



Model SCM Policy for Infrastructure Procurement and Delivery Management

Purpose

The purpose of this Circular is to provide guidance to municipalities and municipal entities to establish a suitable supply chain management system for infrastructure delivery which is better able to deliver value for money, while minimizing the scope for corruption. The attached *Model SCM Policy for Infrastructure Procurement and Delivery Management* (Annexure A) is issued in terms of Section 168 of the Municipal Finance Management Act of 2003 (Act No. 56 of 2003) in support of Regulation 3(2) of the Supply Chain Management Regulations as a Treasury guideline determining a standard for municipal supply chain management policies. It is linked to the *National Treasury Standard for Infrastructure Procurement and Delivery Management* (see Annexure B) which establishes:

- (a) a control framework for the planning, design and implementation of infrastructure projects and infrastructure procurement
- (b) requirements for the following matters as applied to the supply chain management system for infrastructure delivery:
 - institutional arrangements;
 - demand management;
 - acquisition management;
 - contract management;
 - logistics management;
 - disposal management;
 - reporting of supply chain management information;
 - regular assessment of supply chain management performance; and
 - risk management and internal control; and
- (c) minimum requirements for infrastructure procurement.

This standard for municipal supply chain management policies relating to infrastructure procurement and delivery management, or any modified version of it, when adopted will assist municipalities and municipal entities to better plan and obtain the necessary value for money when undertaking infrastructure projects.

Background and Discussion

The South African Planning Commission's National Development Plan 2030: *Our future – make it work* proposes that the following five areas be focused on in designing a procurement system that is better able to deliver value for money, while minimizing the scope for corruption:

- (a) differentiate between the different types of procurement which pose different challenges and require different skills sets;
- (b) adopt a strategic approach to procurement above the project level to balance competing objectives and priorities rather than viewing each project in isolation;
- (c) build relationships of trust and understanding with the private sector;
- (d) develop professional supply chain management capacity through training and accreditation; and
- (e) incorporate oversight functions to assess value for money.

National Treasury's 2015 Public Sector Supply Chain Management Review expresses the view that supply chain management (SCM) is one of the key mechanisms enabling government to implement policy which traditionally has been misunderstood and undervalued. This Review, which identified the need for SCM reform, suggests that if such reforms are implemented as envisaged in terms of section 217 of the Constitution, the benefits will be enormous and include amongst other:

- (a) good-quality service delivery will be increasingly possible, with significant improvements in the welfare of South Africa's citizens and especially the poor who rely heavily on government for support;
- (b) the economy will grow as economic infrastructure is expanded and efficiently maintained;
- (c) goods, services and infrastructure will be bought at lower costs;
- (d) innovation will result in different approaches to the commodities used in some sectors; and
- (e) for suppliers, the cost of doing business with the state should decrease substantially.

Municipal procurement that is unrelated to infrastructure delivery typically relates to goods and services that are standard, well-defined and readily scoped and specified. Once purchased, goods invariably need to be taken into storage prior to being issued for use. Services most often involve routine, repetitive services with well understood interim and final deliverables which do not require strategic inputs or require decisions to be made regarding the fitness for purpose of the service outputs.

In contrast, procurement relating to the provision of new infrastructure or the rehabilitation, refurbishment or alteration of existing infrastructure covers a wide and diverse range of goods and services, which are required to provide or alter the condition of immovable assets on a site. Accordingly, the procurement process for the delivery of infrastructure involves the initial and subsequent recurring updating of planning processes at a portfolio level flowing out of an assessment of public sector service delivery requirements or business needs. Thereafter it involves planning at a project level and the procurement and management of a network of suppliers, including subcontractors to produce a product on a site. There is no need to store and issue materials or equipment unless these are issued to employees responsible for the maintenance or operation of infrastructure, or are issued free of charge to contractors for incorporation into the works.

The *National Treasury Standard for Infrastructure Procurement and Delivery Management*, if adopted, enables a municipal council to separate the supply chain management requirements for general goods and services from those for infrastructure delivery. (*Infrastructure delivery* is the combination of all planning, technical, administrative and managerial actions associated with the construction, supply, renovation, rehabilitation, alteration, maintenance, operation or disposal of infrastructure).

Underlying the separation of the supply chain management systems is the notion that the effective and efficient functioning of the supply chain management system for infrastructure delivery will realise value for money and good-quality service delivery. Value for money may be regarded as the optimal use of resources to achieve the intended outcomes. Underlying value for money is an explicit commitment to ensure that the best results possible are obtained from the money spent or maximum benefit is derived from the resources available.

Conclusion

This MFMA circular provides the basis for municipalities and municipal entities to establish an appropriate supply chain management system for infrastructure delivery.

Accounting officers of municipalities and municipal entities are therefore advised to bring the contents of this Circular to the attention of their respective municipal councils and amend and align their SCM policies accordingly. Municipalities and municipal entities are advised to customize the model policy to suit the specific needs of its environment before tabling in the municipal council for adoption.

Enquiries relating to this Circular and its attachments may be directed as follows:

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Annexure A: Model SCM Policy for Infrastructure Procurement and Delivery Management

Annexure B: Standard for Infrastructure Procurement and Delivery Management