City wide % as at 31 December 2022



To reduce stock outs, SAP Material Requirements Planning (MRP) is regularly reviewed. ISM is also ensuring that stock contracts are implemented timeously.

The stock out percentage reduced from 5.32% at the beginning of Quarter 2 to 3.98% as at 28 December 2022. The downward trend demonstrates the effectiveness of the initiatives put in place by ISM to reduce inventory stock out.

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 City Manager approved the latest version of the Corporate Risk Register on 31 August 2022. The Finance: Supply Chain Management risk register was reviewed together with Risk, Ethics and Governance on 23 Sept 2022 and approved 14 December 2022. The next review will take place during Quarter 3.

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 October 2022 to 31 December 2022

Category	Revenue R
Disposal of scrap metals	2 967 961.98
Disposal of waste paper	36 283.70
Disposal of oils	43 515.26
Disposal of Scrap Transformers	877 404.00
Auction	14 252 805.07
Total	18 177 970.01

As per Table 13 above, a total of R18 177 970.01 disposal revenue was generated in Quarter 2 of the 2022/2023 financial year. The next auction is scheduled to take place on 1 March 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 October 2022 to 31 December 2022, the SCM department made 25 *permanent appointments*.

The SCM staff establishment consists of 342 approved positions. There are currently 19 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 in order to attract, develop and retain professionals.

To support the growth of the capital budget, increase in volume of tenders and relieve the volumes of work on current staff, an additional Head Tenders, Senior

Practitioners and Professional Officer Positions will be created and filled in the near future.

The SCM department also made four (4) student appointments during Quarter 2.

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.

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. Driving a positive, motivated, accountable and ethical culture are the themes that will be focussed on in the change program.

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

Subsequent to the Constitutional Court judgement regarding the invalidity of the 2017 Regulation, the Minister of Finance published the new Procurement Regulations, 2022 on 4 November 2022.

Considerable work has been done to review and update the SCM Policy with the aim to enhance good governance and create accountability and efficiency. The revisions made to 2022 SCM Policy mirrors the prescripts as set out in the Preferential Procurement Regulations, 2022, in order to:

- comply with Section 217 of the Constitution on procurement of goods and services by organs of state;
- comply with the PPPFA of 2000;
- comply with the Constitutional Court judgement of February 2022, on the 2017 Regulations.

The SCM Policy will most likely be tabled at the January Council meeting for adoption.

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