

*2015* **PUBLIC SECTOR  
SUPPLY CHAIN  
MANAGEMENT REVIEW**



**national treasury**

Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**



# Foreword

Supply chain management (SCM) is one of the key mechanisms enabling government to implement policy. Traditionally, SCM has been misunderstood and undervalued. Its strategic importance has not been recognised, and it has been under-capacitated.

The negative effects of inefficient public sector SCM, particularly in the procurement phase of the chain, are well documented. Suppliers charge excessive prices; goods and services contracted for and delivered are of poor quality and unreliable; and there is corruption and waste.

The private sector, by contrast, has tended to invest astutely in SCM in order to maximise shareholder value and ensure that its products and services match clients' needs. In South Africa, government is starting to value the strategic importance of SCM to service delivery, value creation, socio-economic transformation and fiscal prudence. The establishment of the Office of the Chief Procurement within the National Treasury reflects government's commitment to quality service delivery at the right place and time.

This Public Sector SCM Review is a candid reflection on the current state of SCM in the public sector; the reforms that are being considered; and the opportunities that an efficient and effective system presents. The *Review* reflects the views of government, business and civil society. It shows a growing appreciation that SCM reform will require collaboration and that it should be treated as a national project. If it is implemented as envisaged in section 217 of the Constitution, the benefits will be enormous:

- 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
- The economy will grow as economic infrastructure is expanded and efficiently maintained
- Goods, services and infrastructure will be bought at lower costs
- Innovation will result in different approaches to the commodities used in some sectors. E-learning in primary and secondary schools, for example, could be accelerated through the purchase and use of electronic equipment.
- For suppliers, the cost of doing business with the state should decrease substantially.

Transparency and open contracting are critical elements of any public sector SCM system. An important part of reforming South Africa's system must therefore be to make procurement information accessible to suppliers and purchasers alike. This will enhance planning, accountability and oversight.



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# 1

## Introduction

### In brief

- In terms of section 217 of the Constitution of the Republic of South Africa, when government contracts for goods and services it must do so in a way which is fair, equitable, transparent, competitive and cost-effective. In addition, the supply chain management (SCM) system must provide for the advancement of persons or categories of persons disadvantaged by unfair discrimination. These are the cornerstones of South Africa's public sector procurement system.
- In line with the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA), the public sector SCM system is highly decentralised to allow managers to manage.
- SCM across South Africa is highly fragmented. This makes it difficult for government to obtain maximum value when buying, and making use of, goods and services.
- Improving skills, processes and systems is critical for a well-functioning SCM system.
- The Office of the Chief Procurement Officer (OCPO), working with all government institutions, will modernise and oversee the South African public sector SCM system to ensure that the procurement of goods, services and construction works is fair, equitable, transparent, competitive and cost effective in line with the Constitution and all relevant legislation.

### Overview

The 2008 recession was followed by a dramatic rise in government debt, from R450 billion in 2009/10 to R1.4 trillion in 2013/14. This is projected to grow further over the coming years. To take account of this, while at the same time continuing with service delivery, government had to reprioritise spending and increase efficiency.

Public expenditure nevertheless continues on a large and necessary scale. In 2013/14, the South African public sector spent R500 billion on goods and services and on construction works. These supported and enabled the delivery of services to the country's residents.

This is an enormous amount of money. Wisely and efficiently spent, it can be a great force for good. It can ensure that those in need receive services,

*Public spending continues to grow. It is important that these funds are spent wisely.*

that infrastructure such as roads and ports is built and maintained, that schools are well-equipped and that health services are widely available. It can also spread wealth to hard-working entrepreneurs who successfully tender for government contracts and, in doing so, create jobs. Even those not directly involved in the public sector supply chain can benefit, as suppliers to government source their supplies and materials from manufacturers, farmers and many others.

*South Africa's public sector SCM system has many imperfections*

It is well known that public sector SCM<sup>1</sup> in South Africa is imperfect. There are constant allegations of corruption and inefficiency. Service delivery protests are a sign that people feel that they are not receiving the quantity or quality of services they need. Schools sometimes open at the start of the year without learner support materials.

An efficient and intelligent public sector SCM system can help to overcome these problems. This document describes the shape and character of the present system, outlines the regulatory environment in which public procurement takes place, makes clear the many problems that exist and points to ways in which these can be overcome.

*An efficient public sector SCM system is attainable*

The vision is one of a South African public sector SCM system staffed by people who have the skills, knowledge and enthusiasm to ensure that every decision is well-informed and appropriate; and who have the technical and organisational support that they need in order to carry out this important work in line with the country's Constitution, laws and regulations.

## The current public sector SCM situation

A number of issues prevent public sector SCM from performing as well as it should.

- The strategic importance of SCM is not well understood. Those working in the system need to understand the economic and social power of the purchasing decisions that they make. These should not only be of maximum value to the intended beneficiaries – whether these are hospital patients who receive the medication they need or commuters with access to good public transport – but also give expression to government's policies and strategies and support business development. Translating budgets and strategic plans into deliverables requires an efficient public SCM system which is well-resourced, functions efficiently and whose central importance is recognised.
- The organisational structures and systems within which SCM takes place are in too many cases not ideal, with inexperienced or under-skilled leadership, high staff turnover and lack of motivation. There may also be a lack of suitable equipment, such as computers with dependable internet connections; or information, such as databases giving up-to-date details of available products and services.

*The strategic importance of public sector SCM is not well understood*

<sup>1</sup> Although section 217 of the Constitution refers to procurement and the terms are used inter-changeably; for the purpose of clarity and common understanding in this *Review*, procurement is used to describe the process of implementing a decision to buy, flowing from the pre-tendering process of supply chain management. Whereas supply chain management (SCM) refers to the all processes leading up to procurement and post procurement.

- The lack of clarity about the roles and responsibilities of technical staff and of political officer bearers creates scope for interference, and this gives rise to allegations or instances of corruption.
- SCM practitioners frequently do not have the skills, knowledge and experience that they need. While the system contains many excellent people, competency assessments show significant gaps in SCM skill and knowledge. This document gives information about some of the serious and rapid steps being taken to address this problem.
- There are few if any consequences for those who, despite support and encouragement, fail to perform at the required level. Repeated negative reports by the Auditor-General (AG) highlight this lack of accountability. An improved and more dynamic public SCM system should bring out the best in its officials, and there must be consequences for those who are not willing to play their part for the public good.
- Policies and regulations are often confusing and cumbersome. Suppliers have to fill out numerous forms, often many times. This costs time and money and is a particular problem for small businesses with little or no administrative capacity or support. It is government policy to support the growth of small businesses and the jobs they create. Procedures that stand in the way of this, and which are also difficult for officials to interpret and implement, must and will be changed.
- The public sector frequently underestimates how important supplier management is, and there is limited understanding about how public sector decisions and actions affect the overall business environment. On the other hand, suppliers often take advantage of the current weak public sector SCM environment. This is evident in high prices paid for goods and services; contracts that favour certain suppliers; collusion; unethical behaviour; non-performance; and poor quality products and services rendered. To overcome these problems, the public sector needs to develop long-term strategic supplier relationships.
- Finally, there is the challenge of finding the best balance between the two major objectives of procurement. Section 217(2) of the Constitution and the Preferential Procurement Policy Framework Act (PPPFA) both provide for the use of public procurement as a means of development and transformation. An effective SCM system must also have as an objective to ensure that goods and services are available at the best price, in the right qualities, at the right time and in the right place. Constantly having to make decisions about how to balance these objectives is demanding and difficult. It needs a cohort of SCM professionals with the right skills, experience, social awareness, ethical standards and dedication; and a regulatory and organisational environment that supports and monitors their work in the public interest.

## The way forward

In line with the National Development Plan (NDP), and working through all relevant institutions, government is taking a range of steps to reform the system. More detail is given in the other chapters of this document. In summary, they include:

*The focus is on improving public sector SCM systems, processes and skills*

- Improving processes, rules and infrastructure to make it easier for the public sector and its private sector suppliers to transact.
- Applying the concept of ‘strategic sourcing’, which gives a basis for deciding, for example, whether to purchase a local commodity which helps to create jobs or one which is wholly or partly imported. More information about strategic sourcing is given in chapter 5.
- Building relationships with the private sector. This will enable manufacturers and other service providers to understand government’s current and future purchasing needs so that they can plan accordingly. It will also increase officials’ knowledge and understanding of the goods and services available, and which suppliers can be depended on to provide the best quality and value. This should help with managing risks and costs and lead to mutual understanding between the public and private sectors to the benefit of all.
- Identifying and implementing innovative ways to improve employees’ skills and knowledge.
- Using technology to streamline transactions and improve oversight.

Properly implemented, these reforms will result in a public sector SCM system that complies rigorously with all relevant laws and regulations, is accountable, provides value for money and ensures good-quality service delivery. People, processes and technology are critical to achieving this.

## **Establishment of the Office of the Chief Procurement Officer**

The Office of the Chief Procurement Officer (OCPO) will modernise and oversee the South African public sector SCM system to ensure that the procurement of goods, services and construction works is fair, equitable, transparent, competitive and cost effective in line with the Constitution and all relevant legislation. The OCPO is not directly involved in procurement, but leads and manages procurement reform, maintains the procurement system and oversees the way in which government does business with the private sector.

In line with the PFMA and the MFMA, departments’ and entities’ accounting officers and accounting authorities will be responsible for all day to day SCM activities. Their responsibilities will include developing their own SCM policies and management systems, and staff training and development in line with the national supply chain framework. They will also be required to adhere to national supply chain norms and standards of reporting and compliance.

### *Functions of the OCPO*

A draft Supply Chain Management Bill to govern public SCM is being prepared by National Treasury. Among other things, it will fully establish the OCPO and give it powers and functions to:

- Formulate and advise on policy, administer national legislation, and ensure that policies and legislation are implemented in an appropriate, consistent and systematic manner.
- Audit the performance of accounting officers and accounting authorities with respect to adherence to SCM regulations, treasury instructions, guidelines, policy, norms and standards; efficiency of procurement; effectiveness in implementing section 217(2) policies which provide for preference in the adjudication of contracts and advancement of persons or categories of persons disadvantaged by unfair discrimination; and other socio-economic objectives.
- Prescribe the scope of goods, services and construction works to be contracted nationally through a national SCM system.
- Prescribe the process for procuring high value goods, services and construction works.
- Ensure transparency through the use of an effective data management system.
- Support accounting officers and accounting authorities in carrying out national supply chain management and procurement policies, regulations, instructions and guidelines.
- Sanction non-compliance with national supply chain management and procurement policies, regulations, instructions and guidelines.
- Regulate procuring and contracting options, bidding and contract documentation.
- Monitor the manner in which SCM policy is implemented with respect to development objectives, value for money and delivery methods.
- Establish a national database of suppliers, service providers and contractors, including targeted business enterprises.
- Develop and implement a code of conduct governing suppliers.
- Develop and implement a code of conduct governing public sector officials, including political office bearers in supply chain management.
- Sanction private and public sector transgressors who abuse the public procurement system.
- Implement a dispute resolution system, including dealing with reports by the public of abuse of the public procurement system.

To carry out the above functions, the OCPO is divided into six functional areas:

- Governance, monitoring and compliance
- SCM client support
- Strategic sourcing
- Policy, norms and standards
- Contract management
- ICT, e-procurement and data management

An intergovernmental oversight and support system will be put into place. In line with section 216 of the Constitution, section 6 of the PFMA and section 11 of the MFMA, the OCPO will oversee the implementation of the supply chain management systems of national departments, national public entities, state-owned entities and the top 17 municipalities. In line

*The powers and functions of the OCPO will be legislated. A draft Bill is currently being finalised and will be circulated for comment early in 2015.*

*Building intergovernmental partnerships is critical to public sector SCM reform*

with section 18 of the PFMA and Chapter 2 of the MFMA, provincial treasuries will oversee the implementation of the supply chain management system by provincial departments, provincial public entities and, other than the top 17 municipalities, the municipalities falling under their jurisdiction. The OCPO will ensure that provincial treasuries execute their SCM responsibilities appropriately.

## **The chapters in this document**

Reducing costs through streamlined, simplified rules and processes should result in improved public SCM. Chapter 2 describes the current policy and legislative landscape, and the reforms needed to make the use of resources more efficient. Chapter 3 looks at the benefits of good governance and present common problems in the SCM system.

Infrastructure SCM is significantly different from that of goods and services. Chapter 4 highlights infrastructure spending and the steps that need to be taken to improve its procurement.

Rationalising, aggregating and standardising common goods require collaboration across all spheres of government. Chapter 5 (strategic sourcing) and chapter 6 (purchasing of common goods) give insights into how a different approach to procurement can result in value for money. Benefits include better use of scarce SCM skills; aggregation, resulting in greater purchasing power and reduced costs; reduced supplier transaction costs; and an increasingly wide-spread use of good SCM practises.

Public sector SCM tends to operate at low levels of professionalism and competence, with assigned little organisational status and not seen as a value driver. A mind-set shift is needed so that SCM is located amongst government entities' highly strategic functions to transform and create value through its activities. Organisational change, capacity building and real-time operational support (chapter 7) are critical to achieving this. Also important are improvements in category and goods management so that goods and services are provided on time, in the right quantities and of good quality.

The current quality of SCM data is poor, and there is no uniform SCM data management system. Efficient data management and market intelligence can contribute very significantly to government's SCM ability; to suppliers' ability to respond to government's needs; and to transparency, accountability and oversight. Chapter 8 looks at the value of systematising SCM and at the vital role that technology can play.

# 2

## Public sector supply chain management legislative reform

### In brief

- South Africa's public sector SCM regulatory landscape is highly fragmented, and needs urgent reform
- Regulatory fragmentation undermines integrated and comprehensive national oversight of public sector SCM.
- Failure to regulate public sector SCM negatively affects service delivery.
- Current initiatives to reform public sector SCM include rationalising the legislative environment, simplifying and reducing the number of tender documents, streamlining and standardising business processes.
- Socio-economic transformation through public sector SCM is important to addressing current structural economic imbalances. This transformation needs to be in line with Section 217 of the Constitution and nurtured to ensure organic growth of black-owned and emerging businesses.

### Overview

Government is the country's largest buyer of goods, services and construction works. To ensure good-quality, efficient and cost effective delivery and therefore achieve government's objectives, its SCM policies and legal environment must be clear and simple.

Since the first democratic elections, South Africa's public SCM system, which is anchored in Section 217 of the Constitution, has evolved towards being fair, equitable, transparent, competitive and cost-effective.

In 2004, the National Treasury made significant changes to the system by introducing a public sector SCM legislative framework that provides for decentralized policy and public sector resource management. In line with the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA), the aim was to allow managers to manage.

*There is a need for a simple public sector SCM environment*

*Fragmentation of processes and systems makes SCM compliance difficult*

However, reports to the National Treasury by accounting officers and authorities, and borne out by the Auditor-General (AG), indicate a continuous low level of compliance with the SCM legal framework. The negative results of this non-compliance include interruptions to the procurement of goods, services and works; and failure to source goods and services at the right price and at the right time.

Common findings in the AG's annual reports on SCM non-compliance and irregular expenditure include:

- Appointment of suppliers who are not tax compliant
- Failure to use competitive processes for quotations and bids
- Incorrect use of the preference points system
- Lack of appropriate bid committees
- Use of unqualified suppliers
- Passing over of bids for incorrect reasons
- Use of incorrect procurement processes in relation to threshold values for quotations and competitive bidding
- Extension of validity periods
- Incorrect use of the limited bidding process
- Inadequate controls and procedures for handling bids
- Appointment of bid committee members not aligned with policy requirements
- Insufficient motivation for deviations from SCM procedures

These reports indicate continuous poor policy implementation and operational flaws in institutional SCM oversight. These weaknesses include the inability of staff to interpret and apply SCM policies and standards. However, the underlying problem is that SCM is carried out within a decentralised legal framework, at two distinct levels: operational and regulatory. *Operationally*, it is carried out by SCM units in individual organs of state. The *regulatory* function is also largely decentralised, governed by rules formulated at entity level as part of SCM policies.

## ■ The public sector SCM regulatory environment

More than 80 different legal instruments govern public sector SCM. They include:

**The Constitution:** Section 217 deals with the basic constitutional requirements of public procurement. Section 33 sets out the requirements for constitutionally valid administrative action and therefore the grounds on which administrative action may be reviewed by the courts. Section 195 lays down the constitutional values for the country's public administration.

**Acts:** Public Finance Management Act 1 of 1999 (PFMA); Local Government: Municipal Finance Management Act 56 of 2003 (MFMA); Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA); State Tender Board Act 86 of 1968 (STBA); Broad-based Black Economic Empowerment Act 53 of 2003 (BBBEEA); Prevention and Combating of Corrupt Activities Act 12 of 2004 (Corruption Act); Construction Industry Development Board Act 38 of 2000 (CIDBA); National Land Transport Act 5 of 2009; National Supplies Procurement Act 89 of 1970; State

Information Technology Agency Act 88 of 1998; Financial Management of Parliament Act 10 of 2009; Road Traffic Management Corporation Act 20 of 1999; Armaments Corporation of South Africa, Limited Act 51 of 2003; Administrative Adjudication of Road Traffic Offences Act 46 of 1998; Nursing Act 33 of 2005; Public Audit Act 25 of 2004; Health Professions Act 56 of 1974; Housing Act 107 of 1997; Disaster Management Act 57 of 2002; Promotion of Access to Information Act 2 of 2000 (PAIA); Promotion of Administrative Justice Act 3 of 2000 (PAJA); Local Government: Municipal Systems Act 32 of 2000 (Systems Act).

**Regulations:** PFMA SCM Treasury Regulations; MFMA SCM Regulations; Preferential Procurement Regulations and *dti* provisions for local procurement designations.

All of these laws and regulations relating to public procurement are implemented through a large number of independent statutory instruments, with some catering for specific procurement practices and others for particular sectors or industries. In some respects, such division of the rules is unproblematic and even inevitable. In general, however, this fragmentation of public SCM law results in a less-than-ideal regulatory regime.

Problems resulting from this legal fragmentation include:

- Significant overlap and duplication among different regulatory instruments relating to infrastructure, construction, public-private partnerships and SCM policy standards. This leads to uncertainty about which standards are to be followed.
- Unclear legal status of the different regulatory instruments for general and specific procurement practices, such as the SCM instruction on norms and standards for general public procurement; industry specific standards such as the defence industry's armament procurement instruction standards, and SITA's procurement instruction standards, codes and guidelines for ICT procurement. This splintered legal framework creates uncertainty about which of these diverse instruments takes legal precedence in regulatory interpretation when public procurement cases are disputed in court.
- There is significant variation in different legal instruments' scope of coverage; and policy stakeholders' control of various parts of the regulatory regime is uncoordinated. This makes it difficult to decide which regulatory regime (the standard SCM regime, or a sector-specific one) applies in particular cases. There is no overarching central SCM authority to provide uniform guidance to clarify such cases.
- There are significant differences in how public sector SCM is carried out in different policy contexts. This adds to the difficulty of developing effective SCM capacity development programmes and standards.
- There is a large number of standard bidding documents, many of which require the same information to be provided multiple times. This creates paperwork which is time-consuming and consequently expensive for bidders to complete.
- The standard preferential procurement regulatory system makes it difficult to achieve governments developmental and empowerment objectives as it is not flexible enough to adapt to changing empowerment expectations and developmental policy requirements.

*The present public sector  
SCM regulatory  
environment is sub-optimal*

It is therefore urgent that these public sector SCM policy weaknesses get resolved.

## ■ **SCM reforms underway**

### **Creating a conducive environment for transacting between the public and private sectors**

*Creating a user-friendly public procurement environment is an important part of SCM reform*

As indicated above, a number of issues currently stand in the way of an efficient and cost-effective public sector SCM system. These range from fragmentation to complex bidding documents and procedures. SCM procedures and processes must be simple, cost-effective, inexpensive, quick to use, transparent and free of corruption. Reforms are underway to ensure an environment in which such a system can flourish. These should result in:

- Good governance and accountability
- Cost-effectiveness, both financial and in terms of human capacity
- Reduced barriers to entry for SMMEs and emerging contractors
- Effective supplier participation
- Improved contract management leading to increased savings and good-quality on-time delivery

#### *Rationalising the legal environment*

Presently under development is a single SCM legal framework which will significantly rationalise the legal environment. The more than 80 different legal instruments, guidelines and instruction notes that now govern public SCM will be rationalised into a single piece of legislation similar to the PFMA and the MFMA.

#### *Changes to tender documents*

- Tender documents will be made user-friendly and easy to understand. The number of documents needed for a tender will be reduced significantly, their lay-out will be simple and easy to use and the language used will be unambiguous and easily understood.
- The documents will be standardised and will be relevant to the type of procurement to be undertaken. 'Fit for purpose' documentation will allow for differentiation in procurement. Buying stationery is not the same as commissioning the building of a school; tender documents and processes should reflect such differences.
- Standard operating procedures for all SCM processes and procedures will be developed.

#### *Business processes to be streamlined and standardised*

- Unnecessary steps in the SCM process will be removed.
- A centralised database will be put in place. This will significantly reduce the administrative burden within the system, as the mandatory administrative documents will only need to be submitted once in a pre-determined period.
- Automation of the system should result in significant cost reductions for suppliers, improve transparency and oversight.

*Creating a culture of cooperation between suppliers and the public sector*

For good working relationships to develop, structured interaction with suppliers must be promoted. Procurement-related information about the work of departments, planned procurement opportunities, procurement policies and procedures, and general requirements for tenders will be regularly disseminated.

*Greater transparency in the SCM process*

A reporting framework is being developed to standardise SCM reporting across the public sector. Accounting officers and authorities will be expected to report on a range of information including procurement plans, tenders to be advertised, tenders awarded, supplier company information, the value of each award and progress in implementing tenders. Depending on the nature of the information, it will be made public monthly, quarterly and/or annually. A system will be put in place to detect officials doing business with the state.

*Office of the Chief Procurement Officer website*

The OCPO will have a website that will house all SCM information for suppliers and public sector institutions. The website will be an important interactive tool that would allow for easy interaction between suppliers, public institutions and civil society.

## ■ Public procurement as a tool for development and transformation

The PPPFA and its Regulations give expression to Section 217(3) of the Constitution which prescribes the framework within which preference and socio-economic objectives are to be achieved.

There has been criticism that the PPPFA and its Regulations do not go far enough to achieve the preference, empowerment and socio-economic objectives described in Section 217(2) of the Constitution. Three main arguments are put forward:

- The point scoring system based on price and empowerment is biased in favour of established businesses. The cost structures for emerging black businesses can be higher than those of their established, mainly historically-white counterparts. In addition, established businesses have experience of the supply chain processes and control many of the inputs of the economy. There should be no limit to the cost premiums associated with empowerment, i.e price should not be a main criteria when adjudicating bids.
- Local economic and enterprise development is difficult to be attained within the current procurement regime.
- ‘Set-asides’ of procurement for designated previously disadvantaged groups are the only way in which economic transformation can be attained. However, the current system does not allow for these.

Realising the benefits of preferential policies and achieving the objectives of empowerment and socio-economic change go beyond legislation. The reasons why this is the case include:

- The current fragmented procurement regime is a barrier to entry for emerging small and medium businesses; this makes it difficult for new businesses to transact with government.

*There is a view that the PPPFA does not do enough to support socio-economic transformation*

*Achieving socio-economic objectives through public procurement goes beyond legislation*

- Public procurement is not sufficiently seen as a strategic function, with departments and state-owned entities tending to lack strategies which include socio-economic and preference objectives.
- Although it varies, SCM capacity is generally weak with practitioners unable to conceptualise and implement tenders aligned with government's developmental objectives.
- The sustainability of empowered businesses and socio-economic development schemes remains a challenge. There is no strategy to ensure the organic growth of black and emerging businesses.
- The lack of a proper system to monitor the effects of empowerment strategies results in activities such as fronting.

*There is a need for measures to achieve socio-economic transformation through public procurement*

As part of the examination of the fragmented legal environment, a review of the PPPFA and its Regulations is underway. Resulting from this, the following measures are explored to ensure that the objectives of Section 217(2) of the Constitution are met:

- Strengthening the OCPO to ensure that public sector SCM makes maximum contribution of socio-economic transformation.
- Setting national targets for achieving socio-economic objectives.
- Directives describing the socio-economic goals which provinces and municipalities should attain will be issued.
- Progress made in implementing preference measures will be monitored, as will the manner in which preference targets are set and attained.
- Monitoring cost premiums related to socio-economic preferential procurement.

Measures to promote preference and socio-economic transformation will be conditional:

- They must be aligned to Section 217(1) of the Constitution.
- Cost premiums must be kept to a minimum.
- There will be a Code of Conduct to be used by procuring institutions and the private sector to ensure sustainability, efficiency, cost-effectiveness and good-quality delivery.

## Conclusion

The public sector SCM reforms currently underway will ensure that:

- Government, as the economy's largest purchaser of goods, services and construction works, receives maximum value in a manner that is fair, efficient, cost-effective, equitable and transparent;
- Government achieves its service delivery and socio-economic objectives in a sustainable manner;
- Suppliers and service providers find it easier to do business with government.

# 3

## Benefits of instilling good governance in public SCM

### In brief

- Good governance ensures transparency, accountability, efficiency and upholding of the rule of law in economic, political and administrative processes.
- The public SCM system in South Africa has clear rules but these are often poorly enforced.
- Political oversight is important to create an environment that eliminates political interference in SCM governance structures.
- Suppliers can be a source of corruption by colluding among themselves to fix bid prices or by creating improper interference in the evaluation of tenders.
- Public sector institutions often do not gather sufficient information about the items to be procured through the analysis of the market and historical information.
- Public sector institutions must ensure that contracts and service level agreements do not introduce new requirements and conditions not included in the bid documents.
- To achieve regulatory objectives, the National Treasury and provincial treasuries need to understand clearly the different policy instruments and the conduct of employees and other stakeholders.

### ■ Overview

Compliance with public SCM rules, legislation, norms and standards is critical to ensure that government's policy objectives are attained. To reduce waste, eradicate corruption and improve public sector performance, ethics, integrity, transparency and accountability need to be strengthened.

*Ethics, integrity, transparency are critical for optimal SCM performance*

Common governance and compliance failures result in fraudulent activities. These include fronting, bribery, nepotism, collusion, cover

quoting, conflicts of interest, forgery and tender splitting. These are largely the result of:

- Poor demand and procurement planning, resulting in large deviations and price escalations
- Poor development of specifications
- Dysfunctional bid committees
- Weakly-skilled SCM practitioners
- Poor contract and supplier management

*The private sector can be complicit in public SCM failure*

The private sector is an important role player in public sector SCM, with its behaviour able to determine the quality of service delivery. Poor service delivery, shoddy workmanship in construction work, an inefficient lease environment, collusion, cover quoting and fronting are examples of private sector practices that contribute to an inefficient public sector SCM environment. Public sector reforms must be accompanied by supplier management interventions to ensure the SCM system founded on the principles of section 217 of the Constitution.

## ■ The public sector SCM cycle

The public SCM cycle has three key stages: pre-tender, tendering and post-tender. All of these must be governed by rigorous governance principles.

The pre-tender stage includes needs assessment, planning and budgeting, development of specifications and selection of the most suitable procurement strategy. The tendering stage includes the invitation to tender, evaluation and adjudication of bids. Post-tender includes contract management, ordering and payment. It is important that efficient governance principles be applied to all these stages of the SCM cycle.

### The pre-tender or demand management stage

Demand planning, procurement planning, items and specification management, and supplier management are critical phases in the pre-tendering stage. This stage ensures that goods, services, construction work and other purchases are properly planned and aligned to the procuring entity's strategy and resource plan. This alignment is critical to ensuring that goods are delivered at the right time, place and price, in the right quantity and of the right quality. It is at this stage that a comprehensive needs analysis is carried out in line with the strategic planning process.

#### *The importance of procurement plans*

Procurement plans indicate what purchases an institution will undertake in the short, medium and long-term. Proper planning should reduce delivery delays, eradicate recurring contracts and unnecessary extensions, and eliminate the need for emergency procurement. Further, procurement plans should inform suppliers about future opportunities.

*The pre-tender stage is the most critical stage in the SCM process*

*Item and specification management*

Item and specification management is critical to the procurement process as it gives the details of the goods, services or construction works to be bought. Poor demand and procurement planning result in poor development of specifications, wrong decisions taken about the items to be procured and unrealistic cost estimates.

*Functionality evaluation criteria*

Functionality evaluation criteria test bidders' ability to provide what is to be bought. Whether or not a bid should be invited on the basis of the functionality criteria depends on the nature of the required commodity or service, taking into account quality, reliability, viability and durability and the bidder's technical ability to carry out the contract.

*Functionality evaluation criteria test bidders' ability to deliver on the contract*

When an institution invites a bid that uses functionality as a criterion for selection, the accounting officer or accounting authority must specify in the bid documentation the evaluation criteria for measuring functionality; the weight of each criterion; its value; and the minimum qualifying functionality score.

The functionality criteria should reflect the critical elements of the project; should contain weightings in line with the relative importance of the selection criteria; and have a scoring system drawn aligned with information submitted with the bid. The system should be able to take account of suppliers who have good performance records and should therefore weight for skills, quality, experience, previous performance and value for money.

*Supplier management*

Supplier management allows an institution to select its suppliers carefully and negotiate the best prices for the goods and services that it needs. Supplier management includes procurement, contract development and administration, transportation and logistics, strategic planning and supplier evaluation.

*Contract development and administration are important for monitoring supplier performance*

Supplier management also enables the purchasing organisation to monitor supplier performance; ensure that it attains its objectives; and minimise pre-tender stage violations.

**Pre-tender stage violations include:**

- Development of biased specifications
- Procurement of items not budgeted for
- Wrong choice of procurement strategy
- Poor procurement plans
- Abuse of non-competitive procedures
- Inadequate needs assessments

## The tendering stage

This stage includes the invitation to tender, and evaluation and adjudication of bids. To avoid lack of competition and conflict of interest, all potential bidders must have access to the same tender information. Information in the bid documents should include details of the product or service to be procured, specifications, quantities, the timeframe for delivery, realistic closing dates and times, where to obtain documentation, where to submit tenders and a clear, complete and non-discriminatory description of the selection and award criteria. These cannot be altered after the closing date.

*Uniform and clear procedures are needed to evaluate bids*

Public sector institutions must have clear procedures for opening the tender box. To avoid manipulation of the bids received, this must be done before a public audience and basic information disclosed and recorded in a register. They must also ensure that members of their bid evaluation committees and bid adjudication committees are familiar with and adhere to National Treasury norms and standards when evaluating and adjudicating bids. This is to ensure that there are no tendering stage violations.

### **Tendering stage violations include:**

- Absence of public notification of invitations to tender
- Evaluation criteria changed during bid evaluation and adjudication
- Conflicts of interest not declared
- Political interference
- Recommendations ignored by Accounting Officers
- Manipulation of scores
- Discretion used to award tenders to more than one bidder.
- Detailed tender records not kept

### **Examples of tendering stage violations**

#### *Unauthorised changes to terms of a bid*

A government department advertised that it intended to lease an existing building for a period of two years. Potential bidders submitted their bids, some offering to construct new buildings and others offering existing buildings. The advertisement required a lettable area of 3250 m<sup>2</sup> plus 85 under cover parking bays.

Members of the bid evaluation committee and the bid adjudication committee disqualified four bidders who offered to construct new buildings and recommended a supplier for a two year lease at an escalation rate of 6 per cent. The Accounting Officer signed the lease agreement with the supplier. However, the agreement changed the conditions of the tender: the period was changed from two to ten years, the escalation rate was changed from 6 to 8 per cent, the lettable area was changed from 3250 m<sup>2</sup> to 5416 m<sup>2</sup> and the condition that an existing building must be leased was changed to the construction of a new building. The building plans were approved by the municipality.

***Collusion in tendering to build World Cup stadiums***

The 2010 FIFA World Cup was an opportunity for South Africa to invest in infrastructure. However, all projects experienced time delays and cost overruns. This prompted the National Treasury, affected municipalities and the Competition Commission (CC) to investigate the increased construction and upgrading costs.

The enquiry took place in 2008. Among its findings were that budget estimates revised in 2006 were substantially higher than the initial 2005 estimates. Based on these findings, in February 2009 the CC initiated a complaint in terms of section 49B(1) of the Competition Act into alleged prohibited practices relating to collusion between a number of major construction companies. Further investigations in the same year showed that bid rigging was entrenched in the South African construction industry.

To draw the process to a close, the CC put in place the Construction Fast Track Settlement Process which required the firms in question to apply for settlement by disclosing all construction projects that were subject to collusive practices in return for penalties below what the Commission would otherwise seek. Twenty-one firms applied for leniency through the process and disclosed more than 130 projects; if all projects had been included, the total may have been closer to 300, with a value of R47 billion.

Conditions attached to the settlement included an obligation on the companies not to engage in the future in any prohibited or collusive conduct that would distort tender processes; to take active steps within each company to promote compliance with the Competition Act; and to undertake to cooperate fully with the CC until the Fast Track Settlement process was concluded.

**The post-tender stage**

This stage includes contract management, issuing orders and processing payments. Contracts or service level agreements must not contain requirements and conditions not included in the bid documents but should contain sufficient information to enable the suppliers to deliver goods or services of the correct description, quality and quantity within the specified time. If supplier performance is not monitored, a range of post-tender violations may occur; for example, the purchasing authority may expand or vary orders against the original contract, to the benefit of suppliers. Contracts may be expanded or varied by not more than 20 per cent of the original value of the contract and, for all other goods and services, by not more than 15 per cent.

*Cost escalations, variations, and poor quality delivery are often due to poor post-tender stage management*

***Examples of post-tendering stage violations:***

- Contracts or service level agreements tailored to benefit suppliers
- Inadequate supervision of suppliers
- Submission and payment of fictitious invoices
- Quality of products compromised
- Use of sub-standard materials
- Abuse of the variation procedures

**Some examples of weak post-tendering stage management:***Human settlements low-income housing programme*

Over a three-year period, the Department of Human Settlements spent R2.129 billion on repairing poorly-built RDP houses. This indicates that minimum quality standards were not enforced by various authorities. Having to carry out such repairs takes money away from other projects that could improve citizens' lives.

*Security tender in a municipality*

In October 2011, a Municipality awarded an R8.7 million, three-year security tender to a supplier. The contract started on 1 November 2011 and expired on 30 October 2014. By the end of August 2014, the municipality had paid the supplier R22.4 million. The first variation, which was not considered by the bid adjudication committee, was requested as early as October 2011, before the contract commenced. This variation, which was not considered by the committee, requested an additional 36 security guards at a cost of R7 million.

*Corruption involves a disregard for the law, policy, norms and standards*

## ■ Improving governance of public sector

Corruption is not unique to South Africa but it is one of the country's major challenges. One reason why it continues is that, although the legal framework is strong, laws have not been adhered to or been implemented to their fullest extent. Wrongdoers can therefore continue without being called to account.

### Laws to combat corruption

Among the many laws in place which can combat corruption are the Constitution, the Competition Act, the Prevention and Combatting of Corrupt Activities Act, the Prevention of Organised Crime Act, the Protected Disclosures Act (also known as the Whistle-blowing Act), the Criminal Procedure Act, the Promotion of Access to Information Act, the Promotion of Administrative Justice Act, the Public Finance Management Act and Regulations, the Municipal Finance Management Act and Regulations, the Companies Act and Regulations, the Public Service Act, the Executive Members Ethics' Act and the Witness Protection Act.

#### ***The Prevention and Combating of Corrupt Activities Act: an example of the legislation available to combat corruption:***

The purpose of the Act is to:

- Strengthen measures to prevent and combat corruption and corrupt activities
- Create the crime of corruption and related crimes
- Deal with investigations into corruption
- Create a register to prevent people who use corruption from getting government contracts or tenders
- Require people in positions of authority to report corruption over R100 000
- Prevent the use of corruption to influence who receives the contract

Offences under the Act include accepting gratification to influence who receives a contract; offering a public official any gratification to give them a benefit; offering any member of a legislative authority any gratification to act in an illegal or biased manner; and offering gratification to influence the award of a tender.

## Organisations in place to detect and combat corruption

*The National Prosecuting Authority (NPA):* The NPA institutes criminal proceedings on behalf of the state. It has a number of specialised units including the Specialised Commercial Crime Unit, the Asset Forfeiture Unit and the Witness Protection Unit. All NPA employees are governed by the NPA's code of ethics, which includes the NPA's whistle-blowing policy.

*Law enforcement agencies have a key role to play in combating corruption*

*The Public Protector (PP):* The PP is mandated to investigate any conduct in state affairs or in the public administration of any sphere of government where there is suspected impropriety. The PP reports on such conduct and is empowered to take appropriate remedial action.

*The Directorate for Priority Crime Investigation (DPCI):* The DPCI, also known as the Hawks, is an independent directorate within the South African Police Service (SAPS) that manages, prevents, investigates and combats serious organised crime, serious corruption and serious commercial crime.

*The Asset Forfeiture Unit:* A unit within the office of the National Director of Public Prosecutions, it was established to implement Chapters 5 and 6 of the Prevention of Organised Crime Act which allow for the seizure of assets used in criminal activities.

*The Special Investigating Unit (SIU):* The SIU fights corruption through high-quality investigations and litigation. An independent statutory body, it conducts investigations and reports the outcomes to the President.

*The Financial Intelligence Centre (FIC):* The FIC was established in terms of the Financial Intelligence Centre Act (FICA). It receives reports of suspicious financial transactions; aims to combat money laundering in South Africa and, through FICA, to prevent organised criminal groups from benefitting from illegitimate profits and, in so doing, to maintain the integrity of the country's financial system.

*The Auditor-General (AG):* The AG has a mandate in terms of the Constitution to audit and report on the accounts, financial statements and financial management of all national and provincial departments, municipalities and any other institution required by legislation to be audited. The country's supreme audit institution, the AG exists to strengthen the country's democracy by enabling public sector oversight, accountability and governance through auditing and in this way to build public confidence.

*The Public Service Commission (PSC):* Established in terms of Section 196 of the Constitution and regulated by the Public Service Commission Act 46 of 1997, the PSC is an independent, impartial body that enhances governance in the public sector through powers and functions that include

investigating and monitoring the organisation and administration of the sector. The PSC is mandated by Cabinet to manage the national anti-corruption hotline, one of the channels available to the public for reporting corruption. Cases are then referred to departments and agencies for investigation; they are required to provide feedback to the PSC.

*Independent Police Investigative Directorate (IPID):* The purpose of the IPID is to ensure independent oversight of the SAPS. It conducts investigations into allegations of criminal offences committed by SAPS members. This includes investigations of individual acts of corruption as well as systemic corruption involving the police. Established in 1997 in terms of the IPID Act, the organisation's vision is to ensure proper police conduct in line with the Constitution.

### **Improving governance of public sector SCM through co-operation with stakeholders**

*Close cooperation between the public and private sectors, civil society and other stakeholders is important for the integrity of public sector SCM*

Strategic cooperation between the public and private sectors, civil society and other stakeholders should enhance the integrity of and public trust in public sector SCM. Integrity ensures that funds, resources and assets are used for their intended purposes and in line with public interest. Integrity violations include:

- Corruption, which includes bribery and nepotism
- Fraud and theft of resources
- Conflict of interest
- Collusion and bid rigging
- Abuse and manipulation of information and processes
- Discriminatory treatment
- Waste and abuse of public resources

Open, professional and law-abiding relationships between suppliers and public sector customers should help to minimise this risk.

### **Improving governance of SCM through transparency**

Transparent or open contracting is a powerful tool that can be used to combat corruption and ensure good governance, value for money and good-quality service delivery.

Practices currently not always implemented in line with legislation include:

- Bid documents not published, with only advertisements published.
- Bid committee meeting evaluation minutes and standard contracts entered into not publicly available.
- Bids not opened in public and published. Good practice requires that bidders and their prices be made known by public announcement during the opening of bids and by publishing this information.
- The entire evaluation process not open to scrutiny.
- Progress and contract implementation reports not made publicly available.

The right of public access to public sector SCM information must be entrenched. The table below highlights information that needs to be made publicly available.

Phases	Publication (online) and participation
Demand management	Annual procurement plans
	Specifications: Allow for comments (high value/complex)
	Allow observers in <b>Bid Specifications Committee</b> (public sector or civil society)
Acquisition management	Bidding documents and neutral contact addresses
	Written clarifications sent to all participants
	Publish register/bid opening Public bid opening Prices read aloud
	Allow observers into the BEC/BAC (public sector or civil society)
	Bid evaluation report (or summary)
	Introduce notification period before contract execution
	Quotation awards (above certain thresholds)
Contract management.	Amendment notices
	Financial and physical progress information

Government will enhance transparency in the SCM system by:

- Developing and prescribing a public disclosure framework which governs transparency within the SCM process. This should result in institutionalising disclosure.
- Prescribing that all information in the bid process be disclosed publicly. This includes bid committee reports, minutes and contracts.
- Improving the accessibility of information. All information will be housed on the OCPO's website. All government entities will be required to publish information on their respective websites in line with a public disclosure framework prescribed by the OCPO.
- Improving the quality of information and encourage its strategic use.
- Creating an environment conducive to stakeholder participation in the different stages of the SCM process.
- Building the capacity of the private sector, civil society and relevant stakeholders to take part effectively in enhancing transparent public SCM.

## ■ Improving governance of public sector SCM through compliance with all laws and regulations

Section 217 of the Constitution supports good governance. It requires that sourcing of goods, services and construction works is carried out in a way which is fair, equitable transparent, competitive and cost effective. This can only be achieved by a public service which:

- Maintains and promotes a high standard of professional ethics.
- Uses resources efficiently, economically and cost-effectively.
- Renders services impartially, fairly and equitably.
- Is accountable.
- Is transparent by providing timely, accurate, user-friendly and accessible information to the public.

The OCPO will provide support and an enabling environment to ensure that public sector entities:

- Comply with National Treasury's norms and standards. These should provide for transparent and competitive SCM processes which do not have gaps that can be exploited.
- Through continuous assessment, identify and remedy gaps in internal control systems and decision-making processes. These lead to corruption, fraud and manipulation of tenders.
- Implement policies and practices known to enhance the integrity of the SCM cycle from needs assessment to contract management.
- Provide potential suppliers with clear and consistent information so that the public SCM process is well understood and applied equitably and fairly.
- Speed up the professionalization of SCM to attract and retain appropriately-skilled personnel and enhance resistance to mismanagement, waste and corruption.
- Provide institutional and procedural frameworks that protect public SCM officials against undue external influence.
- Set clear integrity standards and ensure compliance throughout the entire SCM cycle.
- Enhance public entities' internal audit functions to enable them to monitor SCM proactively and to identify and address risks.
- Implement dispute resolution mechanisms which can handle complaints from potential suppliers in a fair and timely manner.
- Empower civil society organizations and the public to monitor public SCM.

Other measures to reduce abuse of the public SCM system include:

- Revising the legal framework to give stronger powers of intervention to the OCPO when the public SCM system is abused.
- Cancelling fraudulent contracts and claiming damages.
- Removing from all supplier databases companies and individuals found guilty of abusing the public SCM system.
- Maintaining a register of tender defaulters.

## ■ Conclusion

Given the scale and scope of public sector SCM a collective effort from government, the private sector and civil society is needed to ensure that high standards of integrity are continuously adhered to. This needs to be accompanied by:

- Coordinated oversight activities and standards.
- Greater disclosure and transparency.
- An accountability framework which holds public officials and private sector liable for losses in cases of non-compliance, fraud or corruption.



# 4

## Supply chain management for infrastructure delivery and maintenance

### In brief

- The National Development Plan (NDP) sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality against the background of the country's urbanising, youthful population is strength on which to build.
- Public investment in infrastructure must reduce bottlenecks in electricity and transport and encourage private investment, while stronger employment growth should contribute to increased household incomes.
- Government needs to ensure that goods and services resulting from public investment are delivered on time, in the right quality and for the right price.
- Improved quality of spending through better planning, sound procurement systems and greater competition will benefit the economy.

### Overview

Government has adopted the NDP as the country's framework for economic and social transformation. The plan aims to accelerate growth, eliminate poverty and reduce inequality by 2030. A key pillar of the NDP is investment in public infrastructure, with the 2014 Budget projecting this investment at R847 billion over the next three years.

Government recognises that infrastructure (also referred to as fixed capital investment) is one of the pillars that support a better life for all as it serves social and economic needs. Failure to deliver and maintain infrastructure disrupts the lives of individuals and communities and has economic consequences.

Public infrastructure can be divided into two main categories. Social infrastructure includes resources such as schools, hospitals, clinics and

*The NDP provides a framework for inclusive growth and social transformation*

community facilities. Economic infrastructure supports the economy and includes the networks that deliver or support the delivery of services such as roads, water and electricity to homes, communities and places of work.

The efficiency and effectiveness of supply chain that creates and maintains this infrastructure is thus critical to the economy and to social well-being.

### ■ The supply chain for public sector infrastructure delivery

*Accounting officers and authorities must maintain financial management and delivery capability*

The Public Finance Management Act (PFMA) of 1999 requires accounting officers and accounting authorities to ensure that their institutions have and maintain financial management, procurement, risk, internal control and internal audit systems. Section 38 of the PFMA requires public sector institutions to have a system for evaluating major capital projects. National Treasury Regulations, issued in terms of the PFMA, prescribe SCM regulations that institutions must implement.

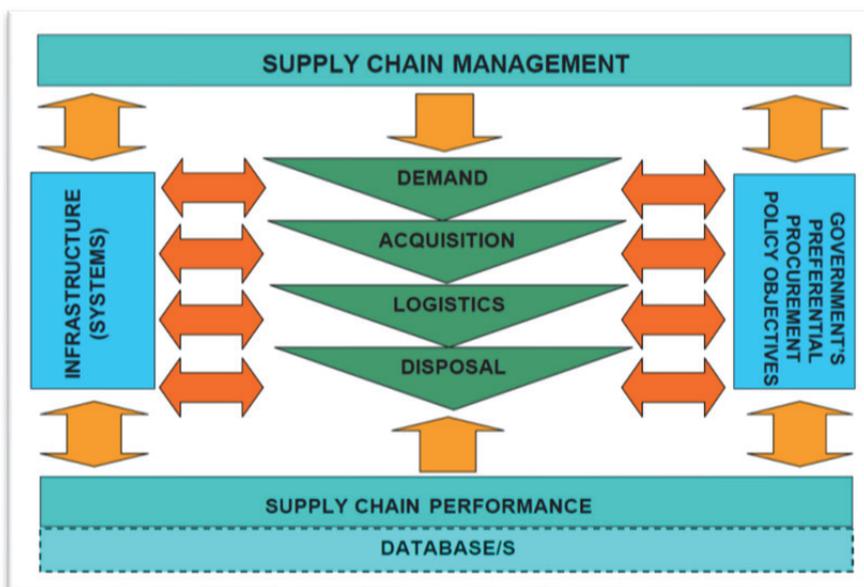
The provisions of the Municipal Finance Management Act (MFMA) are similar to those of the PFMA, and apply to municipalities and municipal entities. Section 112 of the MFMA permits the Minister of Finance to issue a prescribed regulatory framework for supply chain management.

Government’s procurement policy framework, as determined by the National Treasury, has to provide for the different contexts in which SCM takes place.

*The SCM process for procuring goods and services is different from that for procuring infrastructure*

The figure below gives the key elements of the public sector SCM system and shows how SCM processes are supported by policies, procedures and systems.

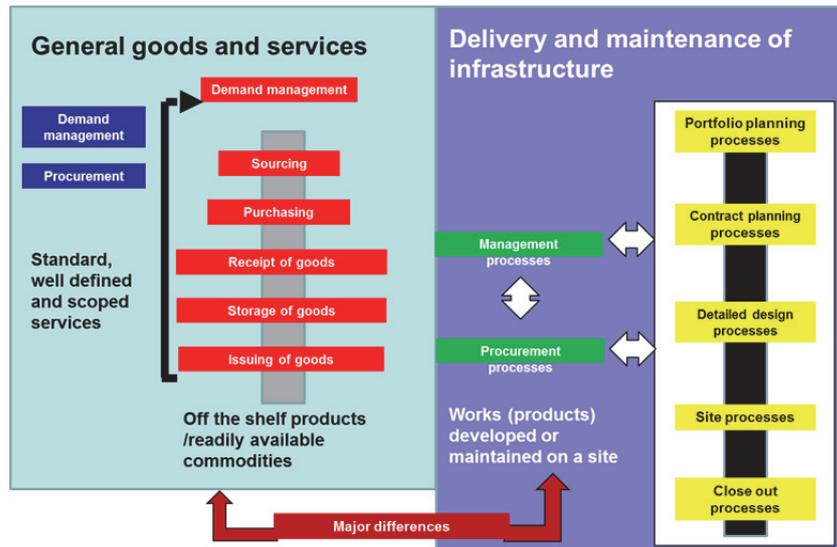
**Figure 1: The generic elements of supply chain management**



The processes within the SCM system for providing and maintaining infrastructure are similar to those described above, and include the wide range of goods and services required to develop and maintain fixed assets. Figure 2 shows that, although there are differences between the supply chains for goods and services and for infrastructure, there are also a number of similarities.

*The SCM system needs to cater for differentiation*

**Figure 2: Differences between the supply chain for goods and services and for infrastructure**



The board established through the Construction Industry Development Board (CIDB) Act of 2000 promotes and implements policies, programmes and projects to reform construction procurement and to standardise and create uniformity in procurement documentation, practices and procedures within the framework of government's procurement policy.

## ■ Issues affecting public sector infrastructure SCM

A number of issues relating to the various components in the value chain affect the public sector infrastructure SCM system. These include institutional arrangements, organisational capacity, systems and processes, and regulatory and governance controls. Each of these is critical to an effective system.

*Institutional arrangements* refer to the manner in which an institution relates to other institutions or stakeholders, and can refer to the type of executive or political leadership that the organisation has. In many government departments, the institutional arrangements, and the related roles and responsibilities, are not clearly defined. This lack of clarity can

*Government is working to improve SCM planning and implementation capacity*

result in conflicting views between client<sup>1</sup> departments and implementing agents<sup>2</sup>.

*Organisational capacity* refers to the ability to carry out defined functions in an accountable and responsible manner, and includes the macro organisational structure as well as individual skills and capacities. Insufficient infrastructure management capacity results in delivery delays, cost overruns and poor quality delivery. Measures are being put in place (see chapter 7 on capacity development) to build SCM capacity within government.

*Systems and processes* include the policies, processes, procedures, methods and associated documentation which enable an organisation to achieve its objectives methodically and systematically.

*Regulatory or governance controls* refer to the measures put in place to ensure that the outputs and outcomes of procurement are of the right quality and within acceptable levels of risk exposure and performance. Stakeholders are naturally concerned about labour, health and safety and environmental legislation and regulations, and other issues relating to procurement contracts. Ineffectively managed, these can raise the risk on compliance and increase the cost of doing business. This in turn affects the infrastructure supply chain as costs are passed on to the State.

## ■ The role of the private sector

*The private sector may contribute to sub-optimal service delivery*

Given its infrastructure management capacity constraints, the public sector has turned to the private sector as a partner in providing infrastructure services. However, fully beneficial partnerships are not always achieved. The reasons for this include:

- Government shortcomings, as described above. Steps are been taken to address these.
- The South African construction industry's performance as it relates to social and economic infrastructure procured by government is not as good as it should be. Research commissioned by the CIDB found the industry to be characterised by high levels of enterprise failure, poor levels of quality and little improvement in processes and productivity.
- Corruption and anti-competitive practices within the sector.
- The need for the construction industry to transform. However, the limited pool of experienced engineers suitable for management positions, the long learning curve and the time needed for graduates to acquire management skills remain significant barriers to transformation.

<sup>1</sup> Client departments are the institutions responsible and accountable for the delivery of services derived from infrastructure.

<sup>2</sup> Implementing agents are the institutions or divisions within an institution responsible for delivering infrastructure or maintenance projects.

## ■ Proposed reforms to improve infrastructure procurement

The purpose of reforming infrastructure procurement is to achieve better quality and faster service at the best price. All aspects of the procurement chain therefore need to be assessed, including the public sector's institutional environment. Regulatory reform is also needed to assist the private sector to become more efficient and to reduce the cost of doing business.

### Proposed regulatory reforms relating to infrastructure procurement

These reforms relate to the public and private sectors, and both should benefit from them. The following are key issues:

- There is a need for a best practice, standardised infrastructure delivery management system (IDMS) for infrastructure delivery and maintenance.
- Regulatory reform needs to support alternative and innovative delivery models.
- The OCPO must establish a framework for government's procurement activities in relation to the construction industry and related engineering services.
- The CIDB should be strengthened as a partner in infrastructure delivery and the OCPO should not duplicate its work. This would avoid multiple centres of infrastructure procurement regulation.
- A grading system for engineering services should be investigated, similar to that for contractors.
- Support measures, including improving contractor development, should be introduced.
- The regulatory framework should enable emerging firms to participate.

*A standardised approach to infrastructure delivery needs to be formalised*

### Systems and processes

Reforms of infrastructure procurement systems and processes must be based on the IDMS. This provides a set of systems for planning, budgeting for and delivering projects to construct, refurbish, rehabilitate, extend and maintain public sector infrastructure. Currently, government is:

- Reviewing and standardising planning processes and related documentation to reduce project lead time, speed up delivery and minimise the opportunity for tender manipulation.  
Putting in place measures to ensure that infrastructure delivered is fit for purpose and provides value for money throughout its service life, taking into account life-cycle costs.
- Building internal capacity to manage built environment professionals.
- Finalising a reporting framework to ensure greater transparency in infrastructure procurement. Early signalling of impending projects

*SCM systems and processes must be based on the IDMS*

would allow the private sector to manage its capacity and costs. A reporting framework would also allow projects to be tracked, and performance and processes verified and audited.

- Given government's limited ability to manage large numbers of infrastructure contracts, it is exploring framework contracts to reduce the contract management burden and to accelerate delivery. This would make it possible to aggregate contracts while at the same time providing opportunities for smaller contractors. The correct balance must be struck between aggregation, employment generation and empowerment strategies.

### Organisational capacity

It is recognised that the public sector does not have all of the capacity it needs to manage infrastructure procurement. There is also a high degree of turn-over among public officials. These problems slow down the process of managing tenders and closing deals. This lack of expertise affects not only government but also the private sector's ability to complete contracts, and poses a risk to growth. Chapter 7 outlines the steps to be taken strengthen government's SCM capability.

*Government is working to improve its capacity to plan for and implement infrastructure procurement*

### ■ Key stakeholders in assuring the quality of procurement for the built environment

*The Council for the Built Environment (CBE):* In consultation with the Competition Commission and with the councils for the various professions, in terms of the Council for the Built Environment Act (Act 43 of 2000) the CBE is responsible for identifying the scope of work of the various categories of built-environment professionals.

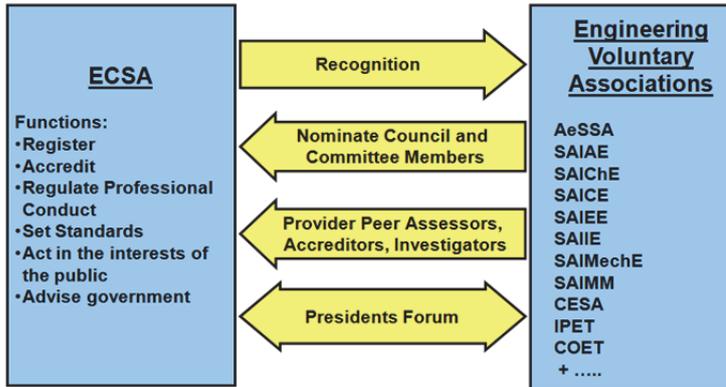
*The CIDB:* The CIDB Act (Act 38 of 2000) mandates the organisation to perform a number of functions including establishing a national register of contractors and of construction projects; providing strategic direction; developing effective partnerships for growth, reform and improvement in the construction sector; and promoting delivery management capacity and uniform application of procurement policy, improved performance and best practice in the public and private sectors, and sustainable participation by emerging contractors.

The CIDB has developed standard procedures and methods which must, by law, be applied to certain key procurement processes; and best practice guidelines which have been incorporated into the ISO 10845 standards for construction procurement.

*The Engineering Council of South Africa (ECSA):* Established in terms of the Engineering Professions Act 46 of 2000, ECSA is the statutory body which regulates the engineering profession.

*The National Energy Regulator (NERSA):* Established in terms of Section 3 of the National Energy Regulator Act, 2004 (Act No. 40 of 2004), NERSA is the authority which regulates the electricity, piped-gas and petroleum pipeline industries. Its work therefore has a bearing on public infrastructure.

## Relationships in the Profession



The National Home Builders Registration Council (NHBRC) is the body that regulates the home building industry. The Housing Consumers Protection Measures Act (Act No. 95 of 1998) mandates the NHBRC to protect the interests of housing consumers and to ensure compliance with regulated building industry standards. Working with the Department of Human Settlements, the NHBRC provides advisory services on industry developments, securing land for housing development, design and construction of homes, environment services and engineering services.

*Municipalities* play an important quality assurance role in infrastructure. They set building norms and standards; approve building plans; and assess the various steps in the construction process.

## Conclusion

Investment in the country's infrastructure enables the economy to grow inclusively and improves the delivery of basic services. To achieve this, the public and private sectors need to collaborate.

As this chapter has shown, a number of reforms are under way to strengthen public sector infrastructure SCM. Central to this is the proposal that the SCM processes be standardised through the adoption of an IDMS applicable to all spheres of government.



# 5

## Strategic sourcing in government

### In brief

- Government's approach to procurement is rules driven. There is a need to identify more intelligent ways to procurement to realise value for money, create opportunities and promote beneficial change.
- A differentiated approach and the introduction of strategic sourcing that is a collaborative and structured process to critically analyse an organisation's spending and using the information to make business decisions about acquiring commodities and services more effectively.
- Strategic sourcing requires that government adopts a differentiated approach that looks at the strategic importance of the purchase as well as the supply market complexity.

### ■ Overview

The National Development Plan highlights the need for a differentiated approach to procurement. The process of buying stationery is different from that of a highly complex and specialised medical scanner, or from commissioning the building of a school. Public sector SCM systems need to be robust, transparent and intelligent to allow for the correct approaches needed for such differing forms of procurement.

Strategic sourcing provides government with a tool that allows for procurement differentiation. When properly applied, strategic sourcing has the potential to generate savings of up to 20 per cent of the costs of goods and services purchased. The 2014 budget provides for procurement spending at national and provincial level of more than R346 billion in 2014/15, R354 billion in 2015/16 and R363 billion in R2016/17. Savings, through strategic sourcing, on sums of these magnitudes would be very substantial.

This chapter explains how intelligent procurement, through strategic sourcing, can save money, create opportunities and promote beneficial change.

*The SCM systems need to be robust, transparent and intelligent so that it allows for different sourcing approaches to suit different forms of procurement.*

*Strategic sourcing is a tool for intelligent procurement and informed business decisions*

## Strategic sourcing

Strategic sourcing helps supply chain managers to plan, manage and develop the supply base; and to create an understanding of the categories of goods and services in government's spending portfolio, their intended use and the sources of supply. This helps to identify the leverage points in the procurement areas/categories where government has buying power or influencing powers to change the industry, develop appropriate sourcing strategies, reduce costs and increase the benefits and value of the service or commodity to government.

Increasingly applying strategic sourcing across the South African public sector will bring a number of benefits. It will:

- Use the size and value of spending on commodities commonly purchased across government to *leverage the state's buying power*.
- Greatly *reduce duplication of effort*. Currently, numerous tender processes for similar goods and services take place across departments.
- *Reduce inconsistency in prices* between the private and public sectors and between government departments. In some cases, departments buy the same product or service from the same suppliers at different prices.
- *Encourage common government policy positions* on certain commodities and services. It will, for example, point the relevant authorities towards a common position on broadband or software licensing.
- *Encourage the development and use of standardised specifications* of common commodities. Examples are school furniture, office equipment and IT hardware. This will discourage end-users from over-specifying, insisting on "the best" when a more modest alternative may be adequate for service needs.
- *Increase government efficiency* by providing information on government's spending patterns. This will aid *better and more informed decision making* from the product, quality, cost and socio-economic perspectives. Strategic sourcing provides for a greater understanding of the supplier market and how to involve them in the procurement process.
- *Create expertise* about commodities among purchasing officials and *reduce complexity* for end users. Government supply chain practitioners generally manage administrative functions such as requests for quotations and competitive bidding; not enough attention is paid to their thoroughly understanding the specialized commodities within their environment.
- *Improve vendor performance*. As the clarity of requirements increases, relationships with suppliers tend to improve and they are encouraged to identify new and innovative solutions. Competition for government business increases, and contract-structuring and

performance management systems to ensure vendor performance improve.

## ■ The differences between strategic sourcing and traditional procurement

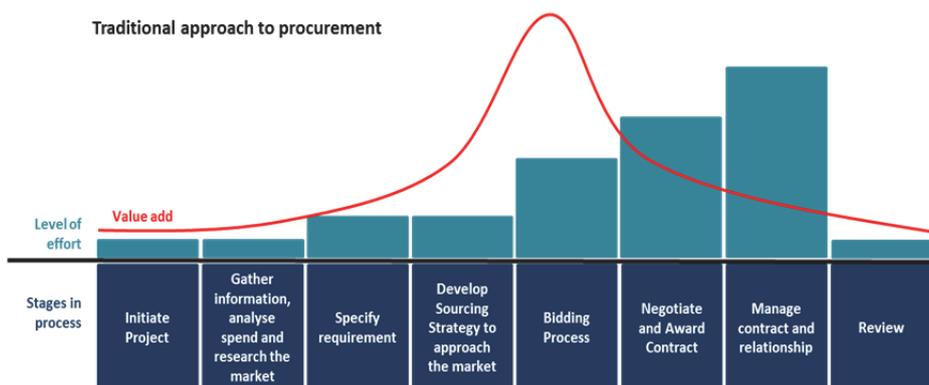
The traditional approach to procurement views it as buying goods and services. Irrespective of how critical a transaction may be, government currently uses competitive bidding, a standard method of buying.

*There is a need to move from transactional buying to commercial decision-making*

A strategic approach involves a combination of understanding the importance of procurement to enable government to achieve its objectives; identifying suppliers and managing relationships with them; and obtaining value for money.

### The traditional approach

In the traditional approach to procurement, a relatively small percentage of the overall effort goes into the initial planning phase. However, insufficient analysis in the planning stage tends to increase the effort needed at the bidding phase. In turn, this results in greater levels of effort in the contract and relationship management phases, when little extra value can be gained.

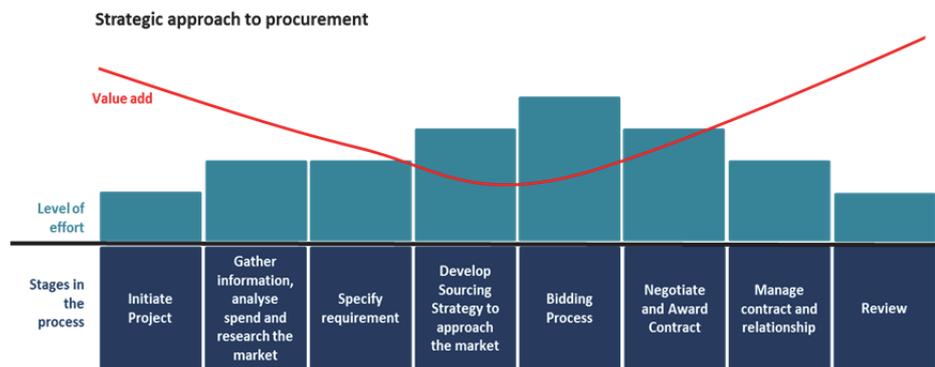


Adapted from: New Zealand Ministry of Business, Innovation and Employment 2011, *Mastering Procurement: A Structured Approach to Strategic Procurement*, available at <http://www.business.govt.nz/procurement/for-agencies/strategic-procurement/mastering-procurement-the-guide>

### The strategic approach

The strategic approach to procurement works methodically through each stage in the process. The initial effort spent on planning, research and analysis helps significantly in identifying solutions that meet the needs. The focus on developing and managing relationships with suppliers after awards means that less time is spent on resolving issues and more on assessing the quality of delivery and on identifying opportunities for cost savings and benefit gains.

*Greater focus on demand and procurement planning is needed*



Adapted from: New Zealand Ministry of Business, Innovation and Employment 2011, *Mastering Procurement: A Structured Approach to Strategic Procurement*, available at <http://www.business.govt.nz/procurement/for-agencies/strategic-procurement/mastering-procurement-the-guide>

## The need for a differentiated approach to government procurement

Strategic sourcing requires government to adopt a differentiated approach to procuring the various commodity groups.

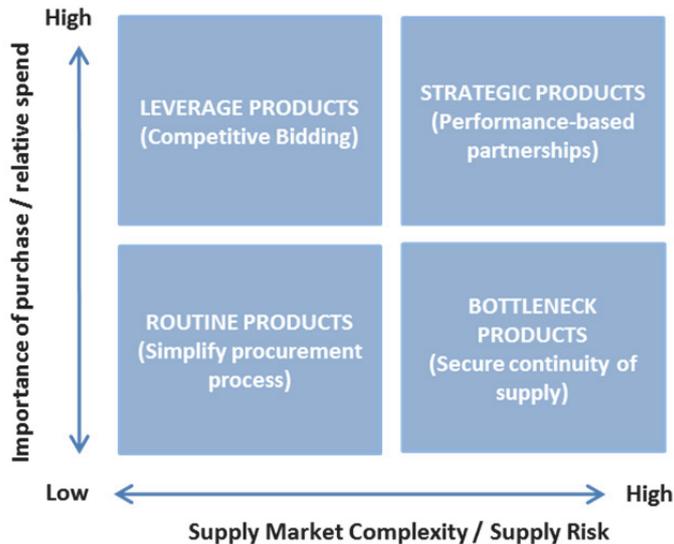
*Procurement differentiation can unlock greater value for money*

Households do not procure their monthly goods in the same way as they buy property, which is a strategic decision. In the same way, government should not procure catering services in the same way as specialised and expensive medical or agricultural equipment. Using the principles of strategic sourcing means distinguishing between the various categories of commodities and developing appropriate sourcing approaches for each.

Deciding how to differentiate depends on two factors (adapted from Kraljic, Peter, “Purchasing Must Become Supply Management,” *Harvard Business Review*, September-October 1983):

- the *strategic importance* of the goods or services being purchased, either in terms of value for money and service delivery or of the cost. The more expensive, the more important it is to think strategically about how to purchase.
- the *complexity of the supply market*, measured in terms of factors such as how scarce the supply is, how quickly the technology is changing and any barriers to supplier entry to the market.

Using these two criteria, purchasing executives should be able to develop sourcing strategies for the following four commodity groups:



- *Strategic commodities:* These are high value goods which are critical to service delivery, have complex and/or rigid specifications and for which there are few qualified suppliers. The strategy should be to form long term partnerships with suppliers.
- *Leverage commodities:* These are high value goods which are market- or price-sensitive because of competition in the market; there are many suppliers and many product and service choices. The strategy should be to maximize government's buying power and maintain market competition.
- *Bottleneck commodities:* These are lower value goods with complex specifications, that have a substantial impact on service delivery, have few qualified suppliers and not many alternative substitute products. The strategy in this case should be to manage the supply risk by ensuring continuity of supply through firm and longer term contracts.
- *Routine/non-critical commodities:* These are small, low value individual transactions and everyday products and services. There are many suppliers and many alternative products. The strategy here should be to simplify the acquisition process, and reduce the administration of transactions, by as far as possible automating the purchasing process.

## ■ Three types of strategic sourcing initiatives available to government

### Universal strategic sourcing

This applies particularly where economies of scale are possible through aggregating volumes or quantities from all government institutions. Cost benefits come from leveraging government's buying power and using the savings achieved for other important programmes. As well as giving more control over supply and demand, administrative efficiencies lead to indirect cost savings.

As an example of this approach, the OCPO has initiated a strategy to source goods and services that are common across government. These include travel and accommodation, mobile devices and subscription services, banking services and motor vehicles.

### **Department-specific strategic sourcing**

This relates to sourcing of goods and services that are central to a government department's key service delivery objectives, and typically include goods and services above a certain rand value which are considered complex and/or high risk.

Among numerous examples are commodities such as pharmaceuticals for the Department of Health, textbooks for the Department of Basic Education, prison catering for the Department of Correctional Services and many others equally important.

Achieving value for money means that the department must define its requirements clearly and explain these to the market in order to create certainty, and competitive tension among competing bidders.

It is the departments' responsibility to judge the best way to achieve value for money. Robust business case reviews can help with managing the high-risk nature of some procurement in this category.

### **Sector-specific strategic sourcing**

This covers sourcing of goods and services purchased by more than one government department and involving an industry sector that government wishes to protect or promote. This includes, for example, commodities in the textile, leather and footwear industry. Because they need to procure items such as uniforms, shoes and boots, a number of government departments (Defense, Correctional Services, Health, Police and others) have an interest in this industry.

Other examples of goods designated by the *diti* for local procurement are buses and steel pylons.

## **Strategic sourcing: examples**

### **Strategic commodity: learner and teacher support materials**

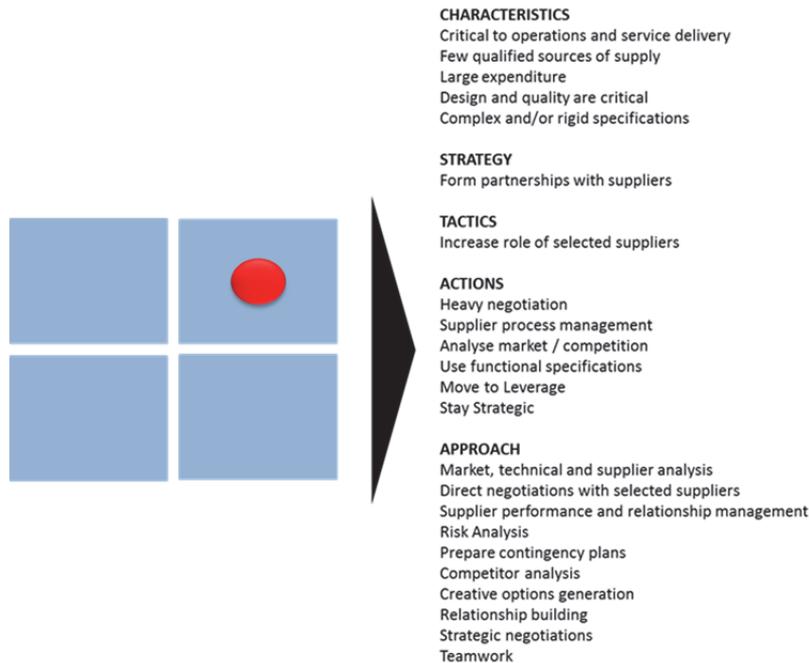
This spending category falls under the Department of Basic Education and covers textbooks and curriculum-based materials including stationery, magazines, library resources and books. The category is therefore an example of a department-specific strategic sourcing initiative.

Government currently spends more than R3.2bn a year on learner and teacher support materials (LTSM). In terms of its size and of the negative impact of any non-delivery to schools, it is a highly important purchase category for government. Delays in providing LTSM can prevent teaching and learning from taking place and result in outcries from communities whose right to education have been infringed. The supply market is complex and diverse, with authors, publishers, distributors, suppliers and others spread across the country. However, the spend is mainly by the nine provincial departments. If aggregated, this would give government substantial negotiating power.

*The sourcing model for learning and teaching support material should lean towards a performance-based supplier relationship model*

Given its importance, complexity and risk, this is a strategic commodity group. For such a category, the main strategy should be to forge long-term partnerships with qualified suppliers.

The diagram below shows the typical characteristics, strategy, tactics, actions and approaches to be considered when dealing with *strategic commodities*.



### **Leverage commodity: mobile communications**

Mobile communications are important to national, provincial and local government and to public entities. This category includes not only cell phones and similar portable devices but subscriptions and all related costs. This spend category is therefore an example of a universal strategic sourcing initiative.

National and provincial government spends approximately R800 million a year on mobile communications, fragmented across over 160 departmental sites. However, although mobile communication is important, for government it is not a core service delivery function. Service disruptions in mobile communications will not bring government to a complete halt as there are alternative technologies such as fixed line communications, internet and email.

If aggregated, the current fragmented spend would give government substantial power in negotiating agreements. The market for supply is not complex and there are a fair number of major providers in the industry.

This high spend, low complexity category is thus a leverage commodity group.

*Procurement of mobile communication is fragmented across government. The sourcing model should lean towards aggregation and leveraging on government's buying power.*

### Leverage commodity: travel and accommodation

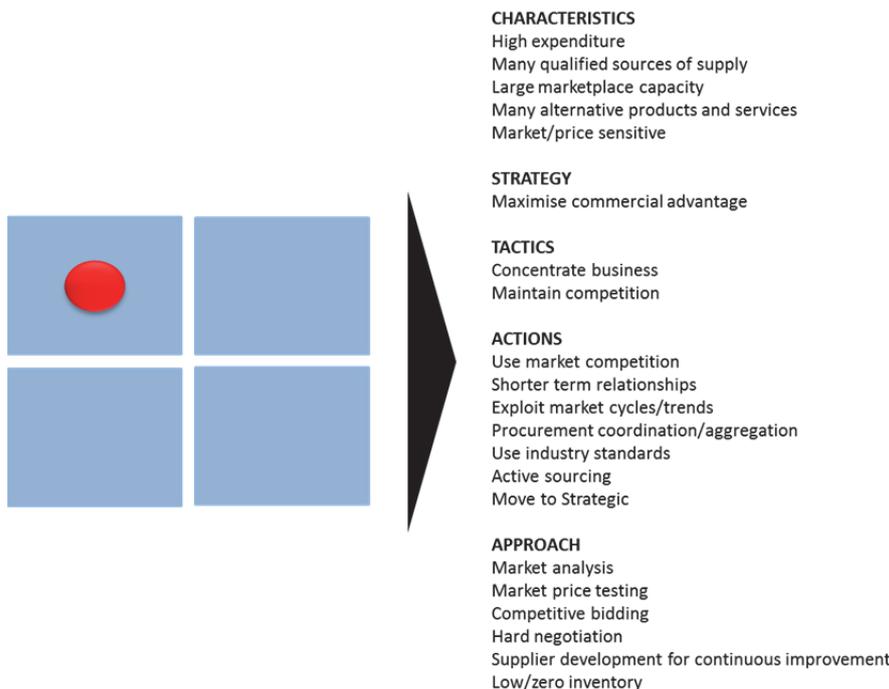
National and provincial government spends over R5 billion on travel and accommodation annually. As it involves all spheres of government, the spend category is therefore an example of a universal strategic sourcing initiative.

*A different approach to travel management is needed. The sourcing model should lean towards maintaining market competition.*

Currently, each department purchases travel and accommodation individually. If this was aggregated, it would be possible to leverage enormous economies of scale. The supply market is not extremely complex, as there are many suppliers and many alternatives. Stringent and cost effective measures can be applied when procuring these services.

As this is a high spend category and the complexity of the supply market is low, like mobile communications it is an example of a leverage commodity group. The strategy should be to leverage government’s buying power and purchase at the best prices that can be negotiated.

The diagram below shows the typical characteristics, strategy, tactics, actions and approaches to be considered when dealing with *leverage commodities*.



### Bottle-neck commodity: medical oxygen

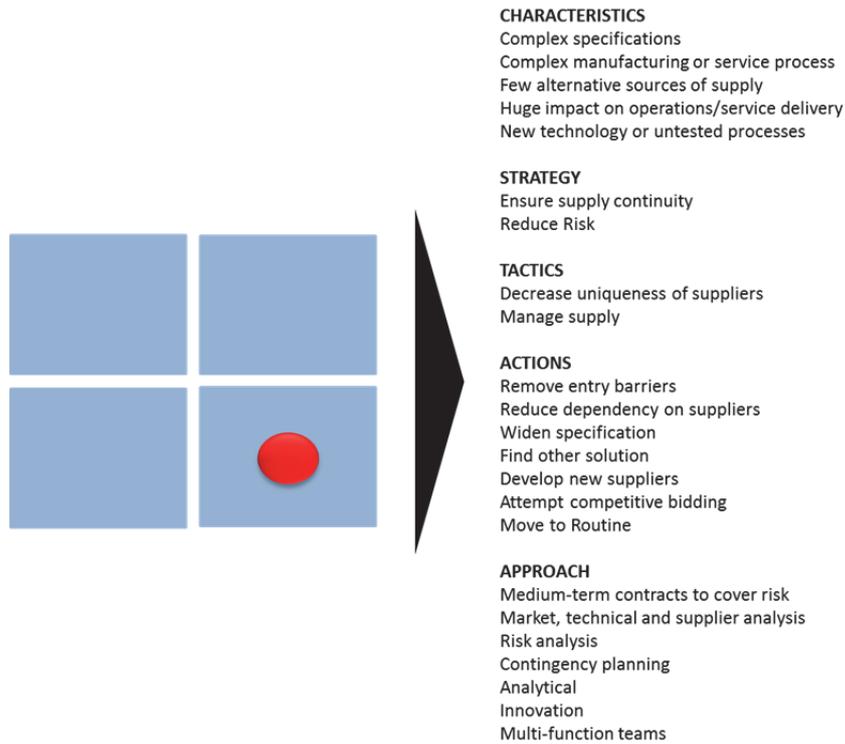
This spend category relates exclusively to purchases by the national and provincial Departments of Health for medical oxygen for hospitals, clinics and other facilities. It is therefore a department-specific strategic sourcing initiative.

Government spends approximately R210 million per annum on medical oxygen. Although this is relatively small in comparison to total health expenditure, it is a vital purchase category because of the risks and negative impact associated with it not being supplied. Delays in procurement can lead to deaths. The spend is mainly by the nine provincial departments which on their own do not have sufficient power to negotiate the most advantageous agreements. The supply market is complex; there are a limited number of

suppliers, located mainly in the major centres; and there are no substitute products.

With its high complexity, potential risk and relatively low value, this purchase item can be categorized as a bottleneck commodity. The main strategy should be to ensure continuity of supply.

The diagram below shows the typical characteristics, strategy, tactics, actions and approaches to be considered when dealing with *bottle-neck commodities*.



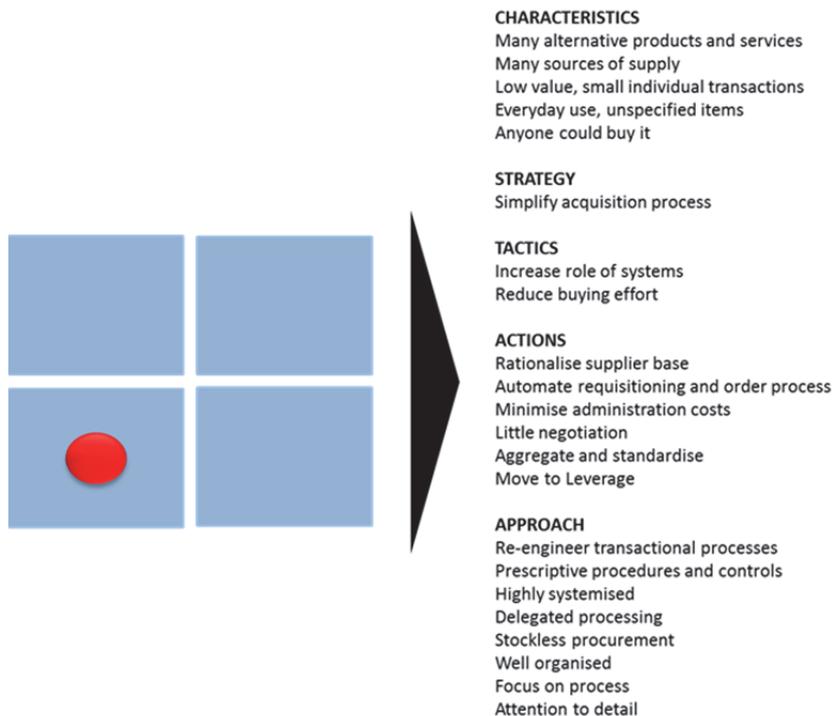
### **Routine commodity: stationery and office supplies**

Stationery, such as pens, envelopes, staplers and many other items, is used every day in office and other environments. It is therefore a universal strategic sourcing initiative as all government departments use it.

Government spends approximately R600 million on stationery and office supplies annually. The supply market for stationery is simple as there are many manufacturers, distributors and retailers offering similar products and even the same brands. It is rarely difficult to locate suppliers of stationery, they are comparatively inexpensive and their relatively low cost does not justify elaborate negotiations with suppliers. However, at present a considerable amount of administrative time is spent on procuring these items.

With its relatively low importance (or value) and low complexity, this spend category is a routine commodity group. The time and effort spent on procuring it can be significantly reduced by standardising the items and using efficient methods of procuring them.

The diagram below shows the typical characteristics, strategy, tactics, actions and approaches to be considered when dealing with *routine commodities*.



## Conclusion

Strategic sourcing is an organised and collaborative approach which takes advantage of the size and nature of government spending to obtain the best possible service and value from selected suppliers. It is closely linked to transversal contracting, which provides a country-wide framework for maximising savings and value through the use of government’s bargaining power.

Collaboration is vital for strategic sourcing and for transversal contracting. Rather than working in silos, skilled and professional supply chain managers must be members of cross-locational and cross-functional teams.

# 6

## Procurement of common goods and services: accelerated transversal contracting

### In brief

- The strategy for accelerating the scope of transversal contracting should result in significant savings as the state is able to negotiate better prices based on bulk purchasing.
- When bidding processes are managed centrally, unnecessary duplication is eliminated, procurement activity is rationalised, leakages are reduced and scarce procurement skills are better utilised.
- Transversal contracting reduces the administrative burden for suppliers as they interact with government at one central point.
- Long term supplier relationships are established and there is greater certainty in the market place
- Market intelligence can be shared across the public sector.
- There is consistency in policy application, and improved contract management.

### Overview

During the era of fiscal expansion between 2000 and 2009, the emphasis was on staying within budget and meeting strategic plan targets. Achieving value for money and efficiency was less of a priority. The recession of 2007, with its effects still felt today, brought into sharp focus how public sector SCM can be used to reduce costs and ensure sustained quality service delivery. Centralised public procurement, a key part of this, provides government with such an opportunity to reduce costs and increase value.

*Centralised procurement creates opportunities to reduce costs and increase value*

Over the next three years, government will accelerate the centralisation of common goods and services, and will also do so for goods and services that are unique to but commonly used within specific sectors. Effective public sector procurement of high value goods and services will be

significantly enhanced through the OCPO's direct supervision of bidding processes.

Centralised procurement of goods and services will be implemented in a manner that promotes regional and local economies.

## ■ **The procurement process: transversal contracts**

The procurement process for these contracts is conducted through a multi-disciplinary approach and involves stakeholders with a direct interest in the contracts. The bidding process for the contracts is finalised nationally through the OCPO.

*Central contracts will be compulsory*

Government institutions will continue to enter into contracts with service providers, but where a national or provincial transversal contract exists for common goods and services they must limit themselves to suppliers from the nationally-agreed list.

For goods and services that are frequently required within a province and that are not covered by the national system of transversal contracts, provincial treasuries will develop lists of approved suppliers and facilitate transversal contracts for provincial institutions: provincial departments, provincial public entities, municipalities and municipal entities within the province's jurisdiction. However, these contracts must not duplicate national transversal contracts.

The following are key success factors in any centrally negotiated contract:

- Departments affected by the contract must be consulted during its initiation phase. This is to ensure that the item to be procured meets the users' needs.
- To ensure that the user organisation receives maximum value and that goods and services are delivered on time, at the right price and of the right quality and quantity, there must be a good understanding of the market.
- Sufficient staff with experience in the sector are in place to ensure proper alignment between what is purchased and what is needed.
- Strong relationships exist with suppliers.
- There is continuous monitoring of market conditions to ensure that government continues to obtain good value in a changing environment.

***The responsibility for centralised procurement lies with a number of parties***

- In collaboration with departments, the OCPO sets policy and associated targets and identifies common goods.
- Departments are mandated to commit expenditure to the centralised contracts, and are required to report monthly on progress against targets.
- The OCPO facilitates the bidding process through cross-functional bidding teams consisting of duly appointed and delegated representatives of various government institutions.
- The OCPO ensures that relevant and applicable SCM prescripts are observed and that due process is followed during the entire bidding process. The decision to award or not to award a tender is jointly taken at a properly constituted meeting of the relevant bid committees.
- Once a central contract is finalized, the OCPO sends information on the successful suppliers, prices, contract terms and conditions, to all participating government institutions, and also publishes it on the National Treasury website. Participating institutions are responsible for contract management, placing purchase orders against the transversal contract, paying suppliers for goods delivered satisfactorily according to the terms of the contract, monitoring and reporting supplier performance, receiving goods and services and inventory management. The OCPO administers the contract post-award, takes corrective action for reported poor supplier performance, monitors and intervenes where institutions fail to pay suppliers on time, monitors non-compliance with the transversal contracts, effects contract price adjustments as stipulated in the contract and, where necessary, manages the process to extend contracts through the relevant bid committee.

Weaknesses in implementing centrally negotiated contracts have meant that departments' expectations have not always been met. The OCPO is therefore strengthening its capacity to manage these contracts. It is doing this by:

- Realigning existing capacity to ensure that all the requirements above are satisfied.
- Managing transversal contracts through greater automation and e-procurement and thus speeding up the bids process.
- Ensuring that the web interface enables departments to make transactions on negotiated contracts easily.
- Improving data management to facilitate better market intelligence and supplier management.

## **■ The current scope of transversal contracting**

Transversal contracting is an important instrument enabling government at all levels to purchase goods and services from a central list of approved suppliers who have been vetted for cost and quality. The OCPO manages such a list, currently made up of 37 contracts covering more than 8 000 line items with an estimated annual value of over R16 billion. The table below shows the present contract list.

Contract Number	Contract Description
RT62-2010CV	Maintenance and administration of the subsidized vehicle fleet
RT57-2014	Supply of motor vehicles
RT46-2014	Fleet vehicle maintenance for pool vehicles
RT68-2010CV	Financing of subsidised vehicles
RT58-2012CV	Insurance for subsidised vehicles
RT69-2013CV	Supply, delivery, fitment and balancing of tyres and tubes
RT23-2013CV	Supply of lubricating oil
RT8-2013CP	Transportation of cargo and furniture relocation services
RT61-2014CP	Rental of aircraft and helicopters
RT5-2013CP	Courier services
RT79-2012CP	National aero-medical service
RT70-2010CV	Petrol, diesel, aviation fuel, paraffin, avgas and HFO
Contract Number	Contract Description
RT152-2013MF	Photographic, micrographic reproduction material and video tapes
RT50-2013CV	Supply of industrial compressed gases, bulk gases, specialty gases, medical compressed gases and LPG
RT4-2013ME	Supply of ambulance and emergency rescue equipment
RT24-2013ME	Supply of hospital ward and theatre furniture
RT72-2011CP	Supply of medical oxygen to home based patients
RT252-2013ME	Supply of surgical instruments
RT21-2013ME	Supply of radiographic material
RT302-2012MF	Surgical sutures and ligatures
RT13-2013ME	Supply of respiratory aids
RT287-2012ME	Supply of dental instruments
RT296-2012ME	Supply of dental materials
RT233-2012ME	Supply of wheelchairs
RT274-2012ME	Supply of hearing aids and accessories
Contract Number	Contract Description
RT59-2014T	Supply of footwear
RT60-2014T	Supply of fabric, towelling and towels
RT26-2014T	Supply of blankets, sheets and pillowcases
RT64-2014	Supply of clothing, uniforms, rescue related clothing and underwear
Contract Number	Contract Description
RT12-2013R	Supply of pesticides, dipping material and herbicides
RT3-2012R	Supply of office equipment & labour saving devices
RT11-2013	Supply of animal feed
RT16-2010R	Supply of fertilizers
RT9-2011R	Supply of infant feed, complete enteral feeds for paediatrics and adults, enteral feed supplements, other nutritional supplements and tube feeding systems
RT14-2012R	Supply of toilet paper; paper towels and related items
RT74-2012CP	Supply of prefabricated steel shelving
RT1-2014	Supply of school furniture

## ■ The expansion of nationally negotiated contracts

The list of nationally negotiated contracts will be expanded over the next three years. The chapter on strategic sourcing highlights the research work currently underway to identify goods and services to be purchased centrally.

### ***New potential contracts to be negotiated centrally over the next three years***

- *Banking services:* currently, four major banks provide banking services to over 660 government entities. The system is fragmented, with high transaction costs for banks and government. A feasibility study is underway to assess the cost and benefits of negotiating banking services centrally.
- *ICT infrastructure and services, desktops and laptops:* procurement of these items is vested with the SITA, which is currently implementing a procurement improvement plan to reduce leakage and increase value for government. The OCPO is improving specifications for government's ICT requirements. Currently, government spends R10 billion on ICT annually.
- *Professional services and other consultancy services:* a process is underway to procure audit and financial management consulting services centrally. The next phase will involve procuring construction consulting services centrally. Currently, government spends R12 billion on consulting services annually.
- *Security services, physical security and access control:* government spends R3.5 billion on highly fragmented security related services annually.
- *Air travel and hotel accommodation:* research into travel and accommodation services has been concluded. Information about how these services are to be managed will be released soon. Currently, government spends R5 billion annually on these services.
- *In the education sector, school textbooks and stationery:* research work involving a strategic sourcing methodology is currently underway for implementation on 1 January 2016.
- *Health technology, research:* work has been commenced with to identify opportunities in the health care equipment.
- *Leasing and accommodation:* the Department of Public Works currently manages the property portfolio on behalf of national government. Through GIAMA it sets norms and standards for asset management. The newly established State Property Management Agency will work out a strategy to manage government's entire property portfolio.
- *Telecommunications:* government currently spends R3.2 billion on telephony. R2.4 billion of that is on fixed line telephony and R800 million on mobile. Discussion with the mobile industry is underway about options for better managing government's mobile communications. Research on fixed line communication is also underway.

### **■ Benefits of centralizing the procurement of common goods and services (transversal contracting)**

Over the years, transversal contracting for common goods and services has saved government significant sums. The table below shows savings derived from the motor vehicle contract in 2012/13. These range from 3 per cent on the normal purchase price of a mini bus 2.5 to a striking 42 per cent on a sedan 1.8. Similar savings are being achieved with the 2014/15 contract cycle.

**Table 1: Average prices per vehicle category for the 2012/13 transversal contract cycle**

Category of vehicles	Average retail price (per vehicle) (R)	Average contract price (per vehicle) (R)	Average percentage difference
Light commercial vehicle 1.6	186 400	166 400	11%
Light commercial vehicle 1.8	156 000	144 587	7%
Light commercial vehicle 2.0	330 700	259 000	22%
Light commercial vehicle 2.2.	288 200	274 000	5%
Light commercial vehicle 2.5	352 900	259 820	26%
Light commercial vehicle 2.7.	326 800	308 112	6%
Light commercial vehicle 3.0	431 300	268 989	38%
Light commercial vehicle 4.0	466 300	426 390	9%
Sedan 1.4	203 200	133 200	34%
Sedan 1.6	246 000	170 000	31%
Sedan 1.8	479 900	277 800	42%
Sedan 2.0	267 800	254 000	5%
Luxury vehicle 1.8	408 725	394 000	4%
Luxury vehicle 2.0	424 940	388 820	9%
Luxury vehicle 3.0	501 170	458 570	9%
SUV 2.0	297 990	233 492	22%
SUV 2.4	622 990	423 663	32%
SUV 2.5	772 130	624 947	19%
SUV 3.0	471 700	391 025	17%
SUV 4.0	480 600	427 000	11%
Bus 50 seater	512 -086	468 000	9%
Bus 60 seater	967 300	887 000	8%
Mini bus 2.5	408 300	394 600	3%
Mini bust 2.7	394 600	330 700	16%%
Trucks 8 ton	589 750	490 000	17%
Trucks 10 ton	416 000	376 000	10%

As well as such savings, there are other benefits in expanding the scope of centrally-negotiated contracts:

- Elimination of unnecessary duplication; rationalisation of procurement; reduced leakage; better utilisation of scarce procurement skills.
- Reduction in the administrative burden for suppliers.
- Establishment of long term supplier relationships and certainty in the market place.
- Sharing of market intelligence across government.
- Consistency in policy application.
- Improved contract management.

## Conclusion

Centralized procurement will improve administrative efficiency and the effectiveness of procurement within the public sector by ensuring standardization of systems.

# 7

## Supply Chain Management capacity development

### In brief

- A well-performing SCM function is critical to achieving the strategic objectives and goals of any government institution.
- An effective procurement system requires skilled, ethical and professional people within appropriate structures who actively engage in continuous improvement, innovation and learning, and who are supported by good leadership, oversight and governance.
- The current maturity of supply chain environments are at a compliance and control level indicative of an environment that has not progressed to higher levels of maturity where measurement, performance, outcomes, impact, learning, and continuous improvement are the norm.
- The capacity development strategy for public financial management provides a national systematic approach to developing SCM capacity that is both integrated and sustainable. This strategy will be implemented in close collaboration with the National School of Government.
- The capacity development strategy aims to: support the development of an enabling environment; develop and enhance organisational capacity; develop and empower a corps of competent and committed employees; and develop an environment that enables and sustains mutually beneficial stakeholder relationships.

### Overview

A fair, equitable, transparent, competitive and cost-effective SCM system needs competent, objective and impartial people to run it. As in the private sector, public sector SCM must be seen as a strategic function. To realise the objectives of the Constitution, South Africa's government departments, trading entities and constitutional institutions need public servants who:

- are able to use and maintain appropriate SCM systems;
- have the knowledge, skills and attributes required to carry out their work efficiently and effectively;

*Competent, objective and impartial people are key to successful SCM*

- work in SCM structures that can achieve their operational and strategic goals, using up-to-date procurement systems, policies, procedures, processes and controls;
- have good executive and administrative leadership skills, perform effective oversight and achieve good governance;
- subscribe to a code of ethics and professionalism that is beyond reproach;
- are actively involved in continuous improvement, innovation, learning and problem solving; and
- are able to establish sustainable partnerships with relevant stakeholders.

At present, SCM skill levels and knowledge are lower in the public sector than in the private sector. There are a number of reasons for this:

- There is competition for skilled SCM staff between the public and private sectors.
- The public sector does not sufficiently regard SCM as a strategic function.
- The negative image of public sector SCM makes it difficult to attract the right skills.
- Institutional cultures need to change in order to attract, develop and retain talent, and offer attractive and appropriate career paths.

## Supply chain management is a strategic function

*SCM is key to achieving government's strategic objectives*

Government is the single biggest spender in South Africa and must promote good financial management in order to maximise delivery through the efficient and effective use of limited resources. A well-performing SCM function is therefore critical to achieving the strategic objectives and goals of any government institution.

Accounting officers/authorities are responsible for developing and implementing appropriate SCM systems. This requires that SCM is practiced and applied at a strategic, executive and management level. Senior management must translate their strategies into demand plans and identify sourcing strategies that are responsive to market and supplier analysis whilst simultaneously achieving government's policy objectives. Management must manage contracts, service level agreements and supplier performance in order to contain costs and ensure value for money.

The accounting officer/authority must ensure that the SCM function is adequately staffed with appropriately qualified and competent professionals able to support management in achieving the organisational mandate, strategy and goals.

*Investment in SCM capability is key to creating value*

Government institutions currently invest 1 per cent of the budget for compensation of employees in the development of human resources. In contrast, leading private sector companies investing between 6 and 8 per cent in SCM human resource development.

## Supply chain management maturity

The Financial Management Capability Maturity Model includes the SCM module.

*Currently, the focus is too much on compliance and insufficiently on value*

LEVEL		DESCRIPTION
6	OPTIMISING	Continuous learning and improvement
5	MANAGED	Use of resources with effective results
4	INFORMATION	Measuring how resources are used
3	CONTROL	2.8 Focus on compliance and control
2	DEVELOPMENT	Proper internal control framework
1	START-UP	No proper internal control framework

The illustration above shows the different levels of financial management capability maturity. Aggregated information from provincial and national government shows that departments are performing at a control level of 2.8. This indicates an environment that is focused on compliance and control and that has not moved to higher levels of maturity where measurement, performance, outcomes, impact, learning, and continuous improvement are prioritised.

The maturity results are confirmed by findings of the Auditor-General and the National Planning Commission that highlight the unevenness in state capacity, leadership instability, skills deficit, erosion of accountability and authority, poor organisational design, inappropriate staffing and low staff morale.

Research by National Treasury in 2010 indicated that 36 per cent of SCM posts were vacant and that the rate of staff turnover was 14.6 months.

## Common supply chain management errors

Public SCM performance is weakened by institutional practices which include the following:

- Poor alignment between strategy, demand management and SCM planning.
- Poor decision-making about sourcing strategies.
- Lack of aggregation of procurement transactions.
- Poor bid specifications.
- Improper bid evaluation and adjudication.
- Poor contract management.
- Insufficient supplier performance management.

These weaknesses are being addressed through advisory and operations support services and through education and training. Toolkits and training are being developed and delivered to improve capabilities in demand management, strategic sourcing, procurement planning, bid specification

*Interventions in a number of critical areas are needed in order to speed up delivery and increase value*

writing, managing the bid committee system, avoiding bid rigging, and contract management.

## ■ The Capacity Development Strategy

The capacity development strategy provides a national, systemic and proactive approach to developing SCM capacity that is both integrated and sustainable. It seeks to coordinate previous, current and new capacity development initiatives.

The strategy includes four interrelated capacity ‘pillars’: institutional, organisational, individual and stakeholder. The pillars are underpinned by change management and leadership; monitoring and evaluation, and exist within a broader external environment.

The integrated capacity development framework forms a comprehensive approach to SCM capacity development. Figure 1 represents the framework.

**Figure 1: The integrated capacity development framework**



*The integrated capacity development strategy has four ‘pillars’*

The strategy lays out long-term goals, provides a framework for actions to strengthen institutional, organisational, individual and stakeholder capacity; gives direction about the roles, responsibilities and accountability for implementing the strategy; and creates a system for monitoring and evaluating SCM capacity development.

The SCM capacity development strategy has four objectives:

- To support the development of an enabling environment.
- To develop and enhance organisational capacity.
- To develop and empower a corps of competent and committed employees.
- To develop an environment that enables and sustains mutually beneficial stakeholder relationships.

These four strategic objectives apply to all aspects of capacity development covered in the framework, and help to shape its implementation.

Partnership with the private sector and with other South African organisations will be critical in building the state's SCM capabilities. Tertiary institutions will assist government in the transition to developing fully professionalised SCM public servants. This will include rapid short-term intervention programmes as well as long-term career pathing.

*Building capacity through partnerships with the private sector and SA's higher learning institutions is essential to improving public sector SCM*

## ■ Achieving the four SCM capacity development strategic objectives

### *Creating an enabling institutional environment*

The institutional environment refers to the governance, legislative and policy frameworks which affect, influence, govern and regulate the public sector. Key to an enabling institutional environment for public sector SCM capacity development is:

*Institutional development is important for sustainability in public sector SCM capacity development*

- Organisational and HR-related policies, norms, standards, frameworks and guidelines.
- Generic SCM functional structures.
- An SCM human capital development framework that addresses career management.
- An SCM education, training and development (ETD) delivery framework which directs and coordinates the development and delivery of SCM ETD nationally.
- Knowledge and information management systems which support the creation of a learning environment.
- Professionalising SCM by developing and providing appropriate and recognised qualifications and introducing professional designations.
- A national SCM competency framework that defines the minimum knowledge and skills required.
- Aligning the public sector's needs and the supply of skilled SCM professionals. A nationally-led talent management plan is being developed to improve this supply; evidence of this is the emphasis on ETD and related activities referred to above.

### *Developing and enhancing organisational capacity*

Organisational capacity includes all of the factors that enable an organisation to carry out its work. If the internal environment enables it to perform effectively, this indicates organisational capacity.

*Internal environment must contribute to organisational capacity*

The internal environment includes factors that can either improve or hold back organisational performance. These include organisational design and development, culture, climate, leadership, resources, infrastructure, policies, processes, procedures, delegation frameworks, management systems and technology. All of these factors directly and indirectly affect

people's behaviour and their engagement with their work and with the organisation.

Developing and enhancing an organisation's SCM capacity includes improving the design of its SCM, performance measurement and human resource systems and its related organisational structures.

*Developing and empowering a sustainable; competent and committed employees*

*To achieve organisational SCM competence, it is essential to invest in people*

Individual capacity is the foundation of organisational capacity which is made up of employees' knowledge, skills, competence, behaviours, commitment, experience, attitudes and values. These are developed through formal, non-formal and informal learning and are increased through education, work readiness, staff profiling, performance agreements, recognition and rewards, learning frameworks, skills programmes and other methods.

Successful individual SCM capacity development must be holistic and must develop the skills and knowledge needed to understand and manage demand, acquisitions, contracts, suppliers, logistics, disposals and risk, and to assess supply chain performance. Key activities to develop and empower competent and committed SCM employees include:

- Promoting informal and formal workplace learning.
- Promoting workplace coaching and mentoring.
- Supporting the development and delivery of ETD programmes:
  - ✓ SCM qualifications in collaboration with organisations such as the Council on Higher Education and related learning institutions.
  - ✓ SCM occupational qualifications in collaboration with the Quality Council for Trades and Occupations and related learning institutions.
  - ✓ SCM training programmes, including skills programmes and registered unit standards.
  - ✓ SCM learnerships leading to the Certificate in Supply Chain Management with public sector electives.
  - ✓ SCM internship programmes.
  - ✓ SCM executive development programmes.
  - ✓ Continuing professional development programmes including seminars, conferences, breakfasts and colloquiums.

*Developing an environment that enables and sustains mutually beneficial stakeholder relationships*

*Invest in stakeholder relationships*

Sustainable public sector SCM capacity development requires formal and informal partnerships with multiple stakeholders who can contribute to, enable and support strategy implementation. Stakeholders include any internal or external individual or entity with an interest in the impact or implementation of public SCM. In various ways, they include government

departments, educational institutions, educational bodies, professional bodies, service providers, employees and learners.

## ■ **Public sector SCM capacity development initiatives underway**

To support the development of individual and organisational SCM capacity, the National Treasury is currently engaged in the following activities:

- Development and implementation of generic functional structures for CFOs' offices and for provincial treasury SCM support functions.
- Development and implementation of an SCM competency framework that defines the knowledge and skills required to operate effectively within an SCM unit.
- Development of an SCM master curriculum. This has been completed, and aims to inform the design and development of SCM education and training aligned to the specific needs of the public sector. The OCPO has engaged tertiary and other learning institutions so that the curriculum can be phased-in from 2015 onwards. These institutions will also provide structured training programmes for senior supply chain practitioners and for accounting officers and authorities without SCM qualifications.
- Development of an individual skills development assessment toolkit to help individuals and institutions to identify their SCM human resource development needs.
- Development of an SCM certificate learnership programme to provide SCM practitioners with a qualification. The programme is being piloted in two provinces, involving 40 learners.
- Development and delivery of a range of priority training programmes including:
  - ✓ Combatting bid rigging
  - ✓ Preferential procurement and local content
  - ✓ Strategic sourcing
  - ✓ Disposal management
- The following priority programmes will be developed in the next financial year:
  - ✓ Executive development: SCM for Accounting Officers
  - ✓ Procurement planning
  - ✓ Bid specification writing
  - ✓ Bid adjudication committee

## **Conclusion**

The public sector SCM capacity development strategy is part of the overall national capacity development strategy for public financial management which, successfully implemented, will be key to achieving improved service delivery and a better life for all.

The strategy provides a holistic, integrated, government-wide intervention to address the challenges facing the public service in respect of SCM.

# 8

## ICT Systems – value for Supply Chain Management

### In brief

- Different SCM systems are currently used in the public sector and result in fragmented data, inconsistent processes, varying compliance levels and ineffective results.
- Limited information is available on the efficiency of SCM systems across spheres of government.
- The Integrated Financial Management System (IFMS) provides an opportunity to modernise SCM practise and increase efficiency.
- The current ICT infrastructure limits the potential to optimise how the SCM systems function.
- Technology provides the opportunity to accelerate innovation and optimisation of SCM.

### Overview

Electronic systems have great potential to increase the efficiency and effectiveness of government's spending. Presently, SCM is supported by a diversity of systems that vary in functionality, scope and efficiency. They are fragmented and under-utilised, and 45 per cent of total supply chain activities are conducted manually.

The absence of a uniform platform across the different spheres of government results in:

- Inconsistent supply chain data and business processes.
- An increased administrative burden for government and suppliers.
- Long lead times in evaluating, adjudicating, awarding and processing supply chain transactions.
- Increased risk of fraud, corruption and losses.

*A uniform SCM system for government is essential to optimise the efficiency of service delivery*

Modernising SCM through the smart use of ICT provides government with the opportunity to:

- Reduce the administrative burden for government and business.
- Improve consistent reporting of procurement information.
- Source strategically through better and intelligent analysis of procurement data.
- Efficiently monitor procurement patterns, contracts and prices.

**■ Procurement systems currently used by national and provincial departments, municipalities and public entities**

**National and provincial departments: Logistical Information System (LOGIS)**

*LOGIS is currently used as a procurement platform*

LOGIS is the system currently used by departments to procure, control and regulate optimal stock levels. It was developed in the mid-1990s and rolled out in the early 2000s. LOGIS enables departments to procure and manage their movable assets throughout the asset lifecycle while satisfying internal user demand. This results in logistics management functionality for users. LOGIS’ online interface with the Basic Accounting System (BAS) enables efficient payment processing and financial control.

**Table 8.1 LOGIS’ functionality**

• Procurement management	• Disposal management
• Requisition and provisioning management	• Inventory and store management
• Supplier and item management	• Real-time commitment and payment through BAS
• Contract management	• Infrastructure and security management
• Asset management	• Reporting

With the exception of the following departments, LOGIS has been fully implemented across national government:

- South African National Defence Force
- South African Police Service
- National Treasury (identified as a lead site for the IFMS *Procurement Management Module*, the National Treasury migrated from LOGIS in 2012/13. For more on the IFMS, see below.)
- State Security Agency
- Telecommunications and Postal Services
- Small Business Development (about to start implementation of LOGIS)

The table below shows the current utilisation of LOGIS by provincial departments.

**Table 8.2: Utilisation of LOGIS by provincial departments**

Province	Number of departments with LOGIS implemented	Departments currently implementing LOGIS	Departments not implementing LOGIS
Limpopo	-	3	7
Gauteng	-	-	12
Mpumalanga	10	-	1
Free State	12	-	-
North West	-	-	11
Northern Cape	12	-	-
Western Cape	13	-	-
Eastern Cape	11	-	2
KwaZulu-Natal	-	2	13
<b>TOTAL</b>	<b>58</b>	<b>5</b>	<b>46</b>

In the departments without LOGIS, one or more of 16 other systems including Intenda, Procure to Pay, Hardcat, ISP and SAP are used. This uneven use of ICT is difficult to manage and integrate. Creating a unified and mutually-intelligible system is therefore a priority.

### **Procurement systems currently used at local government level**

District and local municipalities and their entities currently do not have access to transversal systems (uniform systems across the entire sphere of government). Each has the discretion to use systems they deem appropriate. National Treasury research conducted in 2013 indicates that 13 different financial and procurement systems are currently used at local government level. These range from sophisticated Tier 1 products such as SAP and Oracle-based software to elementary MS Excel-based processes.

**Table 8.3: Demographics of the financial systems used by municipalities**

VENDOR	FINANCIAL SYSTEM	%	TOTAL	EC	FS	GP	KZN	LP	MP	NC	NW	WC	Secondary Cities	Metro	Total non-delegated
BCX	Venus	25	72	13	9	6	8	7	5	11	11	2	6	1	7
SEBATA	Sebata FMS	16	44	8	7	1	4	5	6	10	2	1			
BYTES	Samras DB4	12	33	6	3	0	6	0	0	4	1	13	1		1
CICS	Munsoft	11	32	3	1	0	12	7	8	1	0	0			
FUJITSU	Promis/Abacus	11	30	3	1	0	11	5	1	2	1	6	3		3
PASTEL	Pastel Evolution	10	27	2	3	1	12	3	0	0	6	0			
RDATA	Promun	6	16	8	0	0	0	0	0	2	0	6			
NONE	In house/Other	4	10	2	*1	0	1	2	1	1	1	1	1	2	3
QUILL	BIQ	2	6	0	0	4	0	0	0	1	1	0			
SAP	SAP	2	5	0	0	2	1	1	0	0	0	1		3	3
UFEZELE	Dolphin	2	5	0	0	0	5	0	0	0	0	0			
VESTA	Phoenix	1	3	0	0	0	1	0	0	0	2	0			
	<b>TOTAL</b>	<b>100</b>	<b>283</b>	<b>45</b>	<b>25</b>	<b>14</b>	<b>61</b>	<b>30</b>	<b>21</b>	<b>32</b>	<b>25</b>	<b>30</b>	<b>11</b>	<b>6</b>	<b>17</b>

### Procurement systems currently used by public entities

*Pockets of procurement innovation are visible amongst entities*

The SCM systems currently used by public entities tend to relate to their size and the nature of their business. Enterprise resource planning (ERP) systems, which consist of integrated software customised for the nature of the business, are commonly found in Schedule 2 entities such as the Airports Authority of South Africa (ACSA) and Transnet. These are listed in the PFMA, and include ERP systems to integrate an entity's SCM function with the rest of its business management processes. Among the entities, there are some relatively isolated pockets of SCM innovation. There is, however, little information about the entities' SCM performance is identified and reported on.

### Current status of ICT infrastructure

*ICT innovation is hampered by a lack of adequate connectivity*

Connectivity between government departments, local authorities and state-owned entities (SOEs) is essential for a well-functioning SCM system. Online transacting, SCM portals, tender platforms, e-auctions and e-procurement solutions all depend on stable connections with predictable bandwidth.

Currently, connectivity between national and provincial departments, and at local government level, is less than optimal. This delays transaction capturing and processing and negatively affects the ability to make well-informed SCM decisions. The table below shows the present connectivity and average bandwidth for national and provincial departments and municipalities.

**Table 8.4 Average connectivity and bandwidth per sphere of government**

Components	National	Provincial	Local
Bandwidth	1mb/sec	126kb/sec	56kb/sec
Connectivity	92%	74%	35%

## ■ Consequences of the lack of a uniform SCM system

### Data fragmentation

- Organisations, or groups of organisations such as departments or local authorities, do not have single data centres where SCM data is consolidated and which can then inform decisions about the purchase and use of common goods and about strategic sourcing. Nor can SCM efficiency be effectively measured.
- The absence of a central supplier database contributes to supplier proliferation and reduces the possibility of fair and transparent competition.
- Opportunities for uniformly automated procurement functionality across government are limited.
- It is difficult to create inter-database correlations and verifications with organisations such as SARS, the CIPC, the Department of Labour (DoL), the *dti* and the DPSA.
- SCM processes remain weakly integrated and automated.
- There is duplication of costs and effort, with multiple systems being set up for the same or similar government services.

### Inconsistent procedures

- Given the 36 different SCM solutions currently in use across government, it is not possible to implement standard, systems-driven operating procedures with a single interface.
- Internal controls are diluted if not applied consistently across all spheres of government. This contributes to the instances of noncompliance reported by the AGSA.
- Government accountability mechanisms are weakened.

### Cross-structure SCM performance measurement is impossible

- Measuring SCM improvement consistently across departments, municipalities and entities is not possible.

## ■ Towards the future: the IFMS and improved public SCM

The IFMS will replace the ageing, costly and disparate administration applications currently used by national and provincial government departments. It has been designed to coordinate and integrate functionality centrally; increase departments' efficiency, productivity and effectiveness

*The IFMS will replace legacy systems and provide a modern, stable transactional platform across spheres of government*

by improving access to information; improve the quality of data; eliminate system and resource duplication; and curtail manual processes.

The IFMS consists of four key interlinked modules: Human Resource Management, Supply Chain Management (which includes Inventory Management, Procurement Management, Asset Management and Catalogue Management), Financial Management (including General Ledger and Payroll) and Business Intelligence. A key purpose in introducing and implementing the IFMS is to make the administration of public resources more efficient and to free practitioners to focus on working strategically. It also enables resource planning and management across government.

The IFMS will replace PERSAL, BAS, LOGIS, Vulindlela and other legacy systems used at national and provincial government levels. The second phase of IFMS development, during which the Financial Management module will be introduced, is expected to start in March 2015 and to be rolled out fully by 2022.

By increasing SCM capability, the IFMS will assist government to:

*The IFMS will enable automation, standardisation and simplification, and improve SCM performance*

- Consolidate different systems at national and provincial government level into an integrated transactional application.
- Standardise the demand management, acquisition, asset management and disposal management functions within a coherent business process aligned with SCM policy; and will enable the application of standard operating procedures using common interfaces.
- Constantly improve business processes by capturing bench-marked good practise.
- Create and maintain a central supplier database where service providers who do business with government are registered and verified.

#### **CENTRAL SUPPLIER DATABASE DEVELOPMENT**

National Treasury has started to develop a system agnostic central supplier database that will be ready for implementation on 1 April 2015. The benefits of a CSD will be:

- Eliminate duplication of effort for suppliers doing business with government.
- Enables the automation of verification and validation of compliance requirements (Tax certificates, CIPC information, BEE certificates to name but a few).
- Enable supplier development for governments supply chains.
- Important step for automating SCM processes in government.

- Automate business processes through a phased introduction of e-procurement functionality. Manual processes will be eliminated as far as possible. As a result, procurement awards will be made more quickly.
- Integrate SCM processes with other financial management systems.

- Enhance SCM practitioner skills and reporting capability and thus improve transparency and timely SCM information. Learning strategies such as simulations will form part of continuous SCM practitioner development. The technology will enable compulsory updates or refresher courses.
- Generate and obtain regular and timely reports which are effectively distributed.
- Centralise SCM data and make data mining possible. This will assist government to identify trends, calculate costs accurately and improve planning and costing procedures when compiling departments', municipalities' and entities' budgets. Through common data architecture, the IFMS will enable analysis to improve decision making. Purchasing of common goods, strategic sourcing and responsive procurement will be informed by robust and reliable data.
- Make SCM performance information available.
- Simplify SCM processes. Interfaces with SARS, CIPC, DPSA and other organisations will enable validation processes specified in SCM policies and increase SCM efficiency. Currently, for example, a supplier needs to submit an original tax clearance certificate for each bid tendered for. The improved system will enable electronic validation of supplier tax compliance. Suppliers will also be able to register and maintain their details on a central supplier database, thus eliminating unnecessary effort and cost. Tender portals, e-procurement platforms and e-auctions will be among the options available to suppliers competing for government business.
- Manage security and user access control. Technology already makes it possible to verify bank accounts before payments are made; biometric systems increase the possibility of user access verification. The rollout of this functionality will significantly improve security, access control to SCM systems and the integrity of government's SCM operations.

## ■ Conclusion

Technological innovation gives government the opportunity to make great and continuous strides in modernising its processes. Mobile technology and smart devices will become commonly-used ways of connecting with government's SCM processes. The IFMS will provide functionality for e-procurement, planned for piloting in 2016. As this chapter indicates, these innovations will be followed by a wide range of benefits.

ICT systems enable SCM efficiency by reducing costs and effort. They transform procurement through automation, provide access to a wider range of suppliers and help to ensure fair and transparent competition.

*Investment in technology has the potential to improve SCM efficiency and effectiveness very considerably. ICT innovations support fair and transparent competition.*



# ANNEXURE A

## Glossary

### **80:20**

The 80/20 preference point evaluation system is applied in terms of the Preferential Procurement Policy Framework Act No.5 of 2000, for the acquisition of services, works or goods up to the Rand value threshold of R1 million through which the points for price is calculated to a maximum of 80 points, in respect of tenders (including price quotations) with a Rand value equal to, or above R30 000 and up to a Rand value of R1 000 000 (all applicable taxes included); and to calculate the points for preferences, with a maximum of 20 points, to a tenderer for attaining a B-BBEE status level of contribution based on its overall performance using the relevant scorecard contained in the Codes of Good Practice on Black Economic Empowerment, issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act, No 53 of 2003, with the points scored for price and preferences added together to indicate a winning tenderer.

### **90:10**

The 90/10 preference point evaluation system is applied in terms of the Preferential Procurement Policy Framework Act No.5 of 2000, for the acquisition of services, works or goods above the Rand value threshold of R1 million through which the points for price is calculated to a maximum of 90 points, in respect of tenders with a Rand value above R1 000 000 (all applicable taxes included); and to calculate the points for preferences, with a maximum of 10 points, to a tenderer for attaining a B-BBEE status level of contribution based on its overall performance using the relevant scorecard contained in the Codes of Good Practice on Black Economic Empowerment, issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act, No 53 of 2003, with the points scored for price and preferences added together to indicate a winning tenderer.

### **Central Supplier Database**

Database of all names of suppliers supplying different goods; services or works to a state institution maintained by the National Treasury.

<b>Designated Sectors</b>	A sector, sub-sector or industry that has been designated by the Department of Trade and Industry in line with national development and industrial policies for local production, where only locally produced/manufactured services, works or goods meet the stipulated minimum threshold for local production and content.
<b>National School of Government</b>	The National School of Government (NSG) replaces Public Administration Leadership and Management Academy (PALAMA)
<b>Public Financial Management Capacity Development Strategy</b>	The PFM capacity development strategy provides a national perspective to address capacity constraints and sets out four strategic objectives supported by key activities.
<b>Accounting Officers (AOs)</b>	Accounting Officers the terms used for Director Generals, Heads of Department, Chief Executive Officers accountable for the finances and operations of the government entity or department
<b>Basic Accounting System</b>	Basic Accounting System used in some of the government departments for reporting transactions against budgets and monitor expenditure.
<b>Bid Adjudication Committee (BAC)</b>	Appointed by the accounting officer to consider the reports and recommendations made by the evaluations committee. It approves specifications / terms of reference and conditions and the awarding of resultant in case of bids.
<b>Bid Evaluation Committee (BEC)</b>	Evaluates and verifies bids received in terms of specifications/ terms of reference and conditions. It also verifies and evaluates, capability of the bidder to execute contract. It also compiles a report to the Bid Adjudication Committee recommending a successful bidder.
<b>Bid Specification Committee (BSC)</b>	Compiles the specification/ Terms of Reference for the procurement of goods and services by the department or institution. It also verifies availability of funds prior initiating the procurement process. Determines the sourcing strategy, setting of conditions, determining evaluation criteria.
<b>Bid Specifications</b>	Drafted when an item must be procured. It must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services.

<b>Capacity Development</b>	A process, through which the ability of individuals, institutions and societies to perform functions, solve problems, and set and achieve objectives in a sustainable manner are obtained, strengthened, adapted and maintained over time.
<b>Construction Industry Development Board (CIDB) Act</b>	Construction Industry Development Board (CIDB) Act no 38 of 2000 that provides for the establishment of the Construction Industry Development Board to implement an integrated strategy for the reconstruction, growth and development of the construction industry.
<b>Contract</b>	Agreement that results from the acceptance of a tender by an organ of state.
<b>Financial Management Capability Maturity Model (FMCMM)</b>	The FMCMM is a tool used by National Treasury and Departments to evaluate and monitor government institutions financial, performance and compliance management.
<b>Functionality</b>	The measurement according to predetermined norms, as set out in the tender documents, of a service or commodity that is designed to be practical and useful, working or operating, taking into account, among other factors, the quality, reliability, viability and durability of a service and the technical capacity and ability of a tenderer.
<b>Infrastructure Delivery Management System (IDMS)</b>	Refers to the Infrastructure Delivery Management System, which is a standardised approach for planning, procurement, management and delivery of infrastructure aligned to South African legislation. It thus comprises a set of interrelating or interacting elements that establish processes for public sector infrastructure delivery and management.
<b>Instruction Note</b>	Supplementary legal notices that provide specific instructions on the application of rules and procedures.
<b>Local Content</b>	The portion of the tender price which is not included in the import content, provided that local manufacture does take place.
<b>Municipal Guidelines</b>	Procedural interpretations of regulations to provide proper application of the law.
<b>National Development Plan</b>	A planning framework prepared by the National Planning Commission that aims to eliminate poverty and reduce inequality by 2030.

<b>Norms and Standards</b>	Legal standards set to achieve an abiding set of behavioral norms to guide proper application of the law.
<b>O-CPO</b>	Office of the Chief Procurement Officer within the National Treasury, replace the Specialists Functions that dealt with Supply Chain Management.
<b>Price</b>	The price that is only subject to adjustments in accordance with the actual increase or decrease resulting from the change, imposition, or abolition of customs or excise duty and any other duty, levy, or tax, which in terms of the law or regulations, is binding on the contractor and demonstrably has an influence on the price of any supplies, or rendering costs of services for the execution of the contract.
<b>Procurement</b>	The act of buying goods, services and works through a regulated supply chain process that covers the processing of a demand up unto receipt of the requirement and approval of the payment at the end.
<b>Professionalization</b>	In this context, professionalisation refers to the process of developing the knowledge, skills and experience required for officials to be qualified and recognized as professionals in the field.
<b>Public Finance Management Act (PFMA)</b>	The act regulating financial management of national and provincial government, including efficiency and effectiveness of the public expenditure and the responsibilities of those engaging with government financial management.
<b>SCM Capability Maturity Model</b>	A component of the FMCMM that assesses the SCM capability within an organization
<b>SCM Master Learning Curriculum</b>	The SCM Master Learning Curriculum identifies and outlines the totality, sequence and series of required learning experiences or opportunities in public sector SCM, enabling state institutions to channel resources into the areas where they will contribute the most to employee development, and enhance morale and organisational performance.
<b>SCM Treasury Regulations</b>	The regulatory framework for the application of the supply chain management policy in government.

**Service Level Agreement (SLA)**

A Service Level Agreement is a document that is used to define the level of a service that exists between a service provider and a customer.

The agreement is generally expressed in simple language so that it can be clearly understood by the customer. The document may also include more technical terms for defining the service. The Service Level Agreement is often part of a wider service contract. A Service Level Agreement can either be an informal contract between parties or a legally binding contract. The SLA may address several areas including the availability of the service, the performance of the service, how it will operate, priorities, and responsibilities of involved parties, guarantees and warranties. As well as defining key areas, the Service Level Agreement may also specify a level of service, including targets and a minimum level that can be reached (SLA Template.com, 2014).

**Supply Chain Management**

The design, planning, execution, control and monitoring of supply chain activities in the delivery of goods or services, with the objective of creating net value and providing oversight and co-ordination of information and finances within the supply chain.

**TCO**

Encompasses the total life cycle cost associated with goods and services from initiation/development to disposal/ need fulfillment. When incorporated in any financial benefit analysis it provides a cost basis for determining and understanding the direct and indirect costs drivers contributing to the overall spend.

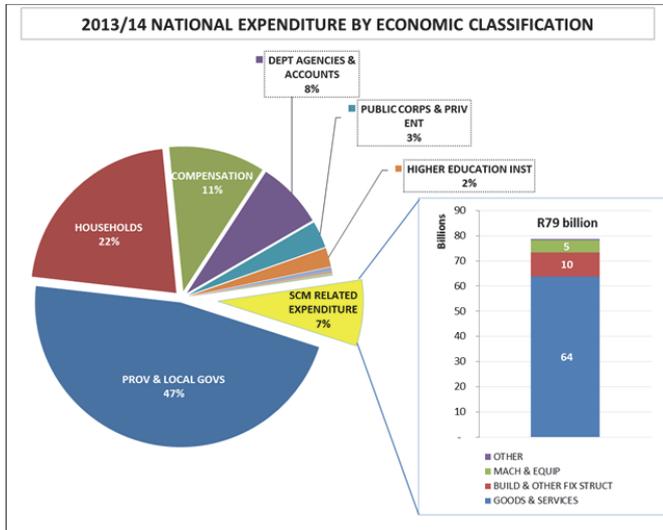


# Abbreviations

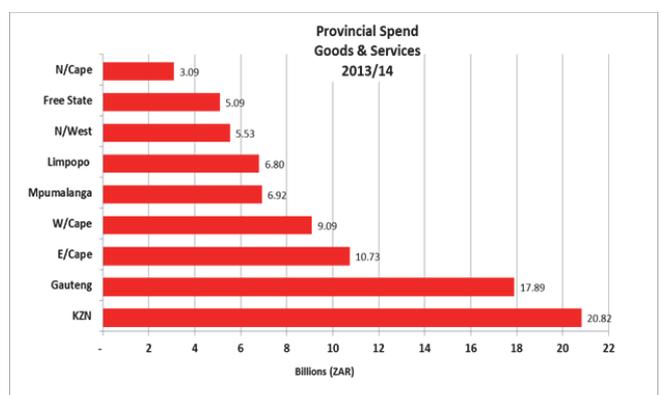
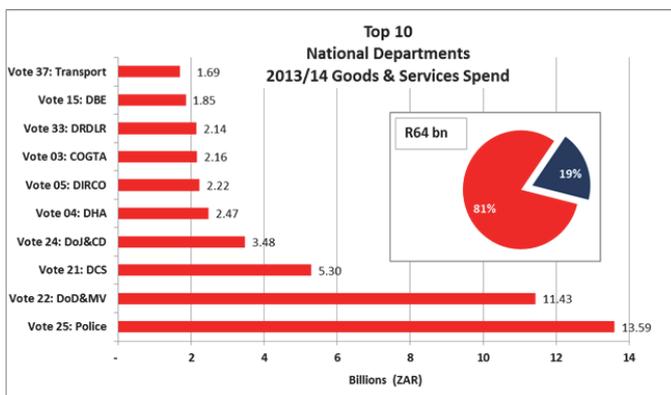
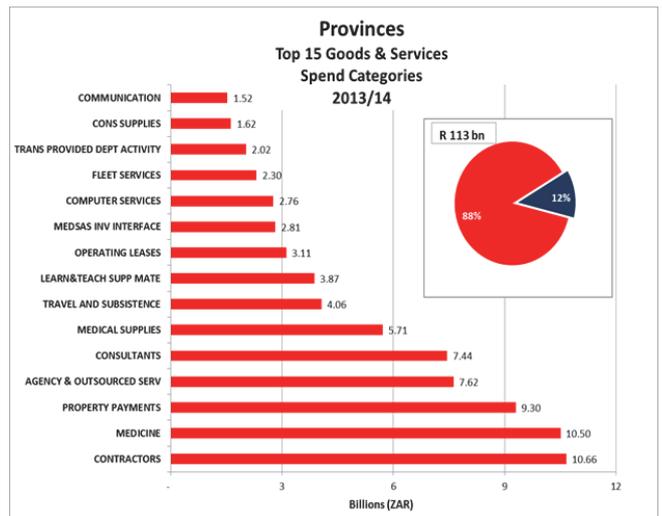
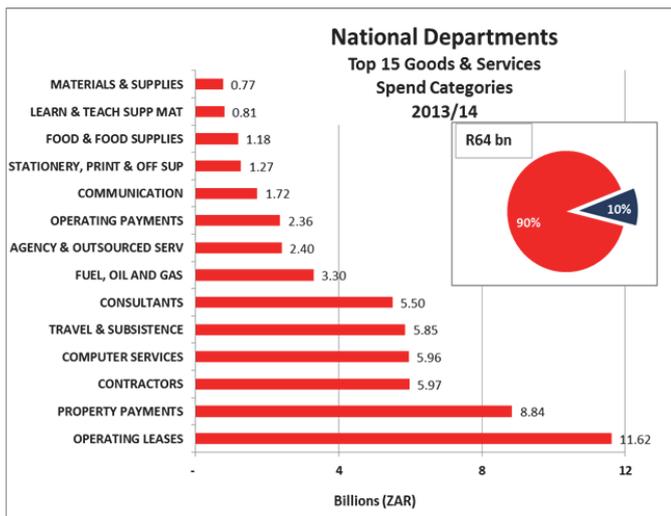
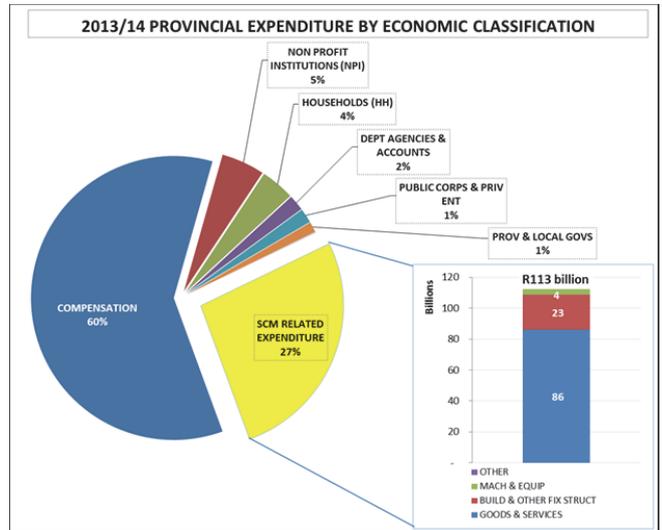
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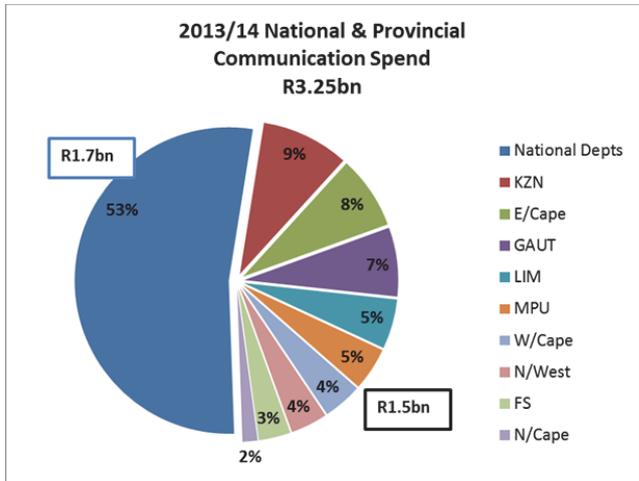
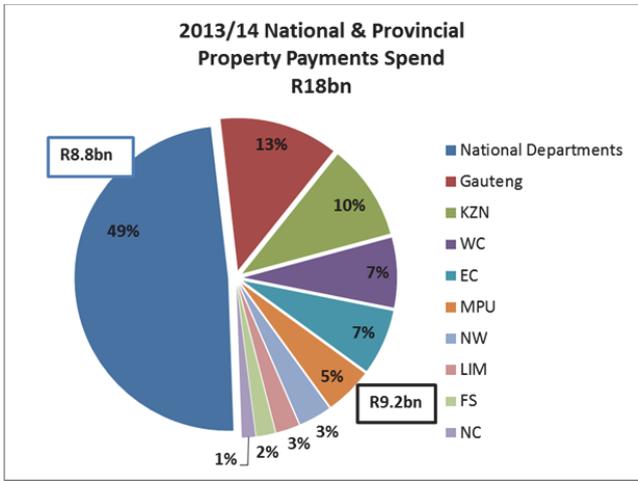
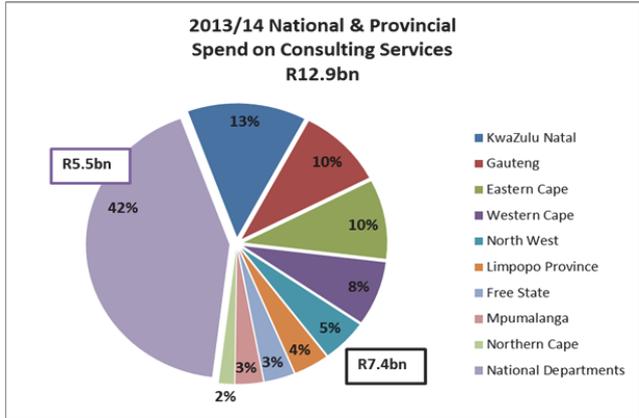
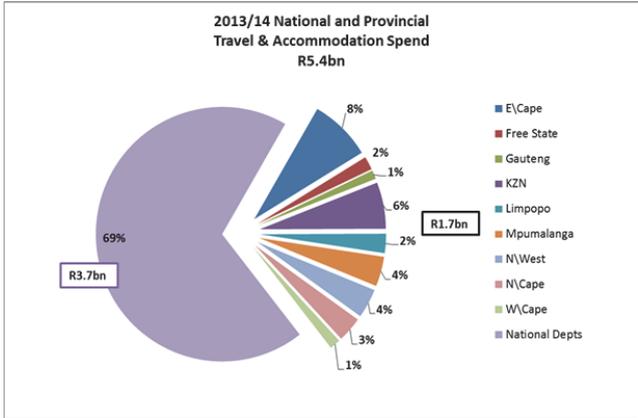
ACSA	Airports Company of South Africa
AGSA	Auditor-General of South Africa
BAC	Bid adjudication committee
BAS	Basic Accounting System
BEC	Bid evaluation committee
CBE	Council for the Built Environment
CC	Competition Commission
CFO	Chief Financial Officer
CIDB	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
CPO	Chief Procurement Officer
DM	District Municipality
DoL	Department of Labour
DPC	Directorate for Priority Crime Investigation
DPSA	Department of Public Service and Administration
Dti	Department of Trade and Industry
ECSA	Engineering Council of South Africa
ETD	Education, training and development
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FS	Free State
GIAMA	Government-wide Immovable Asset Management Act No. 19 of 2007
ICT	Information and communications technology
IDMS	Infrastructure delivery management system
IFMS	Integrated financial management system
IPID	Independent Police Investigative Directorate
LOGIS	Logistical Information System
LOGIS	Logistical Information System
LTSM	Learner and teacher support materials
MFMA	Municipal Finance Management Act
NDP	National Development Plan
NERSA	National Energy Regulator of South Africa
NHBRC	National Home Builders Registration Council
NPA	National Prosecuting Authority
NPC	National Planning Commission
O-CPO	Office of the Chief Procurement Officer
PFMA	Public Finance Management Act
PP	Public Protector
PPPFA	Preferential Procurement Policy Framework Act
PSC	Public Service Commission
RT	Republic Tender (RT) used for Transversal Contracts reference
SAPS	South African Police Service
SARS	South African Revenue Service
SCM	Supply chain management
SITA	State Information Technology Agency
SIU	Special Investigating Unit
SOE	State-owned entity

## NATIONAL EXPENDITURE BY ECONOMIC CLASSIFICATION



## PROVINCIAL EXPENDITURE BY ECONOMIC CLASSIFICATION















*2015* **PUBLIC SECTOR  
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