

REPORT TO THE EXECUTIVE MAYOR ON THE IMPLEMENTATION OF THE SUPPLY CHAIN MANAGEMENT (SUPPLY CHAIN MANAGEMENT) POLICY FOR THE QUARTER ENDED 31 DECEMBER 2015 AND THE QUARTER ENDED 31 MARCH 2016.

EXECUTIVE SUMMARY

1. The implementation of National Treasury's centralised database on 1 July 2016, a compulsory requirement for all municipalities, will replace the current Knysna Municipality Supplier database. Although initiatives have commenced to make all suppliers aware of this, a KM initiative will also have to be undertaken to make all local suppliers aware of it.

2. KM is going live on mSCOA on 1 July 2016.

3. Council is requested to formally resolve that Promun, Ignite, Collaborator and Itron are systems that Knysna Municipality have standardised on until such time as a decision is made to change or purchase a new system.

4. SCM is one of the smallest units in the municipality and critical vacancies have been vacant in especially the Stores for many years. This severely impacts on service delivery as well as the payment of creditors. Given the significant importance now placed by National Government of SCM as one of the most critical sections of any government entity and given implementation of the various new sets of legislation (especially the standard on infrastructure development), the critical vacancies on the processing levels must be filled as soon as possible.

5. More than R 224 million of orders on HDI suppliers during the financial year-to-date has been generated. Eighty-two new RFQ's and thirty-three tenders were processed during this period.

6. The fourth quarter will have many challenges with the looming implementation of the CSD, mSCOA as well as the infrastructure standard on procurement. Considering the increase in KM's capital expenditure for the 2016/17 Draft MTREF, amongst other challenges, an increase in SCM headcount is imperative. It will also be year end and those processes will commence soonest. Audit preparation in SCM has already started and will continue through the next quarter.

1. INTRODUCTION

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

2. CONSTITUTIONAL AND POLICY IMPLICATIONS

Section 9 of the SCM policy relates to section 117 of the MFMA which provides that a councillor may not be a member of a bid committee or any other committee evaluating or approving quotations or bids, nor may a councillor attend any such meeting as an observer.

However, section 9 also mentions that Council has an oversight role to ensure that the AO implements the SCM Policy. The executive Mayor must provide general political guidance over the fiscal and financial matters of the municipality and must monitor and oversee the exercise of responsibilities assigned to the AO and CFO in terms of the MFMA.

In accordance with section 9 of our SCM Policy, the AO must submit quarterly reports to the Executive Mayor on the implementation of this Policy, and these matters are reported annually to Council.

The SCM Policy was approved during October 2015 and was implemented from November 2015.

2.1 NEW AND UPCOMING LEGISLATION

mSCOA – Knysna is a pilot municipality for mSCOA and we are continuously implementing. The SCM section will receive further training on mSCOA costing codes in the next quarter.

CSD – the National Treasury centralised database must be implemented from 1 July 2016. The current Knysna database will not be used from that date and functions will fall away from municipal officials. Awareness initiatives on this has commenced more campaigns will be rolled out in quarter four of this financial year.

Standard for infrastructure procurement and delivery management – an urgent need was identified to separate SCM requirements for general goods and services from those for infrastructure delivery in order to improve project outcomes. Infrastructure delivery is the combination of all planning, technical, administrative and managerial actions associated with the construction, supply, refurbishment, rehabilitation, alteration, maintenance, operation or disposal of infrastructure. During May 2016 the Eden district SCM managers will have a meeting with Provincial Treasury and decide on the way forward regarding this standard.

3. SALIENT DETAILS OF SUPPLY CHAIN MANAGEMENT ACTIVITIES

3.1 CONTRACT MANAGEMENT

Contract management remains a key focus area of the AG. Currently SCM answers to the related audit findings but this function is not part of the SCM unit until such time as the proposed organogram is approved. The position to actively deal with the contracts will remain vacant until funded and filled. It is imperative that an arrangement regarding

this position is made as soon as possible as it has significant SCM and business implications.

Over the past two years the so called "inherited contracts" have been phased out and from the 17 listed in various audit reports, 8 have been cancelled and tender processes followed for these services. Four of these contracts are related to the financial system and due to the mSCOA project. KM should continue with these service providers. The outstanding contracts are Sintec, Fredericks (water accounts) and the 3 leases for municipal offices. These are all now reported as deviations as tender processes were not followed.

Contracts	Municipal requirement	From year	Action	Responsible department
Allsound	Security	2009	New tender awarded 2015	Community Services
ADT	Security	2009	New tender awarded 2015	Community Services
Niqua Security	Security	2009	New tender awarded 2015	Community Services
Canon	Printers	2006	New tender awarded 2014	Financial Services
Canon	Telephone system	2005	New tender awarded 2014	Corporate Services
Sintec	Vision project management	2004		Planning & Development
VPM	Vision Surveying	2004		Planning & Development
Wastecon	Refuse removal	2005	New tender awarded 2016	Community Services
Itron	Prepaid system	2001	Standardize – financial system	Financial Services
Masiqhame Trading	Remove of illegal shacks	2006	New tender awarded 2014	Planning & Development
Ignite	SDBIP & Performance	2009	Standardize – financial system	Municipal Manager
Collaborator	Document management	2007	Standardize – record keeping system	Corporate Services
Rdata	Financial system	1998	Standardize – financial system	Financial Services
Harvey World Travel	Subsistence & Travel	2012	Tender at BAC	Corporate Services
Fredericks	Delivery of water accounts	2001	Tender awarded by Council. In the process of drafting new specifications.	Financial Services
Melville Development	Office space rentals: Income	2006	Income and traffic section to move during 2017/2018 financial year.	Corporate Services

			Lease expires June 2016.	
Melville Development	Office space rentals: P&D	2010	Rental to continue. Purchase of office space are being considered. Lease expires November 2016.	Corporate Services
Consillium building & George Rex offices for Electrical department	Office space rentals	2015	Rental to continue until such time as suitable alternative is found.	Corporate Services

Council are requested to resolve that Promun, Ignite, Collaborator and Itron are systems that Knysna Municipality have standardised on until such time as a decision is made to change or purchase a new system.

National Treasury revoked circular 57 that prohibited the municipalities to change systems with financial implications. The treasury went out on tender with detailed specifications these types of systems must comply with. This is a transversal tender and municipalities that wish to change their financial systems may do so once the tender is awarded to vendors. Knysna municipality will however not change any systems now as we are implementing mSCOA.

3.2 VENDOR DATABASE OF ACCREDITED SUPPLIERS

The SCMU continuously receives new vendor applications and information from vendors updating or changing their details. This is a good indication that suppliers pursue a position to trade with the Knysna Municipality.

All the spheres of government will use the National Treasury Supplier Data Base (CSD) as from 1 July 2016.

The Centralised database provide the following benefits:

- (i) Suppliers only register once;
- (ii) Data that is verified and validated;
- (iii) Compliance;
- (iv) Data that has built-in internal controls;
- (v) Tax clearances are verified daily with SARS and only suppliers registered with SARS will be included on the CSD (Annexure A).

An awareness campaign involving National Treasury, Provincial Treasury and the various municipalities was launched, to inform suppliers (regular, critical and potential) of the new registration requirements, by means of supplier open days, road shows, newspaper advertisements, etc.

It is important to note that there is no cost involved for a supplier to register on the CSD or to update their profiles.

It is further important to keep in mind that registration on the CSD is a once-off process and the supplier would only be required to submit a new valid document (TCC, BBBEE and Conflict of Interest), when the previous documents expire.

Computers with access to the CSD will be made available at all libraries in the municipal area to ease the registration process for suppliers. A dedicated official from SCM will also be answering questions, assisting etc. the suppliers to register. The official will be going out into the areas to assist the suppliers to register. An information session for suppliers in each Ward will be held within the ward. The schedule will be forwarded to all councillors.

3.2.1 Submission from A Groenewald from the National Roads Agency (Attachment A)

Council should take cognisance of the letter and note that suppliers not registered with SARS will not be registered as suppliers on the municipal database going forward.

3.3 PROCUREMENT

Amount of orders processed:

Order type	Total number of orders per type	Total value of order per type
A	4156	R 3 810 412
B	505	R 3 997 765
C	219	R 2 989 953
D	629	R 86 313 843
R	99	R 6 767 288
T	949	R 117 456 750

Amount of new RFQ's processed for the period: 82

Amount of new tenders processed during the period: 33

3.3.1 ORDER TYPES

Requisition amount (incl. VAT)	Order Type	Procedure	Approval
Less than R2000 and Petty cash 1 quote	A order	Requisition to be completed by initiator & authorizer.	Within the delegated framework.
R2001 to R10 000 (compliant i.e. 3 quotes)	B order	Requisition to be completed by initiator & authorizer.	Within the delegated framework.
R10 001 to R30 000 3 quotes	C order	User department provide specifications to SCM. Advertise on notice board and website for three (3) days. Quotes will be forwarded to user department to indicate compliance with specifications.	Within the delegated framework.

		Acceptable quote to be used for requisition. Requisition to be completed by initiator & authorizer.	
R2001 & above (non-compliant)	D order	The reason for non-compliance can only be one of the following: (i) Emergency (A serious, unexpected, and often dangerous situation requiring immediate action) – followed by the justification; (ii) Sole supplier – followed by the justification; (iii) Acquisition of animals for zoos and /or nature and game reserves; (iv) Acquisition of special works of art or historical objects; (v) Exceptional cases where it is impractical or impossible to follow the official procurement processes - followed by the justification; (vi) 3 quotes could not be obtained (proof of requesting the 3 or more quotes must be attached); or (vii) Contracts previously entered into or inherited in terms of Section 164(2) of MFMA.	Deviation memo must be attached reflecting the reason and including a justification. Must be signed off by the relevant Manager & Director. Approvals will be within the delegated framework.
RFQ process	R order	Properly documented process within the prescribed framework.	Approvals will be within the delegated framework.
Tender process	T order	Properly documented process within the prescribed framework.	Delegated committees.

A proposal was submitted by a supplier regarding the use of BBBEE points in procurement below R 30000, see attachment B. This matter must be discussed by Council and a resolution taken on the way forward.

Impacts:

- Additional staff member in SCM needed to process this order type;
- More or less 20% additional will be paid for the goods or services;
- Businesses not specializing in these products will enter the market;
- May impact on the quality of the product KM received?

3.3.2 DEVIATIONS

Deviations for the current financial year is attached as requested.

3.3.3 SOME OF THE IMPROVEMENTS MADE TO THE SCM SYSTEM DURING THE PAST TWO YEARS:

CHALLENGES	IMPROVEMENTS
No training was provided for officials outside of SCM	Training were provided for SCM officials as well as bid committee members
Limited training was provided for SCM officials	Various training session were provided on the online requisition system
Calculation errors in evaluating tenders that led to a wrong award	Continuous training on the online requisition system are being rolled out as when required
Awards not being made to the highest scoring bidder or lowest quote	Continuous training on the online requisition system are being rolled out as when required
Only BAC members were appointed on bid committees into their contracts with the municipality	A bid specification committee were appointed to assist with specification writing and to ensure that the BEC can evaluate tenders
No appointed BSC. User departments drafted the specification and it was advertised by SCM	Tenders are now evaluated by an appointed BEC with SCM representatives serving on the committee
BEC reports were drafted by the user/procuring department	The SCM representative serving on the BEC drafts the reports or recommendations from the BEC
No senior SCM official on BAC	A senior SCM representative serves on the BAC and has voting rights
BAC not properly constituted according to legislation	Segregation of duties of SCM representation on the bid committees were put in place
SCM official serving on BEC also took minutes of BAC	A SOP were drafted and approved for the bid committees
Evaluations were led by the user department	Bid committees are held within the finance building to safeguard the tender documents
No declarations of interest were signed by any member of a committee during the process	The documents relating to deviations were updated and reporting on deviations to Council has changed to be in accordance with the MFMA
Various tender templates were used	Bid documentation (tender template) were updated and all tenders are now advertised on a standard template
No attendance register for any bid committee existed	Standard templates for the bid committees were implemented. This includes attendance registers, declaration of interest, agendas, recommendation reports and resolutions
Only agendas for the BAC were drafted	SCM instructions and information relating to quotations, payments, orders and

	procedures are regularly issued to all staff members
Requisitions were done in books and the pages submitted to SCM with the quotations attached	The online requisitioning system was amended and implemented. This includes functionality that 1 person cannot request and authorize a requisition, delegations were implemented on amounts that can be requested and authorized against, new order type has been implemented on the system, e-mails with the quotations are being sent to the authorizer to ease the authorization process, once the order has been authorized an e-mail is sent to the requester to inform them to continue with the supplier
Requisitions were signed and authorized by the same official	An electronic SCM documentation management system is in the process of being implemented. This system is an administration system that will assist with the flow of documentation during the SCM process. It has functionality to process deviations, do the calculations on bids received, will indicate the progress of all SCM processes, the suppliers on the database will be updated and available to user departments to access, all SCM related documents will be readily available to all users, bid committee meetings will be scheduled from the system, attendance of members will be electronically logged, suppliers performance will be evaluated and can be reported on and specifications will be submitted to the BSC via the system.
Performance of suppliers were not being reported to SCM	An updated set of SCM delegations was drafted and are being implemented. These delegations are in line with the delegations issued by Council and the Municipal Minimum Competency regulations
SCM delegations last updated in 2012	SCM Delegations is continuous WIP due to MMC
Most external audit findings relating to SCM	A decrease in audit findings since 2013/2014

3.4 PROCUREMENT TARGETS

At the March section 80 meeting a request was made for the progress on spend against targets set by Council in the SCM Policy. It should be noted that the targets were only set at the end of October 2015 with the approval of the policy. All the directors have the targets in their performance agreements.

It is suggested that Council set targets for procurement in terms of the sectors where there is unemployment in the municipal area.

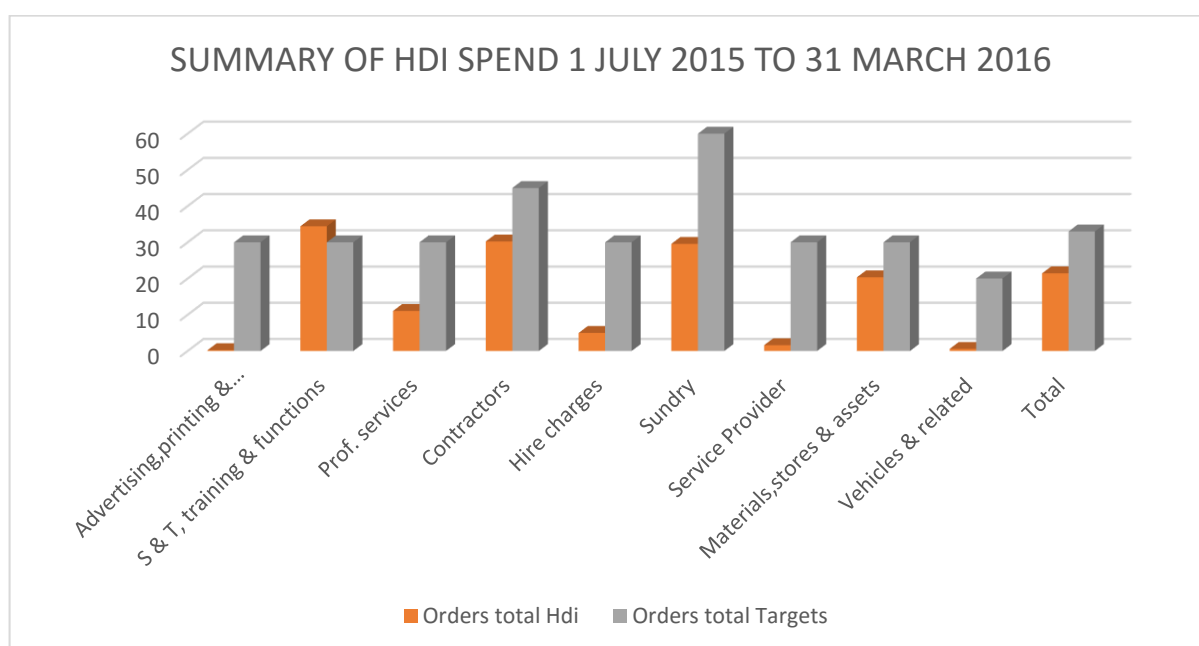
It is suggested that the targets be changed to women, youth and people with disability.

Example of condition of tender:

The preferred bidder must have representation of at least 25% of youth in the joint venture or the joint venture must comprise of an experienced caterer together with 3 single female household owned companies.

SUMMARY OF HDI SPEND 1 JULY 2015 TO 31 MARCH 2016

Category	Orders Total	HDI	Targets
Advertising, printing & postage	1 910 645	0	30
S & T, training & functions	2 836 154	34	30
Prof. services	39 151 414	11	30
Contractors	110 021 145	30	45
Hire charges	9 526 677	5	30
Sundry	479 486	30	60
Service Provider	13 969 218	2	30
Materials, stores & assets	43 737 822	20	30
Vehicles & related	2 581 624	1	20
Total	224 214 183	21	33



3.5 LOGISTICS MANAGEMENT

More internal controls are being put in place at the Stores. Stock will only be issued from the Stores once a captured order is received by the Stores staff. This requires an authorized requisition. Arrangements for after-hours/standby are made and the paperwork must be submitted to the Stores within 7 days after the incident occurred. A procedure for emergencies during working hours is also in place.

All unauthorized entry was stopped and cameras and an alarm are being installed to improve security and minimize losses.

All manual requisitions were stopped effective 1 February 2016. This will also assist the Stores in staying up to date and will assist in more effective and timeously delivery of stock as requested by departments as summaries can now be done via the Promun system.

Automation of receiving and issuing stock will commence during this financial year. Once all the Stores tenders are awarded (during April 2016) minimum and maximum stock levels will be set on the financial system. This levels will be indicated by the user departments.

4. SUPPLY CHAIN MANAGEMENT UNIT

Knysna Municipal staff must be MMC competent by end of June 2016. Currently the SCM Manager is fully competent and the Senior Clerk Procurement and 1 Procurement Clerk have finished more than 15 modules. MMC training is scheduled to commence during April 2016.

Demand Management training was provided by PT during October. The SCM Manager attended the two day training course.

The Senior Clerk Procurement attended the Smart Procurement World Conference in Cape Town during March 2016. An e-mail received from the Clerk is attached as Annexure C.

POSITIONS	SCM	STORES
FUNDED VACANCIES	0	0
UNFUNDED VACANCIES	3	3
TOTAL POSITIONS	11	7

SCM is one of the smallest units in the municipality and critical vacancies have been vacant in especially the Stores for many years. This severely impacts on service delivery as well as the payment of creditors. With the implementation of the various new sets of legislation especially the standard on infrastructure development the critical vacancies on the processing levels must be filled as soon as possible.

5. TENDERS AWARDED

Annexure D - The tenders awarded are attached:

T43/2015: HIGH MAST FLOODLIGHTING AT THE NORTHERN AREAS PHASE 2D: Delacom Solutions

T47/2015 SUPPLY AND DELIVERY OF PAINT & ROAD SIGN MATERIAL: Various suppliers

T48/2015: SUPPLY AND DELIVERY OF PAPER: Various suppliers

T53/2015: SUPPLY AND DELIVERY OF STABLE MIX: Sandobel (Pty) Ltd

T55/2015: SUPPLY AND DELIVERY OF SUNSCREEN: Seaview Plumbing Supplies

T63/2015: SUPPLY AND DELIVERY OF BUILDING MATERIALS FOR 205 BATHROOM UNITS IN HORNLEE: Various suppliers

T64/2015 SUPPLY AND DELIVERY OF CORPORATE STATIONARY: Knysna Press

T68/2015: SUPPLY, INSTALLATION AND SERVICING OF PHOTOCOPIERS: Konica Minolta

T71/2015: PROFESSIONAL SERVICES FOR THE CONCEPTUAL DESIGN OF THE HORNLEE DENSIFICATION AND BACKYARD UPGRADE PILOT PROJECT: JSA Architects
T75/2015: UPGRADE OF WORKSHOP SUBSTATION: MDL Electrical
T76/2015: SUPPLY AND DELIVERY OF GUARDRAILS: DK2 Investments
T01/2016: REFURBISHMENT OF VIGELENCE DRIVE WATER PUMPSTATION: Viking Pony Africa Pumps

Annexure E - Cancelled tenders:

T42/2015 PUBLIC SIGNAGE, DESIGN, IMPLEMENTATION AND MANAGEMENT
T61/2015: SUPPLY AND ERECTION OF TIMBER FRAMED WENDY HOUSES
T62/2015 SUPPLY, INSTALLATION AND MAINTANNACE OF STATIC RED LIGHT AND SPEED VIOLATION CAMERAS AND BACK ROOM PROCESSING SERVICES

6. TOP 10 SUPPLIERS

Supplier Name	Primary Directorate	Total Orders
ENTSHA HENRA CC	Planning	15 837 647
MDL ELECTRICAL CC	Electrical	11 641 999
URHWEBO E TRANSAND WILLVEST 23 (PTY) LTD	Planning	6 655 483
METSI CHEM WESTERN CAPE	Technical	6 253 595
MASSBUILD (PTY) LTD T/A BUILDERS WAREHOUSE	Planning	5 886 211
SIKHULILE ENGINEERS (PTY) LTD	Planning	5 324 926
ZEBRA BITUMINOUS SURFACING	Technical	5 263 158
GAU FLORA CC	Planning	5 049 915
BENVER CIVILS & PLANT HIRE	Planning	5 010 437
NEW MORNING CONSTRUCTION CC	Technical	4 495 970

7. CONCLUSION

The fourth quarter will have many challenges with the looming implementation of the CSD, mSCOA as well as the infrastructure standard on procurement. Considering the increase in KM's capital expenditure for the 2016/17 Draft MTREF, amongst other challenges, an increase in SCM headcount is imperative. It will also be year end and those processes will commence soonest. Audit preparation in SCM has already started and will continue through the next quarter.