



The Chartered Institute of Government Finance, Audit & Risk Officers (CIGFARO) in Collaboration with the CFO Foundation and the South African Local Government Association (SALGA) presents:

THE LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT CAPACITY BUILDING PROGRAMME

Key Fundamentals of Municipal Supply Chain
Management & Procurement Processes

>>



The discussion will cover the elements of LG SCM

- Demand Management
- Acquisition Management
- Logistics Management
- Contracts Management

Concept of SCM

SCM involves the management of **working capital** that is invested in **goods, stores and services** with the objective of optimising the **economic return** on such investment. The process begins when the needs are identified during the strategic planning phase of the organisation when service delivery targets are identified, to the point of finally disposing of an asset. – ADM SOP, 2020



The importance of SCM processes

Adverse effects of poor supply chain management processes include, but are not limited to:

- partial or complete service delivery failure;
- provision of goods and/or services not in line with the specifications;
- poor supplier, buyer or other stakeholder relations;
- legal costs flowing from long drawn-out legal disputes;
- adverse audit findings and associated fruitless and wasteful, unauthorised and irregular expenditure;
- negative public perceptions of service delivery; and
- cost overruns and late delivery.

Objective of SCM

The Municipal Supply Chain Management Regulations form the backbone of SCM in local government. It gives guidelines on all the elements that are associated with the practises of SCM. It addresses the following aspects:

- Establishment and implementation of SCM policies;
- Framework for SCM policies;
- Demand management;
- Acquisitioning management;
- Logistics, disposal, risk and performance management;

Other matters such as –

- i. tax matters;
- ii. persons in service of the State;
- iii. ethical standards;
- iv. rewards and gifts; and
- v. disputes, objections and complaints.

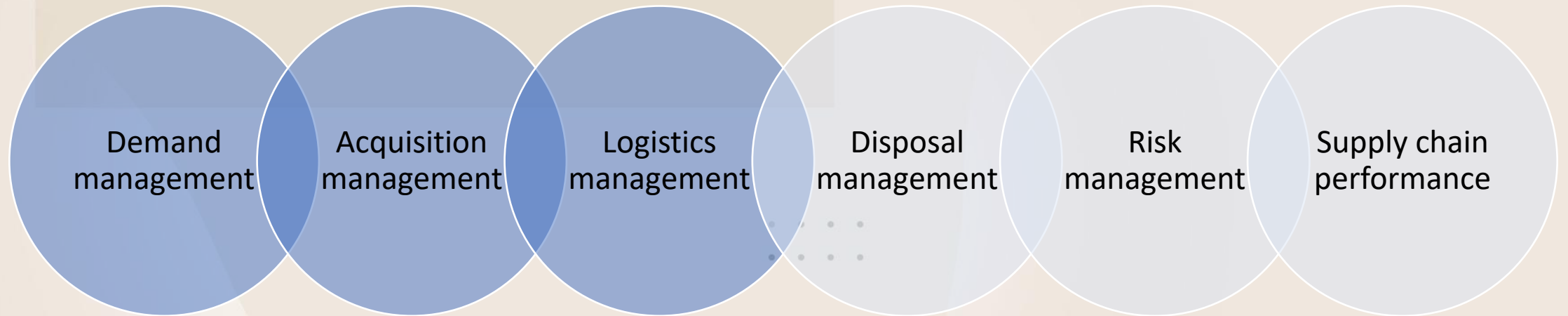
It is important that the above regulations be read with the following circulars:

a) Code of Conduct for Supply Chain Management practitioners and other role players;

and

b) The various MFMA circulars for SCM practices published by National Treasury.

Procurement Cycle



5 Principles of Procurement

Value for money

The term “value for **money**” includes the monetary value as well as the **quality** and the utilisation of the **procurement system** to achieve government’s policy objectives.

- quality of goods / services required;
- the time to administrate the process; and
- the cost effectiveness of the ensuing contracts

Open and effective competition

The pillar of public sector procurement requires the following:

- a framework of procurement laws, policies, practices and procedures that is **transparent**;
- **openness** in the procurement process;
- encouragement of effective **competition** through procurement methods suited to market circumstances; and
- observance of the provisions of the **PPPFA**

5 Principles of Procurement

Ethics and fair dealing

All parties involved in procurement should comply with the following ethical standards:

- deal with each other on a basis of **mutual trust** and **respect**; and
- conduct their business in a **fair** and **reasonable** manner and with **integrity**

Accountability and reporting

This involves ensuring that individuals and organisations are answerable for their plans, actions and outcomes. Openness and transparency in administration, by external scrutiny through public reporting, is an essential element of accountability



Equity

The word “equity” in the context of the five pillars of public sector procurement means the application and observance of government policies that are designed to **advance persons or categories of persons disadvantaged by unfair discrimination**. No public procurement system should be operated if it is not founded on this pillar.

Demand Management

This is the beginning of the supply chain, and must begin with a needs assessment, to ensure:

- that goods or services are required in order to deliver the agreed service;
- that specifications are precisely determined;
- that requirements are linked to the budget



SCM practitioner - End user

- ✓ correct time
- ✓ right price
- ✓ right location
- ✓ quantity
- ✓ quality

Demand Management

when demand management goes wrong...

getting demand management right...

- Understand what you are buying
- Understand the utilization of what you are buying – *e.g. avoid issues of obsolete stock*
- Understand the market – *yours and the supplier*

Acquisition Management

This refers to the management of procurement by a municipality.

- decide on the manner in which the market will be approached;
- establish the total cost of ownership of a particular type of asset;
- ensure that bid documentation is complete, including evaluation criteria;
- evaluate bids in accordance with published criteria; and
- ensure that proper contract documents are signed.

Acquisition Management

when acquisition management goes wrong...

- Delays in receiving services / product – extensions – remember NT regulations on extensions
- Service interruption
- Litigation
- Re-issuing of tenders

getting acquisition management right...

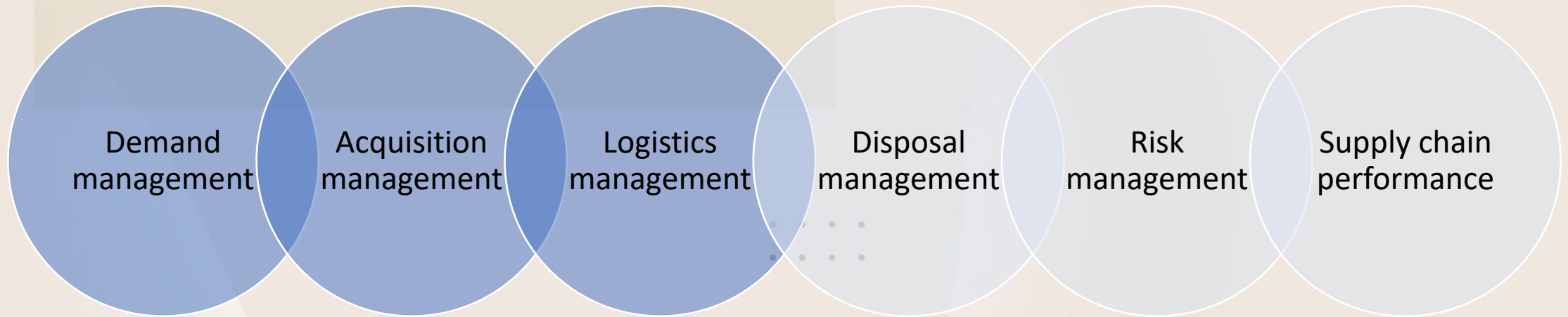
- Recognise that this is where the contract documents start
- Negotiations are commitments
- Supplier engagements set the tone
 - Transactional – Low value low risk
 - Collaborative – Low value but high risk
 - Alliance – High value and high risk

Logistics Management

This aspect addresses

- the setting of inventory levels - *getting the triggers right is important (high stock vs. financial impact)*
- placing of orders
- receiving and distribution of material and goods
- stores
- warehouse and transport management
- expediting orders
- the review of vendor performance
- maintenance and contract administration – *this often is forgotten*





Contract Management

The benefits of effective contract management include:

- Ensuring the timely delivery of goods and services;
- Achieving the full benefits of the procurement process and contract;
- Minimising the costs associated with the risks arising during the term of the contract;
- Improving the benefits flowing to customers and suppliers;
- Promoting innovation and continuous improvement;
- Creating additional benefits for both parties through sound relationships;
- Achieving value for money in the procurement of goods and services; and
- Avoiding tedious litigation and dispute definition and resolution processes between contracting parties

Contract Management

In accordance with the National Treasury Contract Management Guide (2020), a contract is an agreement entered into by **“two or more parties and the agreement can be enforced in a court of law”**.

A contract is an agreement entered into by two or more persons with the intention of creating a legal obligation(s) resulting from an offer and the unconditional acceptance of such an offer.

Contract management is, therefore, a process that enables both parties to a contract to meet their obligations to deliver the objectives required from the contract.

7 aspects of a legally binding Contract

- lawful
- capacity to sign contracts
- serious intent
- an offer and an acceptance
- meeting of the minds
- Performance must be possible
- Formalities must be concluded

Contract Management

Key roles and responsibilities

Contract Manager -The official responsible for the overall contract management process for all contracts in the institution

Contract Administrator- The official responsible for the day-to-day administration of contracts in support of the Contract Manager

Contract Owner- The official responsible and accountable for the deliverables during the Contract Life cycle relevant to the service delivery target that is sought to be achieved in the contract – often referred to as the end user



Legal services- are services undertaken by legal practitioners to vet contracts and ensure that they are legally sound.

The challenge comes in identifying the various people for each transaction

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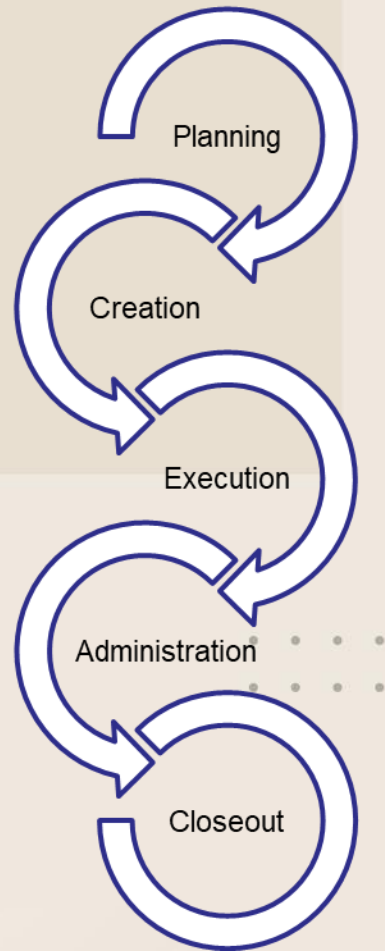
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Contract management lifecycle



Creation of the contract

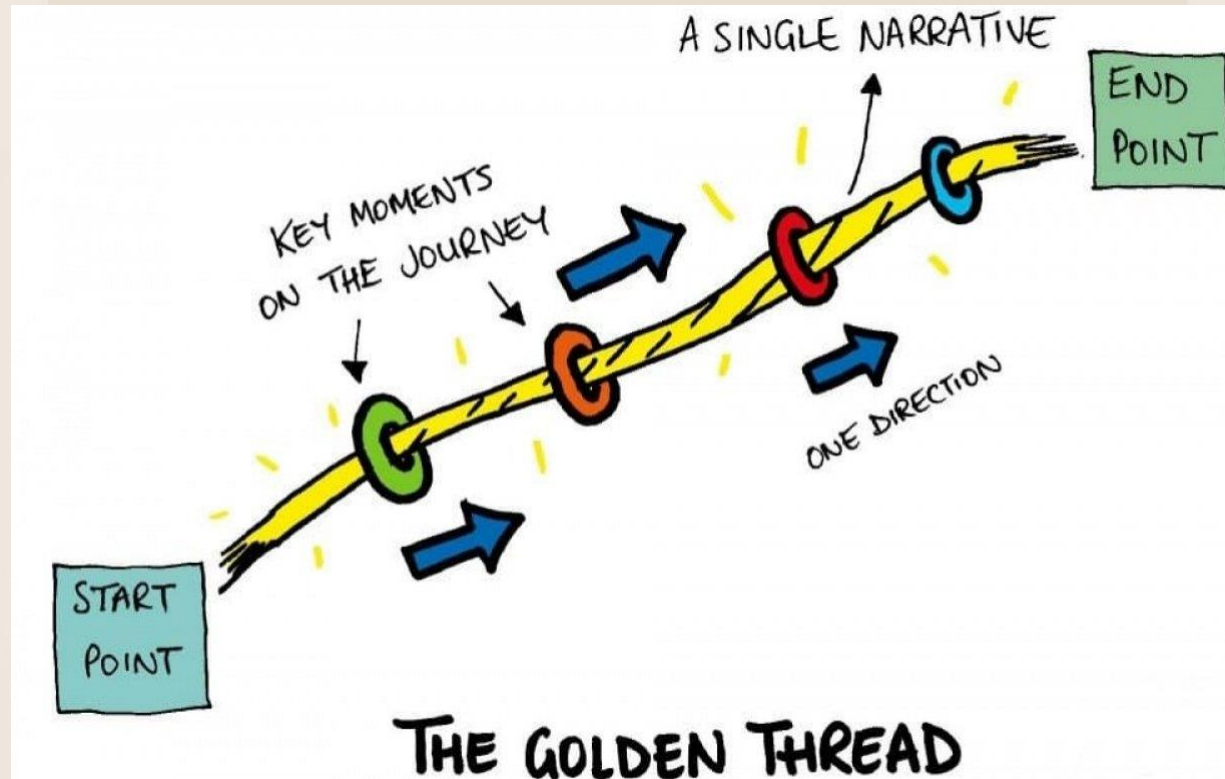
Creation of the contract starts as early as the tender process so due care needs to be taken, particularly in understanding:

- Specification – end users; bid specification committees
- Types of contract
- General and Special conditions of contract
- Terms of reference
- Standard Municipal Bidding Documents
- General Conditions of Contract
- Impact of negotiations

Impact of negotiations

- Negotiations must be on the **contract price** with the **preferred bidder**
 - all matters (terms and conditions of the bidder's proposal) are clarified during the evaluation phase to ensure that there is clarity on the bidder's proposal and that there is no confusion as to what the bidder is offering.
- Bidder must not be given an **unfair opportunity** to amend proposals under the guise of negotiation
- Contract negotiation cannot introduce new terms.
- There must be **no contradictions** (contract, SLA, specification, bid proposal, letter of appointment etc)
- There must be a **meeting of the minds** between the two parties.
 - Bullying suppliers is not acceptable

Contract execution



Executing of the contract is very interactive and involves multiple stakeholders

Contract administration and records management

- Copy of the contract;
- Any cost data related to the contract;
- Copies of any amendments to the contract;
- Copies of written correspondence from both parties;
- Notes and minutes of meetings, especially items the contract manager has agreed to
- Notes on phone and electronic conversations that affect the contract;
- Records and reports of progress or deliverables;
- Inspection reports;
- Reviews and audits conducted;
- Copies of invoices or a payment schedule reflecting all payments that were made against the contract;
- For specific problems – a log sheet that identifies the problem, attempted solutions and the results;
- Particulars of supplies delivered or services rendered; and all meetings

Conclusion



Non-regulatory/non-textbook learnings:

- Understand the specification
- Understand the value chain of the goods / services
- Recognise the chain in SCM
- Infuse self leadership

THANK YOU

