



**THEEWATERSKLOOF MUNICIPALITY
SUPPLY CHAIN MANAGEMENT
IMPLEMENTATION REPORT**

For The

2017/2018 FINANCIAL YEAR

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1. Introduction

This report will assist Council in the execution of its oversight role and to perform trend analysis, to identify significant control weakness areas, deviations and minor breaches, complaints, queries and disputes. Through the effective performance of its oversight function, the necessary action can be taken to improve financial governance.

2. Demand and Acquisition Management

The municipality's SCM policy states that "All user departments are required to submit their procurement plans by end of April, for the following financial year to the Manager Supply Chain Management to improve planning and management of resources".

For the 2016/2017 financial year and 2017/2018 financial year, a total number of 37 and 22 projects respectively were identified on the procurement plan for contracts above R 200 000. SCM reported quarterly to management on the progress of the projects listed on the procurement plan which occurred on 18 August 2017, 26 January 2018 and 13 April 2018 respectively. The purpose of such reporting was to monitor and track performance against the approved procurement plan. These plans excluded the procurement of goods and services with a value of greater than R30 000 and less than R 200 000.

The table below will illustrate the procurement plan and formal written price quotation process (inclusive of additional awards above R 30 000), reporting in terms of Regulation 18 of the SCM Policy and all payments made for Local and External service providers:

2016/2017 Tenders:

Month	Contracts Awarded	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"	Contracts Awarded to Local Suppliers	Contract Value Awarded to Local Suppliers "R"
July	6	12 363 456.30	8 608 186.04	0	0.00
August	3	4 021 463.77	0.00	0	0.00
September	3	23 385 502.93	23 385 502.93	0	0.00
October	4	4 616 586.76	1 424 950.00	1	1 424 950.00
November	5	2 916 891.00	656 024.40	0	0.00
December	0	0.00	0.00	0	0.00
January	2	5 874 298.17	4 182 214.77	0	0.00
February	3	4 729 432.99	0.00	0	0.00
March	3	16 374 903.15	14 955 607.05	0	0.00
April	0	0.00	0.00	0	0.00
May	19	34 269 321.30	483 820.55	0	0.00
June	10	27 218 321.76	508 800.00	0	0.00
TOTAL	58	135 770 178.13	54 205 105.74	1	1 424 950.00
Cancelled	4				

2017/2018 Tenders:

Month	Contracts Awarded	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"	Contracts Awarded to Local Suppliers	Contract Value Awarded to Local Suppliers "R"
July	3	3 967 833.04	3 967 833.04	2	2 453 060.54
August	1	200 000.00	200 000.00	0	0.00
September	3	9 272 389.04	9 272 389.04	0	0.00
October	5	25 150 748.44	4 590 846.59	0	0.00
November	3	10 868 543.40	10 868 543.40	0	0.00
December	9	8 430 243.29	6 760 580.75	0	0.00
January	0	0.00	0.00	0	0.00
February	0	0.00	0.00	0	0.00
March	8	25 159 877.53	25 159 877.53	0	0.00
April	1	6 639 302.71	6 639 302.71	0	0.00
May	9	8 163 002.28	7 413 002.28	3	2 250 008.26
June	1	1 179 325.00	1 179 325.00	0	0.00
TOTAL	41	96 578 204.19	73 598 639.80	5	4 703 068.80
Cancelled	10				

A total of 41 Tenders [(2016/2017): 58 Tenders] were awarded in the 2017/2018 financial year. This indicates a decrease of 29% in contracts awarded above R 200 000. The Contract Value decreased from R 135 770 178.13 in 2016/2017 to R 96 578 204.19 in 2017/2018. This indicates a decrease of 29% in the contract value awarded. The contract value awarded to B-BBEE Entities increased from R 54 205 105.74 in 2016/2017 to R 73 598 639.80 in 2017/2018. This indicates an increase of 36% in the Contract Value awarded to B-BBEE Entities. This represents 76% of the total contract value compared to 40% in the previous financial year and is mainly due to B-BBEE Entities submitting non-competitive prices.

A total of 5 Tenders [(2016/2017): 1 Tender] were awarded in the 2017/2018 financial year to Local Suppliers. This indicates an increase from 1.04% to 4.87% in terms of the total value spent on Local Suppliers.

Certain dates on the procurement plan was not met. SCM identified gaps in drafting of specification by end-users that do not make use of consultants which indicates a lack of expertise and knowledge. It was further identified by SCM that end-users are reluctant to conduct research pertaining to demand management.

2016/2017 Quotations:

Month	Quantity Advertised	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"	Contracts Awarded to Local Suppliers	Contract Value Awarded to Local Suppliers "R"
July	1	106 691.20	106 691.20	0	0.00
August	10	1 099 523.05	668 179.25	2	189 437.25
September	10	672 314.46	376 851.83	4	251 076.20
October	9	1 260 689.15	496 031.00	0	0.00
November	12	1 000 992.93	447 967.21	0	0.00
December	23	2 659 759.56	1 019 943.33	3	260 352.40
January	3	398 590.33	398 590.33	0	0.00
February	7	756 213.28	515 838.58	3	123 414.01
March	12	1 256 553.87	481 599.38	2	40 102.65
April	25	2 535 047.75	954 080.26	4	385 608.19
May	25	2 639 267.42	1 013 066.66	4	482 550.23
June	6	639 165.92	240 381.16	1	198 790.00
TOTAL	143	15 024 808.92	6 719 220.19	23	1 931 330.93
Cancelled	22				

2017/2018 Quotations:

Month	Quantity Advertised	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"	Contracts Awarded to Local Suppliers	Contract Value Awarded to Local Suppliers "R"
July	1	199 956.00	199 956.00	0	0.00
August	17	1 094 837.04	908 333.04	7	637 554.46
September	10	674 442.87	674 442.87	3	261 926.40
October	13	1 314 359.17	1 156 745.05	2	198 043.00
November	13	965 004.46	768 639.46	2	144 234.30
December	7	869 939.18	869 939.18	2	89 954.60
January	0	0.00	0.00	0	0.00
February	12	1 271 461.39	1 271 461.39	3	305 670.00
March	5	479 436.45	479 436.45	1	41 040.00
April	6	791 822.88	791 822.88	0	0.00
May	19	2 027 029.27	2 027 029.27	5	339 346.60
June	8	721 103.95	721 103.95	2	124 780.50
TOTAL	111	10 409 392.66	9 868 909.54	27	2 142 639.86
Cancelled	32				

A total of 111 Quotations [(2016/2017): 143 Quotations] were awarded in the 2017/2018 financial year. This indicates a decrease of 22% in contracts awarded. The contract value decreased from R 15 024 808.92 in 2016/2017 to R 10 409 392.66 in 2017/2018 which translates into a decrease of 31% in the contract value awarded. The contract value awarded to B-BBEE Entities increased from R 6 719 220.19 in 2016/2017 to R 9 868 909.54 in 2017/2018 and represents an increase of 47% in the contract value awarded to B-BBEE Entities. In 2016/2017 44.72% of the total contract value Awarded for quotations were awarded to B-BBEE Entities. In 2017/2018 94.81% of the total

Contract Value Awarded for quotations were awarded to B-BBEE Entities. This indicates an increase of 50.09% although there was a decrease of 31% in Contract Value Awarded from previous to current year.

A total of 27 Quotations [(2016/2017): 23 Quotations] were awarded in the 2017/2018 financial year to Local Suppliers. This indicates an increase from 12.85% to 20.59% in terms of the total value spent on Local Suppliers.

Procurement for Procuring Goods or Services through Written or Verbal Quotations and Formal Written Price Quotations

2017/2018 Orders

Month	Total Orders Approved "R"	Total Orders Approved for Local Spending "R"	% of Local Spending
July	7 964 099.56	2 883 084.31	36%
August	1 744 560.06	953 411.79	55%
September	4 779 235.27	1 085 046.69	23%
October	3 011 198.63	1 228 410.43	41%
November	1 817 834.90	766 900.93	42%
December	2 216 093.73	1 014 293.39	46%
January	1 432 983.62	1 120 847.89	78%
February	4 799 197.34	2 345 330.01	49%
March	3 436 060.50	2 411 465.23	70%
April	5 609 630.17	1 335 541.12	24%
May	4 713 561.59	1 882 748.83	40%
June	1 393 643.93	589 609.79	42%
TOTAL	42 918 099.30	17 616 690.41	41%

For the 2017/2018 financial year a total number of 5 686 orders was issued which amounts to R 42 918 099.30. The total order value approvals spend within the boundaries of Theewaterskloof Municipality amounts to R 17 616 690.41. This indicates that 41% of all orders approved were spend within the boundaries of Theewaterskloof Municipality.

2017/2018 Payments

Total Payments for the year "R"	Total Payments to Suppliers within the Boundaries of Theewaterskloof Municipality "R"	Total Payments made to Suppliers within the Boundaries of Theewaterskloof Municipality from External Suppliers "R"	% of Local Spending
163 378 152 .65	26 755 974.56	16 826 787.54	27%

For the 2017/2018 financial year the total payments amounts to R 163 378 152.65. The total value spend within in the boundaries of Theewaterskloof Municipality amounts to R 43 582 762.10. This indicates a 27% (23% in 2016/17) overall spend within the boundaries of Theewaterskloof Municipality.

DEVIATION FROM, AND RATIFICATION OF MINOR BREACHES OF, PROCUREMENT PROCESSES

The following deviation occurred during 2017/2018 financial year:

Deviation	Transactions	Amount "R"
in an emergency	78	2 871 644.83
if such goods or services are produced or available from a single provider only	31	5 992 006.36
for the acquisition of special works of art or historical objects where specifications are difficult to compile;	0	0.00
acquisition of animals for zoos	0	0.00
in any other exceptional case where it is impractical or impossible to follow the official procurement processes	724	19 800 774.39
Total	833	28 664 425.58

These deviations were duly reported to Council as per SCM regulations and the SCM Policy. During the 2017/2018 financial year SCM deemed it necessary to develop and implement a SOP for Deviations which included a declaration of related parties to be disclosed by all end users.

3. List of Accredited Prospective Suppliers

The suppliers play a pivotal role in the municipality, hence the need to ensure that all suppliers are compliant from application up to and including the period during which an award is made to the supplier. The municipality's database currently has 1 691 suppliers (active [1614] + suspended [77]) listed.

The table below is an illustration of the applications received:

Financial Year	2016/17	2017/18
Applications Received	296	302
Declined Applications/Supporting Documents	46	30
Declined/Inactive Tax Clearance	8	11
Fraudulent Tax Clearance Certificates	0	0
Person's in service of the state	2	1
Total Applications Rejected	56	42
Applications Confirmed and Approved	184	260
Success Rate of Database Application	62.16%	86.09%

The following statistical reports indicates the growth in the registration process, despite economic difficulties, businesses are still finding opportunities provided by the municipality.

It is a requirement of all municipalities and National and Provincial Departments to upload their HR File on the Central Supplier Database to enable Government Departments to verify if a supplier is in the service of the state before it can be uploaded as a prospective service provider.

SCM implemented a system in conjunction with Provincial Treasury and the Western Cape Supplier Database to ensure that prospective supplier ID numbers are run through the persal system to avoid non-compliance.

Also note that in the current financial year it was identified that one supplier with persons in the service of the state was identified, whereas two suppliers were identified in the previous year were found non-compliant and their applications to register were declined.

SCM assisted suppliers to register on E-filing at SARS to obtain valid Tax Clearance certificates in a much quicker and more effective way in order for them to register on our database and be compliant for any quotations and tenders advertised/awarded.

During the 2017/2018 financial year SCM in conjunction with LED, Provincial Treasury, SARS, SEDA, DTI, EPWP and in one instance Overberg District Municipality and Cape Agulhas Municipality held four (4) workshops in Caledon, Grabouw and Villiersdorp respectively. The following matters were discussed during the workshop with the prospective service providers within Theewaterskloof Municipality:

- How to register on the database of the municipality and Central Supplier Database;
- How to complete a tender and quotation document;
- How to register on Western Cape Database;
- How to register at SARS and obtain a valid Tax Clearance Certificate;
- How to register a new entity;
- How to complete a B-BBEE affidavit or obtain a B-BBEE certificate;
- How to register at the Construction Industry Development Board for the different construction categories to enable the supplier to be compliant for any tenders and quotations advertised/awarded.

As a result of the above and illustrated in the table below, there was an increase in the registrations of local services providers on the municipality's database.

Monthly Report Summary:

Financial Year	2016/17	2017/18
July	15	15
August	17	27
September	19	43
October	22	10
November	34	23
December	3	22
January	16	9
February	12	14
March	21	35
April	12	22
May	10	27
June	3	13
Total	184	260

4. Logistics Management

The main purpose of the inventory and Stores section is to provide the right quality of material at the right time and in the correct quantities to the other departments in TWK municipality. This is done to enable all departments to deliver services effectively to the various towns. At the same time the section strives to keep the stock levels as low as possible in order to reduce the Municipality's financial investment in stock.

There is a continuous focus on the improvement in customer service, material availability, quality and quantity, business processes and training.

The table below illustrates some comparative statistics for the 2015/2016 and 2016/2017 Financial Years.

Financial Year	Opening Stock Value	Store Purchases	Project Stock Inserts	Store Issues	Closing Stock Value
2015/16	4 418 685.07	7 520 235.92	0.00	6 625 964.38	5 312 956.61
2016/17	5 312 956.61	7 977 911.98	0.00	8 716 207.91	4 574 660.68
Increase/(Decrease)	20.24%	6.09%	N/A	31.55%	(13.9%)

The opening stock values indicate that it has increased by 20.24% year on year which is attributed to the inclusion of project stock in the financial records.

The SCM department is of the opinion that the store figures for the 2016/2017 financial year will be the basis for the average store total beyond this financial year. SCM will focus on how to improve the management of stock levels across all stock items to maintain a balance of the right stock levels to support user departments to sustain service delivery.

The table below illustrates some comparative statistics for the 2016/2017 and 2017/2018 Financial Years.

Financial Year	Opening Stock Value	Store Purchases	Project Stock Inserts	Store Issues	Closing Stock Value
2016/17	5 312 956.61	7 977 911.98	0.00	8 716 207.91	4 574 660.68
2017/18	4 574 660.68	11 475 609.14	0.00	10 907 288.40	5 177 839.94
Increase/(decrease)	(13.90%)	43.84%	N/A	25.14%	13.19%

As indicated in the schedules above the total Closing Stock Value increased from 2016/2017 to 2017/2018 financial with a value of R 746 317.86. This indicates an increase of 13.19%. The increase in the stores issues indicates that stock was readily available which resulted in a higher services delivery to the community and the level of support via the SCM office to the relevant store in the various towns increased as well. Furthermore the increase in stores can be attributed to an increase in the unit prices of all stock items and new stock items created.

5. Disposal Management

The Property Management Department disposed of 1 municipal asset (Erf 2416 in Caledon) at a market value for R 59 394.00 during the 2017/2018 financial year. The Assets Department did not dispose any municipal assets in the 2017/2018 financial year.

6. Risk Management

Various risks were identified and mitigation strategies implemented which includes a software system. A Project risk checklist was implemented to identify risks on a case-by-case basis.

Risks are also mitigated through various audit assignments from the Internal Audit Department which is done quarterly.

7. Performance Management

The municipality's SCM department's performance are audited by the internal audit on a quarterly basis in accordance with the Internal Audit plan for the 2017/2018 financial year, as agreed to by the Audit Committee.

The purpose of the audit was to evaluate the adequacy and effectiveness of the control activity, relating to the reliability; effectiveness and compliance to regulations of the SCM processes.

Internal Audit Opinion:

Effective—Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met in the Supply Chain Management Process.

This audit opinion was maintained throughout the financial year for each quarterly audit conducted by the internal audit section.

It is clear that that the authorised SCM processes were followed and the objectives of the SCM policy were achieved.

During 2016/2017 financial year, ten (10) notices of non/poor-performance was sent out to various contractors of which 1 was blacklisted and listed on the register for Tender Defaulters. During the 2017/2018 financial year, fifteen (15) notices for non/poor-performance was sent out to various contractors of which none was listed on the register for Tender Defaulters.

8. Due Diligence

The due diligence process strives to close the compliance gap as per the legislative requirements.

Regulation 44 (awards to persons in the service of the state):

SCM implemented a system in conjunction with Provincial Treasury and the Western Cape Supplier Database to ensure that prospective supplier ID numbers are run through the persal system to avoid non-compliance.

It is a requirement of all municipalities and National and Provincial Departments to upload their HR File on the Central Supplier Database to enable Government Departments to verify if a supplier is in the service of the state before it can be uploaded as a prospective service provider.

Before an award for procurement of goods and services above R 30 000 are made, the ID numbers of the relevant supplier are run through a system that can identify last employment with a 100% confidence level which give the municipality an indication of whether a supplier is compliant.

SCM also uses TransUnion and the Central Supplier Database of National Treasury as a balance check to ensure that the prospective suppliers are not in the service of the state.

Regulation 45 (awards to close family members of persons in the service of the state):

There are basic controls within the SCM and HR department where we request all staff members to declare any relationship to a supplier. Furthermore, we are also reliant on the integrity of the declaration forms.

The municipality currently has 27 employees linked to various suppliers as close family members. Furthermore the municipality has 24 declarations at other various state institutions.

This is an on-going process to ensure compliance. We are continually engaging with suppliers, procurement and tenders and contracts to ensure that the relevant information and documentation is timeously received and is noted on the list as well. The proper recording of this information has proven to be successful in providing a detailed report for the Auditor General in their request for information.

Regulation 46 (ethical standards):

HR implemented a gift register on the PayDay system of which SCM reports to the Municipal Manager on a quarterly basis and which is summarised in the below table:

Month	Amount of gifts 2016/17	Amount of gifts 2017/18
July	1	1
August	9	4
September	2	4
October	9	4
November	15	16
December	6	20
January	7	3
February	1	5
March	1	5
April	2	7
May	2	0
June	7	1
TOTAL	62	70

The above illustrates that the amount of gifts received during the 2017/2018 year are minimal. The total of gifts received increase from 62 in 2016/2017 to 70 in 2017/2018. This is an increase of 12.90% from 2016/2017 to 2017/2018 financial year. The increase can be attributed to an increase of gifts received in the month of December whereby 6 gifts was received in 2016/2017 and 20 gifts received in 2017/2018.

Summary of Suppliers and value of gifts

Number	Company	Amount "R"
1	ABSA Bank	400.00
2	ASLA	277.96
3	Bakenshoogte cc	100.00
4	Boland College	150.00
5	Botrivier Challenge	90.00
6	Botrivier Education Foundation	45.00
7	Business Engineering	100.00
8	Cab Holdings	200.00
9	Cllr Appel	424.99
10	Colleague	35.00
11	Consolidated Retirement Fund	150.00
12	Deon Bezuidenhout	350.00
13	Farm Hertzog	90.00
14	Helderstroom FC	100.00
15	Hessequa Raadgewende Ingenieur	160.00
16	Hot Wheels	40.00
17	IDN-Brokers for SAMWUMED	150.00
18	Investec Bank	1 375.00
19	Kromco	150.00
20	Lexis Nexis Rates Clearance	975.00
21	Market Demand	150.00
22	Marvin Brown	80.00
23	Ms Nagel	100.00
24	Metgovis	400.00
25	Metropolitan	110.00
26	Ms Le. Roux	25.00
27	Nissan SA	180.00
28	Old Mutual	510.00
29	Park Avenue Stationers	60.00
30	Riaan Basson	201.04
31	Siyanda Business	1 197.00
32	Starlight Wholesale Electrical	80.00
33	VESTA	700.00
	Total	9 155.99

The above illustrates that during the 2017/2018 financial year gifts were received from thirty three (33) prospective service providers. The value of gifts received amounts to R 9 155.99. The total value of gifts received by SCM officials amounts to R 382.00 and total value received by other officials involved in the procurement of goods and services amounts to R 5 897.95.

9. SCM related Appeals

The municipality received 7 appeals in the 2016/2017 financial year of which 1 was successful.

The municipality received 6 appeals in the 2017/2018 financial year of which all was unsuccessful.

10. Measures implemented to increase local spending

SCM implemented a checklist that must form part of a request for tender which must be in line with the above and which form part of the special conditions of tender. This checklist consists of the empowerment goals that must be set.

During the 2017/2018 financial year SCM amended the SCM Policy to ensure that all senior management responsible for each tender must report monthly to Management and quarterly to Council on the empowerment goals that were set per award above R 200 000 and the performance for each contract in terms of the empowerment goals. Contract Management Checklist was implemented to address the requirements in terms of the aforementioned.

Various local spending took place as well as corporate social investment funding that were made available for various projects within the boundaries of the municipality.

11. Conclusion

Supply chain management is perhaps one of the most challenging legislative requirements due to the lack of human resource capacity as well as the uncertainty with regards to the interpretation and implementation of legislation. This could result in underspending of the capital budget which will directly affect the municipality's ability to achieve its strategic objective of service delivery. Despite all the challenges, it can be stated that the municipality was successful in the implementation of the regulations and SCM policy.

12. Recommendation

It is recommended that Council:

1. Take cognisance of the report.

RESOLVED BY COUNCIL: 26 JULY 2018

After the Chairperson had given the Councillors an opportunity, and the item had been thoroughly discussed, on a proposal by Councillor M Koegelenberg, and seconded by Councillor KIJ Papier, it was resolved as follows:

Council take cognisance of the report.

For finalization by the Director: Financial Services, Mr. D Louw.