

FINANCIAL MANAGEMENT: REPORT ON THE IMPLEMENTATION OF THE
SUPPLY CHAIN MANAGEMENT POLICY DURING THE SECOND QUARTER
PERIOD OF THE 2023/2024 FINANCIAL YEAR

REPORT OF THE CHIEF FINANCIAL OFFICER:

1. INTRODUCTION / BACKGROUND TO REPORT

Regulation 6(3) of the Supply Chain Management Regulations, 27636 of 30 May 2005 issued by National Treasury states that: *“The City Manager must, within ten days of the end of each quarter, submit a report on the implementation of the Supply Chain Management Policy to the Mayor of the Municipality or the board of directors of the Municipal Entity”.*

2. PURPOSE OF THE REPORT

The purpose of the report is:

- (a) To inform the Council about the performance on the implementation of the approved supply chain management policy;
- (b) To inform Council about bids awarded during the second quarter period of 2023/2024 financial year;
- (c) To inform Council about bids awarded in terms of Regulation 36 of the Supply Chain Management Regulations;
- (d) To inform Council about the irregular expenditure incurred during the second quarter of the 2023/2024 financial year.
- (e) To inform Council about the implementation of the approved annual procurement plan;
- (f) To inform Council about the state and effectiveness of the Municipal Stores;
- (g) To inform council about the performance of the bid committee system
- (h) To inform council about the progress in the proposed implementation of the electronic procurement system
- (i) To inform council about the SCM reforms implemented by National Treasury

3. IDP LINK AND LOCATION

To ensure legally sound financial management and viability

4. MOTIVATIONS AND OPTIONS (DISCUSSION)

4.1 SUPPLY CHAIN MANAGEMENT POLICY

The policy was adopted by Council on 31 May 2023 as per Resolution A (3). The Supply Chain Management (SCM) Policy adopted by the City was drafted based on the provisions of the Preferential Procurement Regulations of 2022. A separate policy named the Preferential Procurement Policy for the City of Mbombela was adopted on 28 July 2023 as per resolution A(3). The abovementioned two policies are implemented by the city and progress is monitored on quarterly basis.

4.2 ESTABLISHMENT OF SUPPLY CHAIN MANAGEMENT UNIT

The Supply Chain Management Unit has been established to implement the approved Supply Chain Management Policy as per section 7(1) of the policy. The unit operates under the direct supervision of the Chief Financial Officer as required by section 7(3) of the policy.

4.3 IMPLEMENTATION OF THE PROCUREMENT PLAN

The annual procurement plan for the financial year was approved by the City Manager on 15 July 2023 attached as annexure 050/2023. The implementation of the procurement plan is monitored on a regular basis by the City Manager. The plan was submitted to both National and Provincial Treasuries for the purpose of monitoring the progress on the implementation thereof. Council exercises an oversight role in the implementation of the Procurement Plan.

The Procurement Plan is flexible to allow projects which are ready for implementation prior their planned advertisement date to be advertised earlier. The processes are implemented under a controlled environment taking into consideration their implications to the cash flow management.

4.3.1 PROGRESS ON THE IMPLEMENTATION OF THE PROCUREMENT PLAN

The implementation of the procurement plan is ongoing however, there are instances where the projects are delayed due to cash flow constraints, inadequate planning and sitting of bid committees. Projects that are advertised in December are normally extended to close in January to accommodate business recess for festive season.

4.4 TRAINING OF SUPPLY CHAIN MANAGEMENT OFFICIALS

Continuous in-house trainings were conducted on regular basis to enhance the functionality and effectiveness of the officials serving in the SCM and other relevant stakeholders.

Bid committee training or workshops were conducted on 14 August 2023 and 15 August 2023 respectively. The bid committee training conducted on 14 August 2023 was physical and conducted by Provincial treasury at Mbombela stadium. The one on 15 August 2023 was virtually conducted by the National Treasury.

4.5 STAKEHOLDER ENGAGEMENT

A district Supply chain management forum has been established and is operational. The purpose of the forum is inter alia to achieve the following:

- (a) To standardised the SCM processes and procedures within the district
- (b) To develop strategies for local empowerment and uplifting of SMMEs within the district
- (c) To enhance knowledge sharing and skills transfer among stakeholders

The forum meetings are held on quarterly basis. The meeting for the second quarter was held on 05 December 2023 at Ehlanzeni District Municipal offices.

4.6 COMPOSITION OF BID COMMITTEES

A committee system for competitive bids consisting of at least three committees, namely; Bid Specification Committee, Bid Evaluation Committee and Bid Adjudication Committee were established as per regulation 26(1) of the Municipal Supply Chain Management Regulations. The bid committee system is consistent with Regulation 27 that regulates the establishment of the Bid Specification Committee, Regulation 28 that regulates the establishment of Bid Evaluation Committee and Regulation 29 that regulates the establishment of Bid Adjudication Committee.

The City has two (2) bid specification committees, four (4) bid evaluation committees and one (1) bid adjudication committee. One bid evaluation committee evaluates all tenders or projects which are for the procurement of general goods and services and the other three evaluate projects for the procurement of infrastructure as required by National Treasury Standard for Infrastructure Procurement and Delivery Management.

The City Manager appointed bid committee members in writing in line with the Supply Chain Management Regulations and the Supply Chain Management policy.

The annual bid committees meeting schedules for 2023/2024 financial year was submitted to the City Manager for approval on 03 July 2023.

4.7 PERFORMANCE OF BID COMMITTEES

The performance of the bid committees in the second quarter is not satisfactory. The schedule for the sitting of bid committees is not fully adhered to resulting in delays in awarding projects.

Annexure 05/2024 contains service delivery projects tabled before bid committees and detailed reasons for non-award

4.8 PROGRESS REPORT ON THE IMPLEMENTATION OF ELECTRONIC PROCUREMENT SYSTEM

Negotiations with the contracted service provider, Messrs Business Connexion (BCX) is ongoing. The negotiations are centered around the reduction of an initial fee proposal of R5.3 million. Indications are that the fees will be reduced once the final assessment has been made regarding compatibility with the City's ICT infrastructure. The fees to cover the envisaged expenditure will be budgeted for in the 2024/2025 financial year.

4.9 ESTABLISHMENT OF SUPPLY CHAIN MANAGEMENT PROCESS AWARENESS

The city manager established a Supply Chain Management forum to institutionalize the Supply Chain Management processes in line with Supply Chain Management policy. Two (02) supply chain management capacity building and awareness workshop sessions were scheduled and attended in the second quarter. The purpose of the workshops among others was to ensure continuous awareness and capacity development to all stakeholders.

It should be noted that the target group for the training sessions are the municipal officials occupying the positions below the managerial level. Simply put, it is the officials who are not appointed to serve in the bid committees. They are equipped to clearly understand the normal procurement processes as they are those whom end user departments instruct to initiate some procurement processes

4.10 SUPPLY CHAIN MANAGEMENT SYSTEM OF DELEGATIONS

The delegated powers of authority conferred to all relevant stakeholders responsible for the implementation of the supply chain management policy are effective and consistent with the Municipal Finance Management Act No 56 of 2003. The approved delegated powers were not amended in 2023/2024 financial year.

4.11 LOGISTICS MANAGEMENT

The City has three stores, namely: Mbombela, White River and Barberton municipal stores. The inventory balances as at the reporting date were **R 31 443 531.41**, **R 15 725 178.10** and **R 8 960 606.27** respectively. The total amount of inventory in all three stores amount to **R 56 215 904.91**

There was no theft case or material damages reported in this period. The financial constraints of the City has negative impact on the operations of the municipal stores. The requirements of keeping a buffer stock within the stores is not fully met due to late payments of suppliers. It should be further noted that the loss of high cost items such as cables, transformers and mini-substations and compounded by lack of routine maintenance on electrical infrastructure put a tremendous strain on the finances of the City.

It is recommended that routine maintenance should be implemented on the electrical infrastructure to reduce complete loss of critical equipment. Suppliers contracted with the City for the supply of critical revenue generating equipment must be prioritized for payment.

4.12 IRREGULAR EXPENDITURE INCURRED DURING THE IMPLEMENTATION OF THE APPROVED SUPPLY CHAIN MANAGEMENT POLICY IN THE SECOND QUARTER PERIOD

4.12.1 Irregular expenditure incurred during the normal implementation of the approved Supply Chain Management policy in this reporting quarter amounts to **R 1 114 521.16** inclusive of VAT
Details are contained in **Annexure 04/2024**

4.12.2. Irregular expenditure identified by Auditor General in prior years.
Details are contained on table 002/2023 below

Table 001/2024: Irregular expenditure identified by Auditor General in prior years

No	Description	Appointed service provider	Quarter 1	Quarter 2	Total	Reason for irregular
1	Operation and maintenance of Thekwane west disposal site	Bright Ideas Pty Ltd	00.00	R 7 734 311.49	R 7 734 311.49	Failure to conduct feasibility study on a mandatory 30% subcontracting
2	Triennial tender for the appointment of electrical contractor for meter audit for 36 months	Sboshcon Civils	R 780 150.42	R 1 926 556.09	R 2 706 706.51	Non adherence to CIDB grading requirements
3	Appointment of a panel of service providers for maintenance of heavy / light vehicles and roadside assistance	LNM Autos	R 151 180.09	R 414 103.00	R 565 283.09	Incorrect calculation of functionality score points
4	Appointment of a panel of service providers for maintenance of heavy / light vehicles and roadside assistance	Peresh Maharaj t/a PM Tuning	R 311 824.42	R 1 532 762.27	R 1 844 856.69	Incorrect calculation of functionality score points

5	Provision of security services from competent service providers for 36 months	Eulitsaki Construction & Cleaning	R 1 289 206.12	R 1 933 809.18	R 3 223 015.30	Failure to attach municipal rates and taxes for both the company and directors
6	Consulting services for public transport planning	Delca System	R 00.00	R 18 587 340.20	R 18 587 340.20	Continuation of multiple extended contracts without following Section 116 of MFMA prior expiry
7	Consulting services for public transport planning	Shuma Africa	R 00.00	R 623 344.41	R 623 344.41	Non adherence to all provisions of Regulation 32 of SCM regulation
8	Procurement of water purification chemicals	Lifa Lethu Technologies	R 00.00	R 593 644.38	R 593 644.38	Procurement made through expired contract
9	Provision of ICT services for 36 months	Gijima Holdings Pty Ltd	R 00.00	R 570 197.83	R 570 197.83	Non adherence to all predetermined tender requirements (failure to attach municipal rates and taxes for the company directors)
10	Construction of Mganduzweni footbridge	Tenko 2744 jv Sansteple Business Enterprise	R 00.00	R 580 085.97	R 580 085.97	Attached unauthentic copy of a COIDA certificate
11	Construction of Nkululeko circuit road 1.4KMs	MJ Mthombeni	R 00.00	R 488 120.94	R 488 120.94	Attached unauthentic copy of a COIDA certificate
12	Provision of professional VAT related services from 12 February 2019 - 31 January 2022	PK Financials	R 4 347 367.74	R 00.00	R 4 347 367.74	Extension of contract without following the prescribed SCM regulations (MFMA sec. 116(2))
	Total		R 6 879 728.79	R 34 984 275.76	R 41 864 004.55	

4.13 CONTRACTS AWARDED DURING THE SECOND QUARTER PERIOD

Contract awarded between the threshold of R30 000.00 to R200 000.00 amounts to **R 1 561 004.79** VAT inclusive. Details are contained on table 002/2024 below:

Table 002/2024: Contracts awarded between the threshold of R30 000 to R200 000 VAT Incl

N0	Description	Department	Amount	Approved service provider	Awarded date
1	Appointment of audio-visual and transport service provider for outreach programme in Eastern region	Corporate Services & support	R 110 789.00	Mdungase General trading	19-Oct-23
2	Catering service for outreach programme in Eastern region	Corporate Services & support	R 94 250.00	Hlelola Thando General Trading	19-Oct-23
3	Catering service for outreach programme in Northern region	Corporate Services & support	R 94 250.00	STE Trading Enterprise	20-Oct-23
4	Catering services for outreach programme in Southern region	Corporate Services & support	R 72 500.00	Mashombe Trading	20-Oct-23
5	Appointment of audio-visual and transport service provider for outreach programme in Southern region	Corporate Services & support	R 128 300.00	Chesterreliz Trading	20-Oct-23
6	Appointment of audio-visual and transport services in Southern region	Corporate Services & support	R 128 489.00	Ifalami Holdings Pty Ltd	20-Oct-23
7	Catering services for outreach programme in central region	Corporate Services & support	R92 950.00	Rhavunotho Trading	20-Oct-23
8	Appointment of a service provider for audio visual and transport services in central region	Corporate Services & support	R 126 140.00	Rhynyx Technologies	20-Oct-23
9	Supply, delivery, off-loading and assembling of office chairs	Financial Services	R 129 550.00	Mahlanganiso Trading	25-Oct-23
10	Supply and delivery of material and equipment for SMMEs	Local Economic Development	R 180 400.00	Maseko 07 Finance & Security	31-Oct-23
11	Supply, delivery and off-loading of promotional material	Local Economic Development	R 87 665.70	Genchem suppliers Pty Ltd	06-Nov-23
12	Maintenance of hawkers trolleys	Local Economic Development	R 130 000.00	Mabhelengwane Trading	06-Nov-23
13	Maintenance of recording systems	Corporate Services & support	R 185 721.09	Twain2 Pty Ltd	28-Nov-23
	Total amount		R 1 561 004.79		

Contracts awarded between the threshold of R200 000.00 and below R 10 million amounts to **R 24 993 553.06** VAT inclusive.
Details are contained on table **003/2024** below:

Table 003/2024: Contracts awarded between the threshold of R200 000 and below R10 million

N0	Description	Department	Amount	Approved service provider	Awarded date
1	Operation and maintenance of Tekwane west central waste disposal site weighbridge system for 36 months	Community Services	R 5 201 704.00	Phangisan Projects	09-Nov-23
2	Seta accredited service provider for facilitation of adult education & training programme for 36 months	Corporate Services & support	R 3 944 500.00	Josmap Training Institute	09-Nov-23

3	Upgrading of Mlambongwane water supply scheme	Technical services	R 7 950 992.88	Rhulani Business Enterprise	09-Nov-23
4	Upgrading of Noordkaap water supply scheme	Technical services	R 7 896 356.18	UCCPT Trading Enterprise	01-Nov-23
	Total amount		R 24 993 553.06		

Contracts awarded above the threshold of R10 million within the reporting period amount to **R 315 148 774.01** VAT inclusive. Details are contained on table 004/2024 below:

Table 004/2024: Contracts awarded above the threshold of R 10 million.

No	Description	Department	Amount	Approved service provider	Awarded date
1	Upgrading of White River waste water treatment works	Technical Services	R 16 936 464.00	NBN Civils Pty Ltd & Lihuzu	01-Oct-23
2	Upgrading of Marobotini to Gedlembane Road (Lehawu-ward 40)	Technical Services	R36 118 631.73	Gaby Glass t/a Gaby Construction Pty Ltd	18-Dec-23
3	Upgrading of Masoyi police station to Dingindoda road	Technical Services	R 48 831 102.02	Bonisa Unlimited Pty Ltd	18-Dec-23
4	Construction of Esidungeni vehicle bridge (ward 24 Luphisi)	Technical Services	R 51 688 281.76	Gaby Glass t/a Gaby Construction Pty Ltd	18-Dec-23
5	Upgrading of Umjindi solid waste disposal site and ancillary services	Technical Services	R 94 142 517.05	BHG Maintenance & construction services	18-Dec-23
6	Construction of road from clinic-RDP route at Shabalala ward 25	Technical Services	R 33 109 396.32	Mother of All Nations Investments	18-Dec-23
7	Construction of two pedestrian bridges, storm water, drainage system and upgrading of 800M at Dindela and Spearville ward 44	Technical Services	R 34 322 381.13	Mother of All Nations Investments	18-Dec-23
	Total		R 315 148 774.01		

4.15 DEVIATIONS FROM NORMAL SUPPLY CHAIN MANAGEMENT PROCESSES

Regulation 36 of the Supply Chain Management Regulations states that a supply chain management policy may allow the Municipal Manager –

- (a) to dispense with the official procurement processes established by the policy and to procure any required goods and services through any convenient process, which may include direct negotiations, but only-
 - (i) in an emergency;
 - (ii) if such goods or services are produced or available from a single provider only;

- (iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile.
 - (iv) acquisition of animals for zoos; or
 - (v) In any other exceptional cases where it is impractical or impossible to follow the procurement processes; and
- (b) To ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are technical in nature.

The City Manager must record the reasons for any deviations in terms of sub-regulation (1) (a) and (b) and report them to the next meeting of Council, or board of directors in the case of a municipal entity, and include as notes to the annual financial statements.

In line with the Supply Chain Management Regulation 36, the municipality incurred, through the deviations from normal supply chain management processes, an actual expenditure amount of **R 526, 141.70** attached as **Annexure 02/2024** and an amount of **R 4 487 073.38** as commitments attached as **Annexure 03/2024**.

5. LEGISLATIVE CONSIDERATIONS (INCLUDING PUBLIC PARTICIPATION)

Municipal Finance Management Act, 56 of 2003.
Municipal Supply Chain Management Regulations, 27636 of 30 May 2005.

6. FINANCIAL IMPLICATIONS AND FUNDING

Not applicable

7. COMMENTS OF DEPARTMENTS

Not applicable

RECOMMENDATIONS BY THE CITY MANAGER

THAT:

- (a) Council notes the contents of the report;
- (b) The deviations from the normal Supply Chain Management processes amounting to **R 526, 141.70 (actual deviations)** and **R 4 487 073.38 (commitments)** detailed in the report attached as **Annexure 02/2024 and 03/2024** respectively be noted;
- (c) The city incurred irregular expenditure amounting to **R 42 978 525.71** and details are contained in table **002/2023** and annexure **04/2024**;
- (d) The SCM reforms implemented by National Treasury be noted.
- (e) The projects that were not awarded contained in annexure **05/2024** be noted