

FINANCIAL MANAGEMENT: REPORT ON THE IMPLEMENTATION OF THE
SUPPLY CHAIN MANAGEMENT POLICY DURING THE THIRD 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 third 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 third 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.

Amendments were done on the draft Supply Chain Management policy to be implemented as from 01 July 2024. The amendments were informed by the SCM reforms issued by National Treasury on 14 December 2023. On the Budget related policies report submitted to council on 28 March 2024 as item A(5), it was indicated that there were no changes effected on the SCM policy. A separate report will be submitted to council with all the amendments on the SCM policy in line with the reforms issued by National Treasury.

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 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 Annual Procurement Plan will be revised in line with the priorities as outlined in the Adjustment Budget. It is envisaged that the process will be completed before the end of April 2024.

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.

The Skills Development Unit is currently conducting skills audit to determine the level of skills possessed by SCM officials versus skills required. Training will be conducted to augment shortfalls.

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 standardise 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. However there was no meeting held in this (third quarter) reporting period.

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 third quarter is relatively showing improvement. However, there are instances where the committee members are unable to honour the scheduled meetings due to other service delivery related programs which demand them to go to communities to closely monitor the implementation of the programs. In such cases special bid committees are scheduled to ensure that the projects are not delayed. It should be noted that other projects will be delayed for implementation due to the financial constrain confronting the municipality.

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 centred 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 third quarter. The purpose of the workshops among others is 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 29 649 728.34. R 16 608 995.25 and R 8 776 994.28** respectively. The total amount of inventory in all three stores amount to **R 55 035 717.87**

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 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 in the payment of service providers

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 2 563 931.29** inclusive of VAT Details are contained in **Annexure 33/2024**
- 4.12.2. Irregular expenditure identified by Auditor General in prior years. Details are contained on table 001/2024 below:

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

No	Description	Appointed service provider	Amount	Reason for irregular
1	Upgrading of Masoyi stadium	Fountain Square	R 727 227.46	Award made where the director of the company's municipal rates and taxes are in arrears for more than 90 days
2	Maintenance of Barberton waste disposal site	Bright Ideas Pty Ltd	R 671 600.00	Using the services of the service provider after the expiration of Section 116 which expired on 31 December 2022
3	Provision of ICT Services for 36 months	Gijima Holdings	R 530 353.41	Failure to comply with the pre-determined conditions of tender document

4	Construction of Chweni community hall	Tenko Prodipix jv	R 1 413 939.94	Attached a COIDA certificate which is not authentic
5	Construction of Nkululeko circuit road (1.4 kms)	MJ Mthombeni construction	R 5 254 655.62	Attached a COIDA certificate which is not authentic
	Total		R22 134 321.46	

4.13 CONTRACTS AWARDED DURING THE THIRD QUARTER PERIOD

Contracts awarded between the threshold of R30 000.00 to R200 000.00 amounts to **R 1 187 444.50** 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

No	Description	Department	Amount	Appointed service provider	Awarded date
1	Supply and installation of new reflective decals for fleet	Financial services	R 139 794.00	Afroshine Holdings	12-Jan-24
2	Supply and installation of new system and sirens for fleet	Financial services	R200 000.00	Rushtal t/a Electra Nelspruit	12-Jan-24
3	Social night market event organiser	Local & Economic Development	R 191 935.00	Kamabi Holdings	31-Jan-24
4	Supply and delivery of school uniform for needy school children	Corporate Services & support	R 178 951.00	Reasepela Trading Enterprise	09-Feb-24
5	Appointment of a service provider for the development of tourism sector plan	Local & Economic Development	R 199 798.00	Urban Econ Development Economists	19-Feb-24
6	Supply and fitting of grader tyres	Technical services	R 188 000.00	Maseko 07 Finance & security	12-Mar-24
7	Supply, delivery and off-loading of material and equipment for rural cooperatives	Local & Economic Development	R 88 956.50	Fresha Group Pty Ltd	06-Mar-24
	Total		R 1 187 444.50		

Contracts awarded between the threshold of R200 000.00 and below R 10 million amounts to **R 9 591 407.10** 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

No	Description	Department	Amount	Approved service provider	Awarded date
1	Construction of Msholoji pedestrian bridge ward 14	Technical services	R 9 591 407.10	Mkhabela Sheq Consulting service t/a Mkhabela construction	12-Feb-24
	Total		R 9 591 407.10		

Contracts awarded above the threshold of R10 million within the reporting period amount to **R 173 300 024.86** 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	Upgrade of Matsafeni Kaapsehoop bus route ward 14	Technical services	R 82 179 309.21	White Hazy Building construction Pty Ltd	04-Jan-24
2	Upgrade of Mzamani road ward 21	Technical services	R 35 165 369.48	Gaby Glass t/a Gaby Construction Pty Ltd	04-Jan-24
3	Refurbishment of Saddleback tunnel (Mechanical)	Technical services	R 13 444 446.17	Machawane Trading Enterprise	25-Mar-24
4	Formalization of township establishment for the informal settlement	City Planning	R 42 510 900.00	Khoza Mahlori Ngoti construction	30-Mar-24
	Total		R 173 300 024.83		

Projects tabled before bid committees and detailed reasons for non-award contained in table 005/2024:

Table 005/2024: projects not awarded.

No	Description	Department	Project status	Recommendations
1	Supply, delivery, off-loading and commissioning of immovable security scanner	Community services	Cancelled as none of the prospective bidders is compliant with the tender conditions	Bid committees recommended the re-advertising of the bid.
2	Appointment of a panel of professional land surveyors for 36 months	City Planning	Cancelled as none of the prospective bidders is compliant with the tender conditions	Bid committees recommended the re-advertising of the bid.
3	Provision of telephone monitoring and billing system for 3 years	Corporate Services & Support	Cancelled as none of the prospective bidders is compliant with the tender conditions	Bid committees recommended the re-advertising of the bid.
4	Appointment of a service provider for the implementation of software defined wide area network (SDWAN) solution for 3 years	Corporate Services & Support	Cancelled as none of the prospective bidders is compliant with the tender conditions	Bid committees recommended the re-advertising of the bid.
5	Appointment of a service provider for Thekwane South sports-field	Technical services	Recommended for cancelation by the Bid Committee. The councillor erroneously completed the briefing session attendance register in contravention of Section 117 of Municipal Finance Management No 56 of 2003	Bid committees recommended the re-advertising of the bid.
6	Appointment of a service provider for servicing and maintenance of fire extinguisher	Community services	Cancelled as none of the prospective bidders is compliant with the tender conditions	Bid committees recommended the re-advertising of the bid.
7	Supply, delivery and off-loading of disaster equipment	Community services	Cancelled as none of the prospective bidders is compliant with the tender conditions	Bid committees recommended the re-advertising of the bid.

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 1 857 934.74** attached as **Annexure 32/2024** and an amount of **R 3 503 418.59** as commitments attached as **Annexure 31/2024**.

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 1 857 934.74 (actual deviations)** and **R 3 503 418.59 (commitments)** detailed in the report attached as **Annexure 32/2024 and 31/2024** respectively be noted;
- (c) The City has in the implementation of the Supply Chain Management processes in the third quarter incurred irregular expenditure amounting to **R 2 563 931.29**, detailed in the report attached as **Annexure 33/2024**;

- (d) The City had in the normal implementation processes of the SCM policy incurred irregular expenditure amounting to **R 2 563 931.29** and details are contained in table **002/2023**;
- (e) Irregular expenditure identified by Auditor General in prior years amount to **R 22 134 321.46** and details on table 001/2024;
- (f) The SCM reforms implemented by National Treasury be noted.
- (g) The projects that were not awarded contained on table **005/2024** be noted