



# **LEPELLE NKUMPI LOCAL MUNICIPALITY**

## **SUPPLY CHAIN MANAGEMENT POLICY**

**2016/2017**

## TABLE OF CONTENTS

### CHAPTER 1

#### IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY

1. Adoption of the Policy
2. Introduction
3. Definitions
3. Legislation and Policy Strategy
4. Pillars of the supply chain management
5. Implementation of the Supply Chain Management Policy
6. Overall Objectives
7. Principles
8. Oversight role of Council
9. Role of the Accounting Officer
10. Supply chain management powers
11. Sub – delegations
12. Supply chain management unit
13. Training of supply chain management officials

### CHAPTER 2

#### SUPPLY CHAIN MANAGEMENT SYSTEM

14. Establishment of supply chain management system
- Part 1: Demand management*
15. System of demand management
- Part 2: Acquisition management*
16. System of acquisition management
17. Range of procurement processes
18. General preconditions for consideration of written quotations or bids
19. Lists of accredited prospective providers
20. Petty cash purchases
21. Written quotations

22. Formal written price quotations
23. Procedures for procuring goods or services through written quotations and formal written price quotations
24. Competitive bidding process
25. Process for competitive bidding
26. Bid documentation for competitive bids
27. Public invitation for competitive bids
28. Procedure for handling, opening and recording of bids
29. Negotiations with preferred bidders
30. Two-stage bidding process
31. Committee system for competitive bids
32. Composition of Bid Committees
33. Functions and purpose of Bid Committees
34. Evaluation and Adjudication of bids on a point system
35. Cancellation and re – invitation of bids
36. Duty to plan invitation of bids
37. Procurement of Banking Services
38. Procurement of IT related goods or services
39. Procurement of goods and services under contracts secured by other state organs
40. Procurement of goods necessitating special safety arrangements
41. Proudly SA Campaign
42. Appointment of consultants
43. Deviation from, and ratification of minor breaches of, procurement processes
44. Unsolicited bids
45. Combating of abuse of supply chain management system

***Part 3: Logistics, Disposal, Risk and Performance Management***

46. Logistics management
47. Disposal management
48. Risk management
49. Performance management

#### ***Part 4: Other matters***

- 50. Prohibition on awards to persons whose tax matters are not in order
- 51. Prohibition on awards to persons in the service of the state
- 52. Awards to close family members of persons in the service of the state
- 53. Ethical standards
- 54. Inducements, rewards, gifts and favours
- 55. Sponsorships
- 56. Objections and complaints
- 57. Resolution of disputes, objections, complaints and queries
- 58. Contracts providing for compensation based on turnover
- 59. Unbundling Strategies
- 60. Guarantees (CIDB)
- 61. Retention
- 62. Assessment / Measurement of Supply chain Management
- 63. Contract Assessment
- 64. Access to Bidding information
- 65. Amendment of the Supply Chain Management Policy
- 6.7 Procurement to local contractors
- 66. Commencement

# **MUNICIPAL SUPPLY CHAIN MANAGEMENT POLICY**

## **Policy Adoption**

- The Accounting Officer must ensure that this SCM Policy is submitted for approval to the relevant bodies. On submission for perusal, consideration, approval and adoption by the Executive Committee of LNM, the policy will in turn be forwarded to Council for further approval.
- Should the Accounting Officer submit a draft SCM Policy to its Council that differs from the model policy, the Accounting Officer must ensure that such a policy complies with the MFMA Regulations. The Accounting Officer must report any deviation from the model policy to both the Provincial and National Treasury.

**Date : 01 JULY 2016**

**Document Name : SUPPLY CHAIN MANAGEMENT POLICY (SCM)**

## Policy Review

- The SCM Policy must at least be reviewed once annually to ensure that it is aligned with the legislative environment
- When necessary, recommendations for amendments to the policy deemed must be submitted to the Accounting Officer for consideration on an adhoc basis.

## Policy Distribution

- After approval of this Policy all changes made must be distributed to all role players:
  - Office of the Mayor
  - Office of the Speaker
  - Office of the Accounting Officer
  - Bid Specifications, Evaluation and Adjudication Committees
  - All Heads of departments
  - All Unit Managers
  - All SCM Personnel
  - All staff of the municipality
- SCM Policy must be published on the Municipal Website, for members of the public, interested parties and other role players who might be affected.

## LEPELLE – NKUMPI SUPPLY CHAIN MANAGEMENT POLICY

### PREAMBLE

**Section 217** of the **Constitution of the Republic of South Africa, 1996** requires the organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, when contracting for goods or services, to do that in accordance with a system which is fair, equitable, transparent, competitive and cost effective.

**Section 111** of the **Local Government: Municipal Finance Management Act, 2003** ( Act 56 of 2003) requires that the municipality adopt , maintain and implement a Supply Chain Management Policy ;

**Section 168** of the **Local Government: Municipal Finance Management Act** which gave effect to the Municipal Supply Chain Management Regulations prescribes what the municipal Supply Chain Management Policy must provide for; the aspects of SCM are:

1. That each Municipality must have and implement a SCM Policy.
2. The Council must delegate such supply chain management powers and duties to the AO.
3. Each Municipality must establish its own SCM Unit. The SCM Unit must, where possible operate under the direct supervision of the CFO

### **The Preferential Procurement Policy Framework Act (PPPFA)**

The Preferential Procurement Policy Framework Act (PPPFA), Act No 5 of 2000 and the amended regulation of 2011, was promulgated to give effect to Section 217(3) of the Constitution by providing a framework for the implementation of the procurement policy contemplated in section 217(2) of the Constitution.

The Council of Lepelle -Nkumpi has approved the **Integrated Development Plan (IDP)** which identifies Supply Chain Management process as the central strategy to advance the service delivery programmes, the objectives of the Black Economic Empowerment (BEE) , Broad Based Black Economic Empowerment (BBBEE) , and the Preferential Procurement .

It is therefore in compliance to the above legislative provisions that the Council of Lepelle – Nkumpi Municipality resolves in terms of section 111 of the Local Government Municipal

Finance Management Act (No. 56 of 2003), to adopt the Supply Chain Management Policy as set out in this document.

## **Definitions**

1. In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act has the same meaning as in the Act, and –

**“bid”** means a written offer submitted to the Lepelle – Nkumpi Municipality in response to an invitation to bid in a competitive process;

**“bidder”** means any person submitting a bid

**“competitive bidding process”** means a competitive bidding process referred to in paragraph 12 (1) (d) of this Policy;

**“competitive bid”** means a bid in terms of a competitive bidding process;

**“Construction Industry Development Board Act”** means the Construction Industry Development Board Act , 38 of 2000 and includes the regulation thereto.

**“construction works ”** means any work in connection with :

- The erection, maintenance, alteration, renovation, repair, demolition or dismantling of or addition to a building or any similar structure;
- The installation, erection, dismantling or maintenance of a fixed plant;

**“consultant”** means a person or entity providing services requiring knowledge based expertise.

**“contract”** means the agreement which is concluded when Lepelle – Nkumpi Municipality accepts , in writing , a bid or quote submitted by a provider.

**“contractor”** means any person whose bid or quote has been accepted by the Lepelle Nkumpi municipality;

**“final award”**, in relation to bids or quotations submitted for a contract, means the final decision on which bid or quote to accept;



**“delegated authority”** means any person or committee delegated with authority by Lepelle – Nkumpi municipality in terms of the provision of the Municipal Finance Management Act;

**“emergency”** – emergency is a serious , unexpected and potentially dangerous situation which is a threat to life and property requiring immediate action from the municipality to ensure the continuous rendering of services to the public.

**“formal written price quotation”** means quotations referred to in paragraph 12 (1) (c) of this Policy;

**“in the service of the state”** means to be –

- (a) a member of –
  - (i) any municipal council;
  - (ii) any provincial legislature; or
  - (iii) the National Assembly or the National Council of Provinces;
- (b) a member of the board of directors of any municipal entity;
- (c) an official of any municipality or municipal entity;
- (d) an employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the Public Finance Management Act, 1999 (Act No.1 of 1999);
- (e) a member of the accounting authority of any national or provincial public entity; or
- (f) an employee of Parliament or a provincial legislature;

**“long term contract”** means a contract with a duration period exceeding one year;

**“list of accredited prospective providers”** means the list of accredited prospective providers which the municipality must keep in terms of paragraph 14 of this policy;

**“ municipality”** means Lepelle – Nkumpi Municipality

**“other applicable legislation”** means any other legislation applicable to municipal supply chain management, including –

- (a) the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000);
- (b) the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003); and
- (c) the Construction Industry Development Board Act, 2000 (Act No.38 of 2000);

**“Treasury guidelines”** means any guidelines on supply chain management issued by the Minister in terms of section 168 of the Act;

**“the Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

**“the Regulations”** means the Local Government: Municipal Finance Management Act, 2003, Municipal Supply Chain Management Regulations published by Government Notice 868 of 2005;

**“written or verbal quotations”** means quotations referred to in paragraph 12(1)(b) of this Policy.

## CHAPTER 1

### 1. Introduction

#### 1.1. The Supply Chain Management Policy

In terms of section 111 of the MFMA, Lepelle-Nkumpi shall give effect to:

- a) Section 217 of the Constitution, and
- b) Part 1 of Chapter 11 and other applicable provisions of the MFMA
- c) Be fair, equitable, transparent, competitive and cost effective
- d) Comply with the regulatory framework prescribed in terms of section 168 of the Act.
- e) Not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres of government.
- f) LNM shall not act otherwise than in accordance with this policy when procuring goods or services, disposing of goods no longer needed.

#### 1.2. Key Objectives

**1.2.1** This SCM Policy is aimed at introducing accepted best practices in respect of SCM whilst ensuring that:

- a) Efficient, effective and uniform planning for, and procurement of all goods and services, as well as sale and letting of assets conforming to Constitutional and legislative principles, whilst developing, supporting and promoting Historically Disadvantaged Individuals(HDI) and Black Economic Empowerment (BEE), Small, Medium and Micro Enterprises(SMME) .
- b) Efficient, effective and uniform management of logistics and disposal of goods and assets through SCM process.
- c) Good governance through LNM's supply chain processes.

Chapter 11 of Local Government Municipal Finance Act which deals with supply Chain Management came into effect on July 2005.

The objectives of the MFMA is to secure sound and sustainable Management of the fiscal and financial affairs of municipalities and Municipal entities by establishing norms and standards and other requirements for :

- a) Ensuring transparency, accountability and appropriate lines of responsibility in the fiscal and financial affairs of Municipalities and Municipal entities.
- b) The Management of their revenues, expenditure, assets and liabilities and the handling of their financial dealings;
- c) Budgetary and financial planning processes and co-ordination of those processes with the processes or organs of state in other spheres of government;

- d) Borrowing;
- e) The handling of financial problems in Municipalities;
- f) Supply Chain Management and;
- g) Other financial matters.

Each Municipality is required in terms of Section 111 of the MFMA to have and implement a Supply Chain Policy which gives effect to the provision of Part 1 of Chapter 11.

### **3. Legislation and Policy Strategy**

The Lepelle – Nkumpi Municipality is committed to comply with applicable legislation as it pertains to Supply chain Management and the following pieces of legislation are relevant :

- **The Constitution of the Republic of South Africa Act No. 108 of 1996**
- **The Municipal Finance Management Act No. 56 of 2003.**
- **The Supply Chain Management Regulations in terms of Section 168 of the Municipal Finance Management Act.**
- **The Preferential Procurement Policy Framework Act No. 5 of 2000**
- **The Preferential Procurement Policy Framework Regulations of 2011**
- **The Broad – Based Black Economic Empowerment Act. 53 of 2003**

Cognisance must be taken of the following pieces of legislation, by – laws or policy framework that may have an impact on the supply chain management environment:

- Promotion of Administrative Justice Act, Act no 3 of 2000
- Promotion of Access to Information Act, Act no. 2 of 2000
- Protected Disclosure Act, Act no 26 of 2000
- The Competition Act, Act no 89 of 1998
- Policy to Guide Uniformity in Procurement Reform Processes in Government promulgated on 05 December 2003
- All other applicable by – laws or legislation impacting on Supply Chain Management must be taken into account.

## **4. Pillars of the Supply Chain Management**

### **4.1 Fair and equitable**

To be fair all possible suppliers must have equitable opportunity to bid for the requirements of the Lepelle – Nkumpi Municipality. For this reason all bids must be advertised by means of a public advertisement in newspapers commonly circulating locally, the website of the municipality or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin).

All bids received on time must be considered and no bidder may receive preferential treatment or prejudiced against, third parties in cases where legal action has already been taken and all documentation must be furnished for security.

### **4.2 Transparent**

By advertising all bids prospective suppliers are informed of the requirements of Lepelle - Nkumpi. Bids received on time are opened in public, and the names and the prices of the bidders are read out.

### **4.3 Competitive/cost-effective**

It is the duty to protect the public interest. In view of the fact that tax payer's money is used to satisfy the requirements of all spheres of government, it must be ensured that goods or services are obtained in most cost effective manner.

Transparency must be fostered by providing with timely, accessible and accurate information.

### **4.4 Value for money**

The term "value for money" includes the monetary value as well as the quality and the utilization of the procurement system to achieve government's policy objective. Due consideration should, however, be given to the quality of the goods required, the time to administrate the process, and the cost-effectiveness of the ensuing contracts.

### **4.5 Open and effective competition**

This pillar of public sector procurement requires the following:

A framework of procurement laws, policies, practices and procedures that are transparent; accessibility of information to all parties; openness in the procurement process;

### **4.6 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.

#### **4.7 Accountability and reporting**

This involves ensuring that individuals and organizations 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.

#### **4.8 Equity**

This pillar is vital to public sector procurement in South Africa. It ensures that government is committed to economic growth by implementing measures to support the industry in general. No public procurement system should be operated if it is not founded on this pillar.

### **5. Implementation of Supply Chain Management Policy**

(1) This Policy applies to :

- (a) The acquisition of all goods and services , construction works and consultant services;
- (b) The disposal by Lepelle – Nkumpi municipality of goods and assets no longer needed;
- (c) The selection of contractors to provide assistance in the provision of municipal services;
- (d) The selection of external mechanisms referred to in Section 80(1) (b) of the Municipal Systems Act no. 32 of 2000 for the provision of municipal services as contemplated in section 83 of the Act.

(2) Unless specifically stated otherwise , this Policy does not apply if a municipality contracts with another organ of state for :

- (a) The provision of goods and services to the municipality;
- (b) The provision of a municipal services; or
- (c) The procurement of goods and services under a contract by that other organ of state, provided that the relevant supplier has agreed to such procurement.

(3) The following supply chain management systems have accordingly been developed in accordance with the requirements of the Municipal Finance Management Act :

- (a) Demand management system;
- (b) Acquisition management system;
- (c) Logistics management system;
- (d) Disposal management system;
- (e) Risk management system;
- (f) Performance management system;

- (4) These systems must be adhered to in all supply chain management activities undertaken by Lepelle – Nkumpi Municipality.

## **Overall Objectives of the Supply Chain Management Policy**

6. The goal of this policy is to ensure sound , sustainable and accountable supply chain management , whilst promoting black economic empowerment (BEE) , previously disadvantaged individuals (PDI's) , Small Medium Macro Enterprise , local entrepreneurs and business co – operatives in terms of the approved municipal Integrated Development Plan and Budget .

6.1 The objective of the Supply Chain Management Policy as contained in the MFMA is-

- (a) To give effect to the provisions of Section 217 of the Constitution of the Republic of South Africa, 1996 ,
- (b) To give effect to the provisions of the Local Government: Municipal Finance Management Act, (Act no. 56 of 2003)
- (c) To give effect to the Municipal Supply Chain Management Regulations of 2005.

## **7. Principles**

Principles of Supply Chain Management Policy are-

- (a) **Accountability:** Effective supply chain management system must be maintained in order to enable the accounting officer to discharge his/her responsibility.
- (b) **Efficiency:** Procurement process must be carried out as cost-effective as possible.
- (c) **Effectiveness:** The Municipality must meet the socio-economic goals of the National Government and sound financial governance appropriate to procurement requirements.
- (d) **Fairness:** the service providers must be treated fairly. The Municipality must not impose unnecessary burdens or constraints on the services providers or potential service providers.
- (e) **Legality:** The Municipality must conform to all legislative requirements in terms of the procurement.
- (f) **Transparency:** The Municipality must ensure that there is openness and clarity on Supply Chain Management Policy and its deliverables.
- (g) **Responsiveness:** The Municipality must endeavour to meet the aspirations, expectations and needs of the community served by the procurement.



- (h) **Informed decision-making:** The Municipality needs to base decisions on accurate information and monitor requirements to ensure that they are being met.
- (i) **Integrity:** There must be no corruption or collusion with the service providers.
- (j) **Consistency:** the services providers must be able to expect the same general Supply Chain Management Policy across the Municipality.
- (k) **Competitiveness:** Procurement must be carried out by competition unless there are convincing reasons to the contrary.

## **8. Oversight role of council**

- (1) The council must maintain oversight over the implementation of the Supply Chain Management Policy.
- (2) For the purposes of such oversight the Accounting Officer must –
  - (a) within 30 days of the end of each financial year, submit a report on the implementation of this Policy and the supply chain management policy of any municipal entity under the sole or shared control of the municipality, to the council of the municipality and
  - (b) within 10 days of the end of each quarter, submit a report on the implementation of the supply chain management policy to the Finance Portfolio Committee and the Mayor.
  - (c) whenever there are serious and material problems in the implementation of this Policy, immediately submit a report to the council.
  - (d) Report all deviations in the implementation of this policy and all remedial action taken or envisaged.
  - (e) the reports of the Supply Chain Management must be made public in accordance with section 21 A of the Municipal Systems Act .

## **9. Role of the Accounting Officer**

The Municipal Manager is the accounting officer and the administrative authority for the municipality. In the first instance the Municipal Manager is accountable to the mayor for the implementation of specific agreed outputs. In the second instance the Municipal manager is accountable to the Council for the overall administration of the municipality. The Municipal Manager must be fully aware of the reforms required in order to provide the Mayor, Councillors, senior officials and municipal entities with the appropriate guidance and advice on financial and budget issues. Whilst the Municipal Manager may delegate many tasks to the Chief Financial Officer or to other senior officials, this must be done carefully to ensure that all tasks are completed appropriately.

Accounting officer (Municipal Manager) should-

- (a) At least annually review the implementation of the policy and when considers it necessary, submit proposals for the amendment of the policy to council.
- (b) Implement a Supply Chain Management Policy.
- (c) Take account of the need for the uniformity in supply chain practices, particularly to promote accessibility of supply chain management systems for small businesses.
- (d) Ensure strict adherence to the guidelines provided by the National Treasury.
- (e) Develop the internal procedures and processes.
- (f) Report to council regarding implementation of the Supply Chain Management.
- (g) Comply with the highest ethical standards.
- (h)

## **Role of the Chief Financial Officer**

### **1. The CFO of a Municipality-**

- a) Is administratively in charge of the Budget and Treasury Office;
- b) Must advise the Accounting Officer on the exercise of powers and duties assigned to the Accounting Officer in terms of this Act;
- c) Is a custodian of SCM Policy and report on its progress regarding the implementation.
- d) Overall management of the quotation and competitive bidding process from soliciting to processing of invoice payment
- e) Ensure that procurement and disposals are effected through practices that demonstrate compliance to all relevant legislation.
- f) Promotes corporate approach by encouraging standardization of items purchased within the Municipality to realize economic of scale.
- g) Submit regular reports to Budget and Treasury Portfolio Committee reports and other matters of concern regarding supply chain matters.

## **Supply chain management powers and duties**

- 10.** (1) The MFMA confers the statutory powers and duties on the Accounting Officer.
- (2) The accounting officer may not delegate or sub delegate any supply chain management powers or duties –
- (i) to a person who is not an official of the municipality or
  - (ii) to a committee which is not exclusively composed of officials of the municipality.
- (3) The SCM Unit shall be subject to the management control of, and accountable to , the CFO;
- (4) The SCM Unit shall consist of:
- A demands management section
  - Acquisition management section
  - Logistics management section
  - A performance and contract management section
  - Disposal management section
- 5) The Head of Supply Chain Management shall be responsible and accountable for the day to day management of the SCM Unit

## **Range of procurement processes**

### Transaction: R0 to R29 999.99(Formal Written Quotations)

- a) Formal written quotations be obtained from an approved database of service providers on a rotational basis will apply

### Transaction: R30 000.00 to R199 999.99(Formal Written Quotations)

- (a) That Evaluation be done by SCM Manager, one SCM official and end-user and recommendation by CFO made to the Accounting Officer for approval, to all procurement of a transaction value between R 30 000.00 and R199 999.99.
- (b) That a written report be submitted to the Chief Financial Officer and Accounting Officer in the case of the final awards of a transaction value between R 30 000.00 and R 199 999.99 within seven days of the end of each month.

### Transaction: R200 000.00 to above (Competitive bidding system)

- (a) That a competitive bidding process will be followed for any specific procurement of a transaction value above R 200 000.00 (VAT included) and the procurement of long term contracts.
- (b) That on recommendation of the Bid Adjudication Committee, the Accounting Officer makes final awards on procurement of a transaction value from R 200 000.00 and above.
- (c) That the final recommendations (award) in a competitive bidding process should be made through the committee system provided for in section 32 of this policy.
- (d) That a written report be submitted to the Mayor and the Budget and Treasury Portfolio Committee in the case of the final awards of a transaction value from R 200 000.00 and the overall implementation of this policy within ten days of the end of each quarter .
- (e) That no requirement for goods or services at an estimated transaction of R 200 000 – 00 ( VAT included) and more may be deliberately be split into parts or items of lesser value merely for the sake of procuring the goods or services otherwise than through a competitive bidding process.
- (f) That a specification of goods or services that are from R 200 000 and more be compiled by the Specifications Committee appointed by the Accounting

Officer and make recommendations to the Accounting Officer prior to invitation of bids.

### **Sub delegations**

- (a) (1) An accounting officer may in terms of section 79 or 106 of the Act sub delegated any supply chain management powers and duties; including those delegated to the accounting officer in terms of regulation 4(1), but any such sub delegation must be consistent with sub delegation (2) and regulation 4.
  - (b) The powers to a make a final award-
    - i. Above R10 Million(VAT included) may not be sub delegated by an accounting officer
    - ii. Above R2 Million ( VAT Included), but not exceeding R10Million(VAT included) may be sub delegated but only to –
      - 1. The chief financial officer
      - 2. An Executive manager; or
    - iii. Not exceeding R2Million(VAT Included) may be sub delegated only to-
      - 1. The chief financial officer
      - 2. An Executive manager
      - 3. A manager directly accountable to the chief financial officer
  - (c) An official to which powers to make final awards has been sub delegated in accordance with sub regulation (2) must within five days of the end of each month submit to the Accounting Officer a written report of each final award made by such official during that month, including-
    - (1) Amount of the award
    - (2) The name of the person to whom the award was made, and
    - (3) The reason why the award was made to that bidder
- (5) No supply chain management decision-making powers may be delegated to an advisor or consultant.

### **13. Supply chain management unit**

- (1) The accounting officer must establish a supply chain management policy.
- (2) The supply chain management unit shall operate under the direct supervision of the chief financial officer or an official to whom this duty has been delegated in terms of section 82 of the Act.
- (3) The Supply Chain Management Unit must give effect to the functions of the supply chain management system.
- (4) The Supply Chain Management Unit shall provide administrative support services and professional secretariat services to the bid committees to be appointed by the Accounting Officer, and other relevant evaluation and award structures as well as the Disposal Committee.

### **14. Training of supply chain management officials**

- (a) The accounting officer shall ensure that all persons involved in the implementation of this policy meet the prescribed competency levels, and where necessary, shall provide relevant training.
- (b) The training of officials involved in implementing this policy shall be in accordance with any National Treasury Regulations guidelines on supply chain management training.
- (c) The Lepelle – Nkumpi municipality shall provide resources or opportunities for the training of at least the following officials to meet the prescribed competency levels :
  - (a) Senior Management
  - (b) Supply Chain Management Practitioners who are involved with the day to day operations of supply chain management (senior and operational)
  - (c) New entrants – irrespective of the level at which they are appointed
  - (d) Cross functional team members
  - (e) End users involved in the Supply Chain Management activities.
- (d) The National Treasury could monitor and assess the quality and content of training provided by training providers whose training material has been validated by the Validation Board of the National Treasury.

## **CHAPTER 2**

### **SUPPLY CHAIN MANAGEMENT SYSTEM**

#### **Establishment of a supply chain management system**

**15.** The accounting officer shall develop and implement an effective and efficient supply chain management system that provides for :

- (a) The acquisition of goods, services and construction works
- (b) The disposal and letting of assets and goods no longer of good use
- (c) The system shall be fair, equitable, transparent, competitive and cost effective
- (d) The system shall be consistent with the PPPFA and BBBEE Act.

The system shall provide for et least the following six Supply Chain Management elements:

- (i) Demand management system;
- (ii) Acquisition management system;
- (iii) Logistics management system;
- (iv) Disposal management system;
- (v) Risk management system; and
- (vi) Performance management system.

No person may interfere with the supply chain management system.

#### **Part 1: Demand management**

##### **System of demand management**

**16.** (1) The accounting officer must establish and implement an appropriate demand management system in order to ensure that the resources required by the municipality support its operational commitments and its strategic goals outlined in the Integrated Development Plan.

2)The demand management system is the first phase of the Supply Chain Management and must :

- (a) include timely planning and management processes to ensure that all goods and services required by the municipality are **quantified, budgeted** for and **timely and effectively delivered** at the **right locations** and at the **critical delivery dates**, and are of the **appropriate quality** and **quantity** at a fair cost;
- (b) take into account any benefits of economies of scale that may be derived in the case of acquisitions of a repetitive nature; and
- (c) provide for the compilation of the required specifications to ensure that its needs are met.
- (d) to undertake appropriate industry analysis and research to ensure that innovations and technological benefits are maximized.

### **Procurement Plan**

At the beginning of the financial year, the SCM Unit must prepare a procurement plan

The minimum requirements of information for the procurement plan are outlined below:

- Name of the project
- Detailed description of the project
- Detailed description of goods or services
- Indicate bid process to be utilized
- IDP Number
- Bid Number
- Available funds
- Anticipated advert date
- Anticipated closing date
- Anticipated completion date of the project



## **Benefits of Demand Management**

(1) Demand Management should provide benefits such as :

- (a) Best value for money ;
- (b) Better risk management ;
- (c) More efficient procurement;
- (d) Improvements in procurement outcomes;
- (e) More opportunities for innovating bidding and contract management ;
- (f) More opportunities for implementing and achieving National government broader policy objectives ;
- (g) Effective partnership between supply chain management practitioners and end – users.

(2) Demand management must translate the annual plan(SDBIP) and multi-year plan(IDP) of LNM into its current and future needs.

(3) The accounting officer and the senior managers of the municipality should ensure that the following key elements form part of the Demand Management process -;

- (a) Understanding the future and current needs of the municipality;
- (b) Linking the future and current needs to the strategic agenda and budgets of the municipality;
- (c) Involvement in the strategic planning process ;
- (d) Analysing the frequency of the needs ;
- (e) Embarking on an expenditure analysis;
- (f) Embarking on a commodity analysis;
- (g) Identification of critical delivery dates ;
- (h) Embarking on a market /industry analysis;
- (i) Optimum sourcing strategy ;
- (j) Compiling of a specification (goods) or Terms of Reference (services).

## **Part 2: Acquisition management**

### **System of acquisition management**

**17.** (1) The accounting officer must implement the system of acquisition management set out in this Part in order to ensure –

- (a) that goods and services are procured by the municipality in accordance with authorised processes only;
- (b) that expenditure on goods and services is incurred in terms of an approved budget in terms of section 15 of the Act;
- (c) that the threshold values for the different procurement processes are complied with;
- (d) that bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with any applicable legislation; and
- (e) that any Treasury guidelines on acquisition management will be properly be taken into account ; and
- (f) unless the municipality otherwise directs :
  - Bids are invited in the Republic only , and
  - The laws of the republic should govern contracts arising from the acceptable bids.

(2) The supply chain management will not apply if a municipality contracts another organ of state for –

- (a) The provision of goods or service to the municipality;
- (b) The provision of a municipal service or assistance in the provision of a municipal service;
- © The procurement of goods and services under a contract secured by that other organ of state , provided that the relevant supplier has agreed to such procurement.

(6) If a municipality procure goods or services contemplated in section (2) above, the accounting officer must make public the fact that such goods or services are procured otherwise than through the Lepelle Nkumpi 's supply chain management system, including -

- (a) the kind of goods or services; and
- (b) the name of the supplier.

(7) The supply chain management system , except where provided otherwise in the regulation , will also not apply in the following :

- (a) Water from the Department of Water Affairs or a public entity , another municipality or a municipal entity ; and
- (b) Electricity from Eskom or another public entity, another municipality or a municipal entity .

### **Range of Procurement Threshold**

**18.** (1) The procurement of goods and services will be procured through the following –

<b>Threshold Value (VAT inclusive)</b>	<b>Procurement method</b>	<b>Delegated Authority</b>	<b>Oversight role</b>
0 – R2 000	Petty cash purchases (Only one quote required)	Heads of Departments	Chief Financial Officer
R2 001 to R29 999.99	Three (3) formal written quotations; Quotations must be sourced from the List of accredited service providers (Suppliers' Database)	Chief Financial Officer	Municipal Manager
R30 000 to R199 999.99	Formal written quotations be advertised for at seven (7) days on the Notice board and website of the Municipality. The 80/20 Preference Point system would apply.	Municipal Manager	Council

	<p>Specification approved by Municipal Manager.</p> <p>Evaluation and recommendations to be done through the technical team and making recommendations to the Chief Financial Officer for Municipal Manager for approval</p>		
Bids above R 200 000 to R1 000 000	<p>A competitive bidding process:</p> <p>(i) Advertise for at least 30 days on Lepelle Nkumpi notice boards and websites; on one local and national circulating newspapers;</p> <p>(ii) 80/20 Preference Point system would apply. Bid Adjudication Committee to make recommendation to the Accounting Officer.</p>	Municipal Manager	Council
Bids above R 1 000 000.00	<p>A competitive bidding process:</p> <p>(i) Advertise for at least 30 days on Lepelle Nkumpi notice boards and websites;</p> <p>(ii) Advertise for at least 30 days on locally circulating newspapers;</p> <p>(iii) 90/10 Preference Point system would apply. Bid Adjudication Committee to make recommendation to the Accounting Officer.</p>	Municipal Manager	Council

- (2) Goods or services may not deliberately be split into parts or items of a lesser value merely to avoid complying with the requirements of the policy. When determining transaction values, a requirement for goods or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction.

#### **General preconditions for consideration of written quotations or bids**

**19.** A written quotation or bid may not be considered unless the provider who submitted the quotation or bid –

- (a) has furnished that provider's –
  - (i) full name;
  - (ii) identification number or company or other registration number; and
  - (iii) tax reference number and VAT registration number, if any;
  - (iv) municipal service statement from the municipality where the service provider resides;
- (b) has authorized the municipality to obtain a tax clearance from the South African Revenue Services that the provider's tax matters are in order; and
- (c) has indicated –
  - (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
  - (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or
  - (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

## **Lists of accredited prospective providers**

- 20.** (1) The accounting officer must –
- (a) keep a list of accredited prospective providers of goods and services that must be used for the procurement requirements through written quotations and formal written price quotations; and
  - (b) at least once a year through newspapers commonly circulating locally, the website and any other appropriate ways, invite prospective providers of goods or services to apply for evaluation and listing as accredited prospective providers;
  - (c) specify the listing criteria for accredited prospective providers;
    - (Service Providers will be allowed to select at least 5 commodities/ services intending to register and should also include the nature of their operations)
    - Service providers are expected to complete forms in full and have banking institutions to certify the bank accounts and commissioner of oath to certify correctness of the claims; and
  - (d) The accounting officer must disallow the listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector.
- (2) The list must be updated at least quarterly to include any additional prospective providers and any new commodities or types of services. Prospective providers must be allowed to submit applications for listing at any time.
- (3) The list must be compiled per commodity and per type of service and per ward.
- (4) The list should be used to promote participation of black-owned small, medium and micro enterprises (SMME's) and Community Co-operatives.
- (5) Once a list has been compiled per commodity and per type of service, price quotation will be invited from the supplies registered in database in a manner that promotes ongoing competition, including on a rotation basis, from R2000 to R29 999.99 in order to promote the participation of SMME and B-BBEE owned enterprises.
- (6) The inclusion of any supplier in the database of suppliers does not exempt the supplier from the obligation to respond in the prescribed manner to notices of the Municipality's Supply Chain Management requirements.

(7) The aim of Lepelle – Nkumpi Municipal Council is to incorporate as many, SMME and business cooperatives suppliers as possible in the process of municipal supply chain management processes.

(8) The following information must at least be obtained from prospective suppliers to register as accredited SMME/Community Cooperatives suppliers with the municipality :

- Name of business ;
- Postal Address;
- Telephone (land line and cell numbers ) e – mail addresses and fax numbers , where possible;
- Ward Number
- Residential address
- Core business
- Names of directors / members/owners of business;
- Specific expertise vested in the company ;
- The inclusion of a valid tax clearance certificate;
- Permission that the financial position of the supplier and the ability to manufacture or to supply goods or to render a service may be examined before its offer is considered for acceptance;
- Reference for past performance

### **Petty Cash Purchases-Procedures**

**21.** The power is delegated to the Heads of the Departments in the authorisation of the petty cash purchases. Heads of departments are delegated to authorise Petty cash transactions to the value of R0, 00 to R2 000-00 Only

The following shall apply in the utilization of petty cash transactions:

1. Payments from the petty cash are limited to R2 000.00 per department per month.
2. The balance of the petty cash on hand is limited to R 2000.00 per month. It shall be replenished once a month, the first week of every month.
3. In an event whereby the monthly petty cash allowance is exhausted, a payment request shall be submitted to creditor accountant for the payment of the expenditure.
4. Monthly petty cash allowance cannot be rolled over to the next month.
5. Payments from the petty cash must be substantiated by original invoice/proof of purchase.

6. A pre-numbered duplicate petty cash voucher should be completed signed by the requester and the head of department for all petty cash requisitions.
7. The Executive Manager, or a delegated official must approve all expenses and the petty cash requisition.
8. Third parties with whom the Council trades with, should as far as possible be registered for V.A.T.
9. No subsistence and travel claims, salary and wages related payments shall be made out of petty cash.
10. All payments must be captured into a petty cash register on a weekly basis. This register must be reconciled with the cash on hand and the information must be captured to the financial system on a monthly basis, or as soon as petty cash funds are exhausted
11. The petty cash register must be verified for correctness by the Expenditure Manager on a monthly basis. The register will be signed as proof of the verifying function performed.
12. Substantiating documentation to payments from the petty cash must be marked as processed the moment that cash is paid out or when invoices or receipts are submitted.
13. Invoices or receipts must be submitted before the end of every month, failing which the total amount of the petty cash shall be deducted from the employee's salary.
14. The petty cash box must at all times be kept in a fireproof lockable safe when not under control of the employee responsible for the petty cash.
15. The Manager - Expenditure or the delegated employee must conduct regular surprise cash counts whereby cash on hand is reconciled to substantiating documentation and the petty cash register. The person responsible for the petty cash must pay in surpluses as well as shortages. The person conducting the cash count must sign the register as proof of the functions performed.
16. The Chief Financial Officer or the delegated employee must ensure that the balance of the petty cash register reconciles to the petty cash general ledger account at the end of the month and the financial year.
17. The balance of the petty cash on hand must be disclosed in the financial statements according to GRAP or any other accounting policy ruling the accounting functions of the Council.



### **Written quotations (Database)**

**22.** The conditions for the procurement of goods or services through written quotations from the value exceeding R2001 to R 29 999.99, are as follows:

- (a) Three(3) written quotations must be obtained from at least from providers whose names appear on the list of accredited prospective providers of the municipality. Preference should be given to providers within Lepelle – Nkumpi Municipality. If a service or goods required is to be rendered or delivered in a specific ward, quotations must be sourced out from that Ward. If quotations are obtained from providers who are not listed, such providers must meet the listing criteria set out in paragraph 19(7) of this Policy and the reasons for the usage of quotations of such providers must be forwarded to the Supply Chain Manager for approval, depending on the delegations in paragraph 17 of this Policy;
- (b) providers must be requested to submit such quotations in writing;
- (c) if it is not possible to obtain at least three written quotations on purchases from R2 001 to R29 999.99 the reasons must be recorded and forwarded to the Accounting Officer for approval .
- (d) the names of the potential service providers requested to provide such quotations must appear on the supplier database of Lepelle –Nkumpi local Municipality.
- (e) The accounting officer or CFO must on a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of sub delegation.

### **Formal written price quotations (Seven Days)**

**22.** (1) The conditions for the procurement of goods or services through formal written price quotations from R 30 000 – 00 purchases to R199 999-99, are as follows:

- (a) Quotations must be advertised for at least seven days on LNM website, its notice boards and at least one newspaper circulating locally.
- (b) if it is not possible to advertise for quotations on notice boards, newspaper and website, with a transaction value of R2 000 to R1 99 999.99, the reasons must be forwarded to the Chief Financial Officer for recommendations and approval to the Accounting Officer and such deviations be reported on a quarterly basis to Council.
- (c) The accounting officer or CFO must on a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of sub delegation.

## **Procedures for procuring goods or services through written quotations and formal written price quotations**

**23.** The procedure for the procurement of goods or services through written quotations or formal written price quotations, is as follows:

- a) when using the list of accredited prospective providers the accounting officer **must** promote ongoing competition amongst providers by inviting providers to submit quotations on a rotation basis;
- b) offers received must be evaluated on a comparative basis taking into account unconditional discounts;
- c) the Accounting Officer or Chief Financial Officer must on a monthly basis be notified in writing of all written quotations and formal written price quotations accepted by an official acting in terms of a subdelegation;
- d) offers below R30 000 (VAT included) must be awarded based on compliance to specifications and conditions of contract, ability and capability to deliver the goods and services and lowest price;
- e) Acceptable offers, which are subject to the preference points system (PPPFA and associated regulations), must be awarded to the bidder who scored the highest points;

## **Competitive bids**

**24.** (1) Goods or services above a transaction value of R200 000 (VAT included) and long term contracts may only be procured through a competitive bidding process, subject to paragraph 11(2) of this Policy.

(2) No requirement for goods or services above an estimated transaction value of R200 000 (VAT included), may deliberately be split into parts or items of lesser value merely for the sake of procuring the goods or services otherwise than through a competitive bidding process

## **Process for competitive bidding**

**25.** The procedures for the following stages of a competitive bidding process are as follows:

- (a) Compilation of bidding documentation as detailed in section 27;
- (b) Public invitation of bids as detailed in section 27;
- (c) Site meetings or briefing sessions as detailed in section 27;
- (d) Handling of bids submitted in response to public invitation as detailed in section 28;
- (e) Evaluation of bids
- (f) Award of contracts
- (g) Administration of contracts
  - (i) After approval of a bid, the accounting officer and the bidder must enter into a written agreement.
- (h) Proper record keeping
  - (i) Original / legal copies of written contracts agreements should be kept in a secure place for reference purposes.

## **Bid documentation for competitive bids**

**26.** The criteria to which bid documentation for a competitive bidding process must comply, must –

- (a) take into account –
  - (i) the general conditions of contract and any special conditions of contract, if specified;
  - (ii) any Treasury guidelines on bid documentation; and
  - (iii) the requirements of the Construction Industry Development Board, in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure;
- (b) include the preference points system to be used , goals as contemplated in the Preferential Procurement Regulations and evaluation and adjudication criteria, including any criteria required by other applicable legislation;
- (c) compel bidders to declare any conflict of interest they may have in the transaction for which the bid is submitted;

- (d) if the value of the transaction is expected to exceed R10 million (VAT included), require bidders to furnish–
  - (i) if the bidder is required by law to prepare annual financial statements for auditing, their audited annual financial statements –
    - (aa) for the past three years; or
    - (bb) since their establishment if established during the past three years;
  - (ii) a certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 days;
  - (iii) particulars of any contracts awarded to the bidder by an organ of state during the past five years, including particulars of any material non-compliance or dispute concerning the execution of such contract;
  - (iv) a statement indicating whether any portion of the goods or services are expected to be sourced from outside the Republic, and, if so, what portion and whether any portion of payment from the municipality or municipal entity is expected to be transferred out of the Republic; and
- (e) stipulate that disputes must be settled by means of mutual consultation, mediation (with or without legal representation), or, when unsuccessful, in a South African court of law.
- (f) A requirement to supply tax reference, tax clearance certificates, VAT registration numbers and identification or registration numbers;
- (g) Details of any contracts above R 200 000 carried out on behalf of the Lepelle – Nkumpi Municipality within the last five years;
- (h) A contract management process and procedures including provision for the accounting officer to cancel the contract on the grounds of unsatisfactory performance;
- (i) any other matters as required by the MFMA and the Supply Chain Management Regulations;
- (j) Performance guarantees and retention.

## Public invitation for competitive bids

27. (1) The procedure for the invitation of competitive bids is as follows:
- (a) Any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the municipality or any other appropriate ways; and
  - (b) the information contained in a public advertisement, must include –
    - (i) the **closure date** for the submission of bids, shall not be less than **14 days** in the case of transactions below R10Million and not less than 30 days for transactions of not more than R10Million or in any case where the Accounting Officer has authorised such short notice, from the date on which the advertisement is placed in a newspaper, subject to subparagraph (2) of this policy;
    - (ii) a statement that bids may only be submitted on the bid documentation provided by the Lepelle – Nkumpi municipality; and
    - (iii) date, time and venue of any proposed site meetings or briefing sessions. A briefing session must only be held to clarify some existence issues in the tender document and no new issues can be raised in such a meeting. No material changes can be made to the scope and no major changes can be made to the specification at such meeting. Briefing sessions are the responsibility of the Supply Chain Management and the relevant department and they must see to the following: compilation of an agenda, attendance registers, minutes of the meeting and chairing of the meeting.
- (2) The accounting officer may determine a closure date for the submission of bids which is less than the 30 days requirement, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.
- (3) Bids submitted must be sealed to ensure confidentiality of the bidder's documents and to avoid situations wherein bids can be tampered with.
- (4) Where bids are requested in electronic format, such bids must be supplemented by sealed hard copies, placed in a tender box in accordance with the correct procedure and the latter will be the official tender response.

- (5) For a bid to be considered it must comply with all the requirements of the bid documentation and be placed in the official tender box of Lepelle – Nkumpi Municipality.
- (6) The municipality may charge a non – refundable deposit of bid documents. This is subject to annual review. Values of the deposits will be determined annually and included in the official lists of tariffs.
- (7) The Chief Financial Officer or delegated official will ensure that the tender boxes are sealed until the time of their official opening, and ensure that they are properly secured.
- (8) At the advertised time, the tender box will be unlocked and opened in the presence of two officials. This will be done in public, and if present, in the presence of the bidders or other interested parties. A Supply Chain Management Official will open the bid documents. The tender box can be opened without any members of public being present provided that the appropriate procedure for advertising the time and venue has been followed. Unmarked or incorrectly tenders will not be opened to establish for which tender it was submitted.
- (9) The names of the total bid amounts will be read out and recorded in the tender register, which will be available for public inspection on request. A copy of the record must be kept in the Supply Chain Management's office and the original must be retained in Council's official filing system. In instances of bulk tender amounts that are too time – consuming to read out , only those request by bidders will be read , and a complete schedule provided as soon as is practical. Bid results will be published on the Municipality's website, notice board and tender bulletin.

### **Procedure for handling, opening and recording of bids**

**28.** The procedures for the handling, opening and recording of bids, are as follows:

- (a) Bids–
  - (i) must be opened only in public;
  - (ii) must be opened at the same time and as soon as possible after the period for the submission of bids has expired; and
  - (iii) received or placed in tender box after the closing time must be entered in the register as a late submission and should not be considered and returned as soon as possible.
  - (iv) Bids placed in an incorrect tender box should not be considered if found late.
- (b) Any bidder or member of the public has the right to request that the names of the bidders who submitted bids in time must be read out and, if practical, also each bidder's total bidding price;
- (c) No information, except the provisions in subparagraph (b), relating to the bid should be disclosed to bidders or other persons until the successful bidder is notified of the award; and
- (d) The accounting officer must –
  - (i) record in a register all bids received in time;
  - (ii) make the register available for public inspection; and
  - (iii) publish the entries in the register and the bid results on the website.

### **Negotiations with preferred bidders**

**29.**

- (1) The accounting officer may negotiate the final terms of a contract with bidders identified through a competitive bidding process as preferred bidders, provided that such negotiation –
  - (a) does not allow any preferred bidder a second or unfair opportunity;
  - (b) is not to the detriment of any other bidder; and
  - (c) does not lead to a higher price than the bid as submitted.
- (2) Minutes of such negotiations must be kept for record purposes.

### **30. Two-stage bidding process**

- (1) A two-stage bidding process is allowed for –
  - (b) projects where it may be undesirable to prepare complete detailed technical specifications; or
  - (c) long term projects with a duration period exceeding three years.
- (2) In the first stage technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments.
- (3) In the second stage final technical proposals and priced bids should be invited.

### **31. Committee system for competitive bids**

- (1) A committee system for competitive bids should consist of at least :
  - (a) a Bid Specification Committee;
  - (b) a Bid Evaluation Committee; and
  - (c) a Bid Adjudication Committee;
- (2) The accounting officer appoints in writing the chairpersons and members of each committee taking into account section 117 of the Act.
- (3) A neutral person or independent observer, appointed by the Accounting Officer, must attend or oversee a committee when it is appropriate for ensuring fairness and promoting transparency.
- (4) In respect of functionality , with regard to professional services , the Accounting Officer , whenever he /she deems it fit , may evaluate a technical bid / proposal using an evaluation panel consisting of three or more specialists in their field of expertise. To ensure impartiality , members of bid committees should not also act as panel members.



## 32. Composition of Bid Committees

- (1) The accounting officer shall appoint members of each committee based on the following guidelines:

### **Bid specification committees-Ad hoc basis**

- (a) A bid specification committee for bids from R200 000 and more must be composed of:
  - i. SCM Official/Practitioner
  - ii. Representative from user Department
  - iii. External specialist advisors, when deemed appropriate
- (b) The chairperson of the Bid Specification Committee must be appointed by the Accounting Officer in writing on an ad-hoc basis
- (c) The specification will be certified by the committee and be submitted to the Accounting Officer for approval before the compilation of the bid document and the advertising of the bid.
- (d) No person, advisor or corporate entity involved with the bid specification committee, or director of such entity, may bid for any resulting contracts.

Specification of bids lower than R200 000 will be compiled as follows:

Threshold	Delegated Authority	Oversight
R2001 – R29 999.99	Head of Departments or delegated official from his/her function	Supply Chain Manager
R30 000 – R199 999.99	Municipal Manager	Council

Specification of bids above R200 000 will be compiled as follows:

Threshold	Delegated Authority	Oversight
Above R200 000.00	Specifications Committee	Accounting Officer

### **Bid Evaluation Committee**

- (a) A bid evaluation committee must be composed of the following officials:
- At least one Supply Chain Management Practitioner of the municipality
  - Officials from departments requiring the goods or services (user departments);
  - officials from other departments; and
- (b) The accounting officer must appoint the chairperson in writing.

### **Bid Adjudication Committee**

- (1) A bid adjudication committee must consist of at least four senior managers of the municipality which must include –
- (a) the Chief Financial Officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer;
  - (b) at least one Senior Supply Chain Management practitioner who is an official of the municipality;
  - (c) a technical expert in the relevant field who is an official, if such an expert exists;
- (2) The accounting officer must appoint the chairperson of the committee. If the chairperson is absent from a meeting, the members of the committee who are present must elect one of them to preside at the meeting.
- (3) To ensure impartiality, neither a member of a bid evaluation committee, nor an advisor or person assisting the evaluation committee, may be a member of a bid adjudication committee

### **33. Functions and Purpose of Committees**

The following are functions and purposes of the different committees.

#### **(1) Bid Specification Committee**

(a) A Bid Specification Committee must compile the specifications for the procurement of goods and services by the municipality:

(b) Specifications –

- i. must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services;
- ii. must take account of any accepted standards such as those issued by South Africa Bureau of Standards, the International Standards Organisation, or any authority accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply;
- iii. must, where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design;
- iv. may not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labelling of conformity certification;
- v. may not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the word “equivalent”;
- vi. must indicate each specific goal for which points may be awarded in terms of the points system set out in the Preferential Procurement Regulations 2001 and as contemplated in this policy; and
- vii. must be approved prior to publication or invitation for bids or sourcing out formal written quotations as in accordance to the following thresholds :

Threshold	Specification compiled by	Specification certified by	Specification approved by
R2001 – R29 999.99	User Departments	Head of Departments or delegated official	The Supply Chain Manager
R30 000 – R199 999.99	User Departments	Chief Financial Officer	The Accounting Officer
Above R200 000.00	User Departments	Bid Specifications Committee	The Accounting Officer

**(2) Functions of bid evaluation committees**

A bid evaluation committee must –

- (a) evaluate bids in accordance with –
  - (i) the specifications for a specific procurement; and
  - (ii) the points system as it is set out in this policy in section 34 of this policy and in terms of Regulation 27(2) (f) and as prescribed in terms of the Preferential Procurement Policy Framework Act.
- (c) evaluate each bidder's ability/capability to execute the contract;
- (d) check and verify whether all forms / declarations are signed;
- (e) check and verify whether a bidder's name does not appear on the list of restricted bidders.
- (f) check the declaration of interest ;
- (g) check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears, and ;
- (h) check and verify whether an original and valid tax clearance certificate issued by SARS is attached;
- (i) submit to the adjudication committee a report and recommendations regarding the award of the bid or any other related matter.

### **(3) Functions of Bid adjudication committees**

- (1) A bid adjudication committee must –
  - (a) consider the report and recommendations of the bid evaluation committee; and
  - (b) make recommendation to the accounting officer of a bid with a transaction value of R200 000 and more;
  - (c) make another recommendation to the accounting officer on how to proceed with the relevant procurement.
- (2) If the bid adjudication committee decides to award a bid other than the one recommended by the bid evaluation committee, the bid adjudication committee must prior to awarding the bid, check in whether that bidder's municipal rates and taxes and municipal service charges are not in arrears, and request approval from the accounting officer.
- (3) The accounting may, after due consideration of the reasons for the deviation, ratify or reject the decision of the bid adjudication committee.
- (4) If the deviation is rejected, the accounting officer may refer the decision of the Adjudication Committee to the Adjudication Committee for reconsideration or approve the recommendation as the accounting officer.
- (5) The accounting officer may at any stage of a bidding process, refer any recommendation made by the Specification, Evaluation or the Adjudication Committee back to that committee for reconsideration of the recommendation.
- (6) If a bid other than the one recommended in the normal course of implementing the supply chain management policy is approved, the accounting officer must, in writing, within 10 working days notify the Auditor -General, the relevant provincial treasury and the National Treasury of the reasons for deviating from such recommendations. This, however, does not apply if a different bid was approved in order to rectify an irregularity.
- (7) The accounting officer may ratify any minor breaches of the procurement processes by an official or committee acting in terms of the delegated powers or duties which are purely of a technical nature.

- (8) Reports containing information regarding the individual amounts of the awards, the contractor (s) and the reasons why each contractor was the successful bidder, must be submitted within seven (7) working days of the end of each month to the accounting officer if these bids were awarded under delegated powers by the Bid Adjudication Committee of which the Chief Financial Officer is a member. Similar reports must be submitted within seven (7) days of the end of each month to the Management Committee if bids were awarded under delegated powers by the Chief Financial Officer and the Supply Chain Manager.
- (9) The decision of the Bid Adjudication Committee will be reached by consensus. In the even where there is no consensus, the matter should be referred to the Accounting Officer and must be responded to within seven 7days.

### **34. Evaluation and Adjudication of bids on a point system**

The preferential Procurement Policy framework Act (Act No 5 of 2000) provides the framework within which the Council's preference points systems shall be established. The Act is amended by Preferential Procurement Regulations of 2011.

The Act and amended regulations provides that:

- a) An organ of state must determine its preferential procurement policy and implement it within the following framework;
  - i) A preference points system must be followed:

#### **The 80/20 preference point system for acquisition of goods, services and works up to the Rand value of R1 Million**

(aa) for contracts with a Rand value equal to or above R30 000.00 and up to the value of R1 000 000.00 and a maximum of 20 points must be awarded to a bidder for attaining the B-BBEE status level of contributor in accordance with the table below.

B-BBEE Status Level of Contributor	Number of Points
1	20
2	18
3	16
4	12
5	8

6	6
7	4
8	2
Non-compliant contributor	0

The following formula must be used to calculate the points for price in respect of tenders with a Rand value equal to , or above R30 000 and up to a Rand value of R1 000 000(all applicable taxes included)

$$Ps=80(1-Pt-Pmin)$$

Pmin

Where

Ps = Points scored for comparative price of tender or offer under consideration,

Pt = Comparative price of tender or offer under consideration, and

Pmin = Comparative price of lowest acceptable tender or offer

**The 90/10 preference point system for acquisition of goods, services and works with a Rand value above R1 Million**

(aa) for contracts with a Rand value of above R1 000 000.00 and a maximum of 10 points must be awarded to a bidder for attaining the B-BBEE status level of contributor in accordance with the table below.

B-BBEE Status Level of Contributor	Number of Points
1	10
2	9
3	8
4	5
5	4
6	3
7	2
8	1
Non-compliant contributor	0

The following formula must be used to calculate the points for price in respect of tenders with a Rand value above of R1 000 000(all applicable taxes included)

$$Ps = 90 \frac{(1 - Pt - Pmin)}{Pmin}$$

Where

Ps = Points scored for comparative price of tender or offer under consideration,

Pt = Comparative price of tender or offer under consideration, and

Pmin = Comparative price of lowest acceptable tender or offer

### **Sub contracting**

A bidder must not be awarded the points claimed for B-BBEE status level of contribution if it is indicated in the bid documents that such a bidder intends subcontracting more than 25% of the contract value to any other enterprise that does not qualify for at least the same number of points that the bidder qualifies for, unless the intended sub-contractor is an EME that has the capability and ability to execute the sub-contract.

A contractor is not allowed to sub-contract more than 25% of the contract value to another enterprise that does not have equal or higher B-BBEE status level, unless the intended sub-contractor is an EME that has the capability and ability to execute the sub-contract.

In relation to a designated sector, a contractor must not be allowed to subcontract in such a manner that the local production and content of the overall value of the contract is reduced to below the stipulated minimum threshold

### **35. Cancellation and re – invitation of bids**

- a) In the event that, in the application of the 80/20 preference point system as stipulated in the bid documents, all bids received exceed the estimated rate value of R500 000.00, the invitation must be cancelled.
- b) In the event that, in the application of the 90/10 preference point system as stipulated in the bid documents, all bids received are equal to or below R500 000.00, the bid must be cancelled.
- c) If a bid has been cancelled as contemplated in (a) or (b) the Municipality may re – invite bids and stipulate the preference point system to be applied.
- d) The Municipality may , prior to the award of bid , cancel a bid if -
  - (i) Due to changed circumstances, there is no longer need for the goods or services tendered for; or
  - (ii) No acceptable bids are received.



### **36. Duty to plan invitation of bids**

The Municipality shall, prior to making an invitation for bids –

- a) properly plan for, and, as far as possible, accurately estimate the costs of , the provision of services or goods for which an invitation bids is to be made;
- b) determine the appropriate preference point system to be utilized in the evaluation of the bids; and
- c) determine the deliverables or performance indicators in terms of which a person awarded a contract will be assessed.

### **38. Procurement of banking services**

- (1) A contract for banking services –
  - (a) must be procured through competitive bids;
  - (b) must be consistent with section 7 or 85 of the Act; and
  - (c) may not be for a period of more than five (5) years at a time.
- (2) The process for procuring a contract for banking services must commence at least nine months before the end of an existing contract.
- (3) The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in a newspaper in terms of paragraph 22(1). Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990).

### **39. Procurement of IT related goods or services**

- (1) The accounting officer must request the State Information Technology Agency (SITA) to assist with the acquisition of IT related goods or services through a competitive bidding process except circumstances where IT goods and services may not be procured through SITA contract.
- (2) Both parties must enter into a written agreement to regulate the services rendered by, and the payments to be made to, SITA.

- (3) The accounting officer must notify SITA together with a motivation of the IT needs if –
  - (a) the transaction value of IT related goods or services required in any financial year will exceed **R50 million** (VAT included); or
  - (b) the transaction value of a contract to be procured whether for one or more years exceeds **R50 million** (VAT included).
- (4) If SITA comments on the submission and the municipality disagree with such comments, the comments and the reasons for rejecting or not following such comments must be submitted to the council, the National Treasury, the relevant provincial treasury and the Auditor General.

#### **40. Procurement of goods and services under contracts secured by other organs of state**

- (1) The accounting officer may procure goods or services under a contract secured by another organ of state, but only if –
  - (a) the contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state;
  - (b) there is no reason to believe that such contract was not validly procured;
  - (c) there are demonstrable discounts or benefits to do so; and
  - (d) that other organ of state and the provider have consented to such procurement in writing.
- (2) Subparagraphs (1)(c) and (d) do not apply if –
  - (a) a municipal entity procures goods or services through a contract secured by its parent municipality; or
  - (b) a municipality procures goods or services through a contract secured by a municipal entity of which it is the parent municipality.

#### **41. Procurement of goods necessitating special safety arrangements**

- (1) The acquisition and storage of goods in bulk (other than water), which necessitate special safety arrangements, including gasses and fuel, should be avoided where ever possible.

- (2) Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership, cost advantages and environmental impact and must be approved by the accounting officer.

#### **42. Proudly SA Campaign**

- The Municipality supports the Proudly South African Campaign and may identify, as a specific goal the promotion of South African owned enterprises.

#### **43. Appointment of consultants**

(1) The accounting officer may procure consulting services provided that any Treasury guidelines adopted by council in respect of consulting services are taken into account when such procurements are made.

(2) It is required of a municipality to conduct a gap analysis before consultants are appointed, to ascertain whether the municipality doesn't have the requisite skills or resources in its full time employ to perform the assignment in question.

(3) Consultancy services must be procured through competitive bids if :

- (a) the value of the contract exceeds R100 000 (VAT included); or
- (b) the duration period of the contract exceeds one year.

(4) In addition to any requirements prescribed by this policy for competitive bids, bidders must furnish particulars of –

- (a) all consultancy services provided to an organ of state in the last five years; and
- (b) any similar consultancy services provided to an organ of state in the last five years.

(5) The accounting officer must ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, thing, system or process designed or devised, by a consultant in the course of the consultancy service is vested in the municipality.

(6) The appointment of advisors must follow the same competitive bidding process as set out in this policy.

(7) No advisor will take any part in the final decision – making process regarding the award of bids.

(8) No decision – making authority can be delegated to an advisor

**Consultants may only be remunerated at the rates:**

- (a) determined in the "Guidelines for fees"; issued by the South African Institute of Chartered Accountants (SAICA);
- (b) set out in the "Guide on Hourly Fee Rates for Consultants" by the Department of Public Service and Administration;
- (c) prescribed by the body regulating the profession of the consultant

**Penalty Clause**

All contracts of consultants must include penalty clauses for poor performance and the accounting officer must invoke such clauses where deemed necessary

**44. Deviation from, and ratification of minor breaches of, procurement processes**

(1) The accounting officer may –

- (a) dispense with the official procurement processes established by this Policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –
  - (i) in an emergency;
  - (ii) sole provider
    - i. strip and repair
  - (iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile;
  - (iv) acquisition of animals for zoos and/or nature and game reserves; or
  - (v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes; and

(vi) where the accounting officer determines that it is impractical to invite competitive bids for specific procurement, he may do so in consultation with the Chief Financial Officer procure the goods or services by other means such as price quotations or negotiations , or reduce the required advertising period from 30/14 days to an appropriately deemed period. The reasons for deviation from inviting competitive bidding must be recorded and approved by the Accounting Officer.

(b) ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature.

(2) The accounting officer must record the reasons for any deviations in terms of subparagraphs (1)(a) and (b) of this policy and report them to the next meeting of the Council and include as a note to the Annual Financial Statements.

(4) Where there is an abuse on the implementation of the Supply Chain Management Policy by the Accounting Officer, the Council must act in terms of the MFMA , SCM regulations and this policy.

#### **45. Unsolicited bids**

(1) In accordance with section 113 of the Act there is no obligation to consider unsolicited bids received outside a normal bidding process.

(2) The accounting officer may decide in terms of section 113(2) of the Act to consider an unsolicited bid, only if –

- (a) the product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
- (b) the product or service will be exceptionally beneficial to, or have exceptional cost advantages;
- (c) the person who made the bid is the sole provider of the product or service;  
and
- (d) the reasons for not going through the normal bidding processes are found to be sound by the accounting officer.

- (3) If the accounting officer decides to consider an unsolicited bid that complies with subparagraph (2) of this policy, the decision must be made public in accordance with section 21A of the Municipal Systems Act, together with –
  - (a) reasons as to why the bid should not be open to other competitors;
  - (b) an explanation of the potential benefits if the unsolicited bid were accepted; and
  - (c) an invitation to the public or other potential suppliers to submit their comments within 30 days of the notice.
- (4) The accounting officer must submit all written comments received pursuant to subparagraph (3), including any responses from the unsolicited bidder, to the National Treasury and the relevant provincial treasury for comment.
- (5) The adjudication committee must consider the unsolicited bid and may award the bid or make a recommendation to the accounting officer, depending on its delegations.
- (6) A meeting of the adjudication committee to consider an unsolicited bid must be open to the public.
- (7) When considering the matter, the adjudication committee must take into account –
  - (a) any comments submitted by the public; and
  - (b) any written comments and recommendations of the National Treasury or the relevant provincial treasury.
- (8) If any recommendations of the National Treasury or provincial treasury are rejected or not followed, the accounting officer must submit to the Auditor General, the relevant provincial treasury and the National Treasury the reasons for rejecting or not following those recommendations.
- (9) Such submission must be made within seven days after the decision on the award of the unsolicited bid is taken, but no contract committing the municipality to the bid may be entered into or signed within 30 days of the submission.

#### **46. Combating of abuse of supply chain management system**

- (1) The accounting officer must–
- (a) take all reasonable steps to prevent abuse of the supply chain management system;
  - (b) investigate any allegations against an official or other role player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with this Policy, and when justified –
    - (i) take appropriate steps against such official or other role player; or
    - (ii) report any alleged criminal conduct to the South African Police Service;
  - (c) check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector;
  - (d) reject any bid from a bidder–
    - (i) if any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the municipality, or to any other municipality or municipal entity, are in arrears for more than three months; or
    - (ii) who during the last five years has failed to perform satisfactorily on a previous contract with the municipality or any other organ of state after written notice was given to that bidder that performance was unsatisfactory;
  - (e) reject a recommendation for the award of a contract if the recommended bidder, or any of its directors, has committed a corrupt or fraudulent act in competing for the particular contract;
  - (f) cancel a contract awarded to a person if –
    - (i) the person committed any corrupt or fraudulent act during the bidding process or the execution of the contract; or
    - (ii) an official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of the contract that benefited that person; and
- (a) reject the bid of any bidder if that bidder or any of its directors –
- (i) has abused the supply chain management system of the municipality or has committed any improper conduct in relation to such system;

- (ii) has been convicted for fraud or corruption during the past five years;
  - (iii) has wilfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years; or
  - (iv) has been listed in the Register for Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004).
- (2) The accounting officer must inform the National Treasury and relevant provincial treasury in writing of any actions taken in terms of subparagraphs (1)(b)(ii), (e) or (f) under this section of this policy.
- (3) No person placing a procurement requisition for goods and services shall underestimate the requirements of the estimated value with the intention of avoiding a more stringent procurement process. This includes the deliberate splitting of requirements to reduce individual order values. Procurement is limited to R 100 000. (vat inclusive) per commodity , per month unless a competitive bidding process has been undertaken. The Accounting Officer shall promptly institute a disciplinary action against any person infringing this requirement.
- (4) No official shall engage in contact with a prospective supplier in respect of a quotation or tender which the supplier intends to submit except where clarification of requirements is required from either party , or where the accounting officer may negotiate with identified preferred bidders. Any such communication must be recorded and appropriately filed with the bid documentation.



## **Part 3: Logistics, Disposal, Risk and Performance Management**

### **Logistics management**

- 47.** The accounting officer must establish and implement an effective system of logistics management, which must include the following:

**a) Stock – holding**

Stores only hold stock with the following criteria:

- (i) **Essential Goods** – Only items whose immediate availability is considered essential to maintain a municipal service.
- (ii) **Bulk Purchase supplies** – items of sufficient demand in common use which offer a reduction in cost over direct supply taking into account stock – holding costs.

**b) Internal Requisitions**

Stock items must be requisitioned internally from the central store , as the sole source of supply.

**c) Stores Procedure**

To be operated for the regulation of stock levels and movement to provide adequate management information numerically and financially in accordance with any procedural notes which must be issued by the Manager: Supply Chain Management?

**d) Warehouse Management**

**(i) Receiving of Stock items**

Stock items received should be verified with the purchase order and inspected for proper quantities to ensure receipt of what was ordered. The delivery note is then signed indicating acceptance of goods received.

**(ii) Issuing of stock items**

Stock items should be issued only on the authority of a properly approved, pre-numbered requisition, signed by the relevant Departmental Manager, which should give the following information:

- Source and date of requisition;
- Account(s) to be charged;
- On each item: quantity, unit stock number, description, unit price, and total rand value.

Processing should be done in the financial system in all times prior to the issuing any stock item.

(iii) **Shelving**

Stores personnel should categorise and organise storage areas for efficient, logical, and safe storage of all supplies.

(iv) **Purchase requisition for stock items**

All purchase requisition for stock items must have the signature of the Manager: Supply Chain Management Unit, prior to acquisitions.

(v) **Expediting of orders**

If the delivery conditions reflected on the purchase order form are not complied with, it should be followed up with the supplier immediately.

(vi) **Access**

Stores should be operated as a closed store, whereby; customers are excluded from the stores area except on a specially approved or escorted basis.

(vii) **Damaged goods**

Damaged goods from suppliers must be returned to the supplier for credit or replacement.

**e) Stock Reviews**

In order to manage the stores operations effectively, the Manager : Supply Chain Manager should continually review their stock holding based on information such as number of issues, levels of service achieved, total value of stock held and stock turnover.

Redundant and absolute stock should be identified by the Manager : Supply Chain Manager and reported to the Chief Financial Officer on a quarterly basis to be cleared off.

**f) Stock Levels**

The following should be determined to maintain the stock optimum stock levels:

- Minimum, maximum and re-order level;

- Slow moving or obsolete stock.

#### **g) Annual Stock taking Procedures**

- (i) The last two working days of the financial year the Stores closes for year-end inventory. No requisitions are filled, and no stock items are received.
- (ii) After the computer system has been, updated a queue batch is run providing Central Stores with updated printouts for actual inventory. A separate sheet is provided for each stores section. The sheet will contain stock number – complete description, quantity on hand and a column for actual count and column for any discrepancy.
- (iii) The person conducting the inventory counts all items and makes appropriate notations on the inventory sheet. At the conclusion of each section, person dates and signs the inventory sheet.
- (iv) At the conclusion of all inventory sections, all discrepancies will be double-checked. The Manager: Supply Chain Management Unit will make appropriate adjustments to correct inventory records to actual count.
- (v) All printouts, original documents, work papers, adjustments and corrected inventory printouts are placed on file in Central Stores Office.

#### **h) Reporting**

Stores should provide a monthly report, which must include information relating to:

- a) Total value of monthly issues;
- b) Total value of stock remaining ;
- c) Average stock holding;
- d) Price structure;
- e) Expenditure by suppliers

## **48. Disposal management**

(1) According to section 14 of the MFMA the Municipal Council will dispose assets using the following ways :

(2) Assets may be disposed of by –

- (i) transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
- (ii) transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
- (iii) selling the asset at a market related price , competitive bidding or auction;
- (iv) destroying the asset if absolute ;

(3) The accounting officer must ensure that –

immovable property is sold only at market related prices except when the public interest or the plight of the poor demands otherwise;

- (a) movable assets are sold either by way of written price quotations, a competitive bidding process, auction or at market related prices, whichever is the most advantageous;
- (b) firearms are not sold or donated to any person or institution within or outside the Republic unless approved by the National Conventional Arms Control Committee;
- (c) immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise;
- (d) all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed;
- (e) where assets are traded in for other assets, the highest possible trade-in price is negotiated; and
- (f) in the case of the free disposal of computer equipment, the provincial department of education is first approached to indicate within 30 days whether any of the local schools are interested in the equipment.
- (g) a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide minimum basic services.

(h) a municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in subsection 3 but only after the municipal council , in a meeting open to the public :

- has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic services.

(5) Where assets are traded in for other assets , the highest possible trade – in price should be negotiated.

(6) The 80/20 or 90/10 point system will apply to competitive bidding , which relate to the sale or letting of assets respectively , depending on the value of the asset.

#### **49. Risk management**

(1) The accounting officer shall ensure that the Lepelle- Nkumpi Municipality has and maintains an effective system of risk management for the identification, consideration and avoidance of potential risk in the Supply chain Management system.

(2) Aspects of risk management shall be allocated to the Chief Financial Officer, the Supply Chain Management practitioners, the internal audit function and the Audit Committee, each of which shall ultimately be accountable to the accounting officer for the discharge of their responsibilities.

(3) Risk and risk management is a key responsibility of the accounting officer who should receive advice thereon from the internal audit and Audit Committee.

(4) Risk management is however a continuous and proactive process that relates to all organizational activities at all levels. All Supply Chain Management practitioners must have a thorough understanding of the risk involved in the activities under their control and actively and proactively work towards managing risks. Each practitioner has a responsibility towards risk management.

#### **Elements of Risk**

1. The element of risk management therefore are:

- (a) Assessing the nature and extent of the risk associated with the Lepelle – Nkumpi operations.

- (b) Deciding on an acceptable level of loss or degree of failure.
- (c) Deciding how to manage/minimize/mitigate the risk.
- (d) Monitoring, reporting and from time to time re-assessing the level and implications of risk exposure.

## **50. Performance management**

Lepelle-Nkumpi Municipality must submit to the Council, Provincial Treasury and the Auditor-General such as Supply Chain Management information as they may require and in such format and at such intervals as specified.

Lepelle Nkumpi Municipality will implement an information gathering, recording, reporting and performance measurement system to facilitate the above and to promote good governance.

### **(1) Performance Measurement**

The Supply Chain Management Unit is responsible to measure Lepelle- Nkumpi Municipality's progress regarding the achievement of the goals by using the predetermined criteria. The results of this measurement will then be included in external and internal reports as prescribed.

### **(2) Record keeping System**

In achieving the predetermined targets , Lepelle – Nkumpi Municipality must :

- (a) gather as much information as possible on a continuous basis to adapt to the changing environment and Government's reporting requirements pertaining to supply chain management.
- (b) keep complete records pertaining to supply chain management will assist in performance monitoring and reporting role.
- (c) maintain a proper filing system per case.

### **(3) Records to be kept**

- (a) Record of written quotations and formal written quotations.
- (b) List of bid documents issued.
- (c) Record of ad hoc bids.
- (d) Record of specific term contracts.
- (e) Record of Deviation process.

- (f) Record of complaints received from bidders or contractors.
- (g) Record of declaration of interest.
- (h) Record of gifts received.
- (i) Record of instances of fraud or corruption.
- (j) Record of irregular, fruitless and wasteful expenditure.
- (k) Record of circulars distributed within Lepelle- Nkumpi.

(4) The following information must be published by the accounting officer or delegated official on the website of Lepelle – Nkumpi and notice boards as and when required :

- (a) the entries in the bid register and the bid results;

#### **Part 4: Other matters**

##### **51. Prohibition on awards to persons whose Tax matters are not in order**

- (1) No award above R15 000 may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service to be in order.
- (2) All bidders must submit an original valid tax clearance certificate with their initial vendor registration and thereafter in each tender document.
- (3) Before making an award to a person the accounting officer must first check with SARS whether that person's tax matters are in order.
- (4) If SARS does not respond within 7 days such person's tax matters may for purposes of subparagraph (1) be presumed to be in order.

##### **52. Prohibition on awards to persons in the service of the state**

Irrespective of the procurement process followed, no award may be made to a person in terms of this Policy –

- (a) who is in the service of the state;

- (b) if that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state; or
- (c) a person who is an advisor or consultant contracted with the Lepelle – Nkumpi municipality.

### **53. Awards to close family members of persons in the service of the state**

The accounting officer must ensure that the notes to the annual financial statements disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including –

- (a) the name of that person;
- (b) the capacity in which that person is in the service of the state; and
- (c) the amount of the award.

### **54. Ethical standards**

SCM is a particularly sensitive function in any organisation as it involves temptations for self-enrichment, bribery, manipulation, and exchange of privileged information for money. Thus opportunity for error exists in the application of individual judgement to ethical questions that may arise.

In order to promote an environment of fair dealing and integrity, LNM requires that all the SCM Practitioners, and other role players, adhere to its Code of Conduct as attached in **Appendix A**

- 1) A code of ethical standards is hereby established for officials and other role players in the supply chain management system of Lepelle – Nkumpi Municipality in order to promote :
  - (a) mutual trust and respect ; and
  - (b) an environment where business can be conducted with integrity and in a fair and reasonable manner.

(2)An official or other role player involved in the implementation of this policy :

- a) *Must treat all providers and potential providers equitably;*



- b) *May not use his or her position for private for private gain or to improperly benefit another person;*
- c) *May not accept any reward, gift, favour, hospitality or other benefit directly or indirectly, including to any close family member, partner or associate of the person of the value more than R350.00 Per Annum (VAT inclusive);*
- d) *Notwithstanding paragraph (2)(c), must declare to the accounting officer details of all rewards, gifts, favours, hospitality or other benefits promised, offered or granted to that person or to any close family member, partner or associate of that person (even those below R350.00 per Annum);*
- e) *May declare to the accounting officer details of any private or business interest which that person, or any close family member, partner or associate may have in any proposed procurement or disposal process of, or in any award of a contract by the Lepelle Nkumpi Municipality;*
- f) *Must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of the contract in which that person, or any close family member, partner or associate, has any private or business interest;*
- g) *Must be scrupulous in his or her use of property belonging to Lepelle Nkumpi Municipality;*
- h) *Must report to the accounting officer any alleged irregular conduct in the supply chain management system which that person may become aware of including:*
  - *Any alleged fraud, corruption, favouritism or affair conduct.*
  - *Any alleged contravention of paragraph 47(1) of this policy or*
  - *Any alleged breach of this code of ethical standards.*
  - *Must assist the accounting officer in combating fraud, corruption, favouritism and unfair and irregular practices in the supply chain management system and*
- i) *Must report to the accounting officer any alleged irregular conduct in the supply chain management system which that person may become aware of, including:*
  - *Any alleged fraud, corruption, favouritism or unfair conduct;*
  - *Any alleged contravention of paragraph 47 (1) of this policy; or*
  - *Any alleged breach of this code of ethical standards.*

2. Declarations in terms of subparagraphs (2) ( d )and (e) -

- a) Must be recorded in a register which the accounting officer must keep for this purpose.
- b) By the Accounting Officer must be made to the Mayor of Lepelle -Nkumpi Municipality who must ensure that such declarations are recorded in the register.

3. The National Treasury's code of conduct must also be taken into account by supply chain management practitioners and other role players involved in supply chain management.
4. A breach of code of ethics must be dealt with in terms of chapter 15 of the Act.
  - a) In case of an employee, in terms of the disciplinary procedures of the Lepelle Nkumpi Municipality envisaged in Section 67(1)(h) of the Municipality Systems Act.
  - b) In case of a role player who is not an employee, through other appropriate means in recognition of the severity of the breach.
  - c) In all cases, financial misconduct must be dealt with in terms of chapter 15 of the Act.

## **55. Inducements, rewards, gifts and favours to officials and other role players**

- (1) No person who is a provider or prospective provider of goods or services, or a recipient or prospective recipient of goods disposed or to be disposed of may either directly or through a representative or intermediary promise, offer or grant –
  - (a) any inducement or reward to the municipality for or in connection with the award of a contract; or
  - (b) any reward, gift, favour or hospitality to –
    - (i) any official; or
    - (ii) any other role player involved in the implementation of this Policy.
- (2) The accounting officer must promptly report any alleged contravention of subparagraph (1) to the National Treasury for considering whether the offending person, and any representative or intermediary through which such person is alleged to have acted, should be listed in the National Treasury's database of persons prohibited from doing business with the public sector.
- (3) Subparagraph (1) does not apply to gifts less than R350 in value.

## **56. Sponsorships**

The accounting officer must promptly **disclose to the National Treasury** and the relevant provincial treasury any sponsorship promised, offered or granted, whether directly or through a representative or intermediary, by any person who is –

- (a) a provider or prospective provider of goods or services; or
- (b) a recipient or prospective recipient of goods disposed or to be disposed.

## **57. Objections and complaints**

Persons aggrieved by decisions or actions taken in the implementation of this supply chain management system, may lodge within 14 days of the decision or action, a written objection or complaint against the decision or action to : The Municipal Manager , Private Bag X 07 , Chuenespoort , 0745.

## **58. Resolution of disputes, objections, complaints and queries**

- (1) The accounting officer must appoint an independent and impartial person, not directly involved in the supply chain management processes –
  - (a) to assist in the resolution of disputes between the Lepelle – Nkumpi municipality and other persons regarding -
    - (i) any decisions or actions taken in the implementation of the supply chain management system; or
    - (ii) any matter arising from a contract awarded in the course of the supply chain management system; or
  - (b) to deal with objections, complaints or queries regarding any such decisions or actions or any matters arising from such contract.
  - (c) suppliers must provide details of the reasons for their appeal including any non – compliance with this policy , the MFMA and related legislation. The accounting officer shall provide written acknowledgement of the receipt of appeals to the appellant and endeavour to finalise appeals within 10 working days of their receipt. Where this is not possible , the accounting officer shall advise the appellant in writing of the reasons for the delay.
- (2) The accounting officer, or another official designated by the accounting officer, is responsible for assisting the appointed person to perform his or her functions effectively.
- (3) The person appointed must –
  - (a) strive to resolve promptly all disputes, objections, complaints or queries received; and
  - (b) submit monthly reports to the accounting officer on all disputes, objections, complaints or queries received, attended to or resolved.
- (4) A dispute, objection, complaint or query may be referred to the relevant provincial treasury if –

- (a) the dispute, objection, complaint or query is not resolved within 60 days; or
- (b) no response is forthcoming within 60 days.
- (5) If the provincial treasury does not or cannot resolve the matter, the dispute, objection, complaint or query may be referred to the National Treasury for resolution.
- (6) This paragraph must not be read as affecting a person's rights to approach a court at any time.

## **59. Contracts providing for compensation based on turnover**

If a service provider acts on behalf of a municipality to provide any service or act as a collector of fees, service charges or taxes and the compensation payable to the service provider is fixed as an agreed percentage of turnover for the service or the amount collected, the contract between the service provider and the municipality must stipulate –

- (a) a cap on the compensation payable to the service provider; and
- (a) that such compensation must be performance based.

## **60. Unbundling Strategies**

In order to encourage increased participation and the sustainable growth of the small business sector, the unbundling of larger projects into smaller, more manageable, contracts by the relevant department is encouraged. Unbundling must however be considered in the context of :

- economies of scale being lost
- abortive work becoming necessary
- additional demands ( not only financial ) being placed on the areas resources

Unbundling, and all its associated implications, must therefore be carefully considered at the planning stage of any project and the budgets for, the design thereof, should be structured accordingly. It is important to note that, while it is the Lepelle – Nkumpi's policy to procure goods in the smallest practicable quantities, the practice of breaking out projects in order to circumvent the formal tender process is not permitted.

It is of the best interest of Lepelle – Nkumpi Municipality to divide the total requirement on any bid between two or more bidders e.g, in order to draw from the most convenient or nearest sources, or to ensure continued competition or to optimize available resources or support

SMME's , a supply or service may be divided amongst several bidders , and contracts can be placed accordingly , provided that this was a tender condition set by the relevant department.

#### **61. Guarantees (CIDB)**

1. It is recorded that these bonds (hereinafter contract guarantees) are required to protect the employer (the Council) if a contract is terminated due to contract insolvency or failure to perform.
2. Where the estimated contract value does not exceed R100 000 (VAT inclusive) no contract guarantee will be specified.
3. No more than 2 (two) simultaneous contracts will be awarded to single contractor where the provision of contractor have been waived.
4. For CIDB contracts (not exceeding) R1 000 000 (VAT inclusive)) contractors shall be given the choice of providing a construction guarantee, or a 10% retention being withheld on each progress payment up to a maximum of 5% of the contract sum, without the requirement for furnish a contract guarantee, half of which will be released on acceptance of practical completion of the contract, and the remainder at final completion/acceptance after the free maintenance period, defined in the tender document.
5. For all other contracts the contract guarantees shall be set as follows:
  - a) International 10%
  - b) Major (above R1 000 000.00) 10%
  - c) Minor – estimated contract price < R1 million 10% or retention of 10%
  - d) Micro (below R100 000.00)nil
  - e) Micro (above R100 000.00 – below R1 000 000. 00) 5% (or retention of 5%) Sureties in respect of the procurement of goods and services will not generally be called for, but where required, will be in accordance with the limits described above.
6. Any contractor who is registered with the CIDB but who tenders outside his/her tender value range must be considered for appointment one level higher than his/her registration range provided that the risk for appointment can be mitigated by assistance of the municipality in terms of management assistance.

#### **62. Retention**

In order to protect the Lepelle – Nkumpi Municipality's interests on Minor contracts , where the value of the surety required has been reduced , or even waived , the usual 10% retention shall apply. The value of retention deducted will therefore be as follows:

- Minor : 10% of the value of work carried out with no limit ,reducing to 5 % after completion for the duration of the maintenance period.
- Major : 10% of the value of the work carried out , up to a limit of 5% of the tender sum , with no reduction for the duration of the maintenance period. Retention in respect of the procurement of goods and services will not generally be called for, but where required, will be in accordance with the limits described above. Financial guarantees may be submitted in lieu of retention.

### **Assessment / Measurement of Supply Chain Management**

- The Lepelle - Nkumpi Municipality shall measure and monitor the Supply Chain Management Policy and process through a performance measurement system to certain whether government's objective and targets set have been achieved. In this regards complete records pertaining to Supply chain management must be kept.
- Lepelle - Nkumpi Municipality shall monitor and assess the performance of all contractors during the contract period.

### **63. Contractor Assessment**

- 1) Lepelle Nkumpi Municipality must ensure that the performance of all contractors is assessed during the period of the contract.
- 2) At the completion stage of the project/contract, an assessment of the contractor shall be undertaken and this assessment should be available for future reference.
- 3) The reliability of the contractor should be monitored in terms of, among others:
  - a) Capacity and capability to deliver (delivery periods)
  - b) Quality
  - c) Quantity.
  - d) Attainment of objectives in line with the business case for the specific project.
  - e) Other criteria determined by Lepelle Nkumpi Municipality (such as availability of facilities, reliability, flexibility, price, financial stability, response time, technical competence, creativity and innovation) should also be monitored.
  - f) Contractors shall be systematically monitored for performance against the same criteria as those used in the registration process of the provider list of the criteria set in the specification / terms of reference, where applicable. In other words was the contractor (chosen from provider list of bidding process) able to perform according to the contract conditions.

- g) It is important that all instances of breach of contract and the ensuing actions that were taken must be recorded in a prescribed format so that the management information can be extracted for reporting purposes , as required.

## **65. Access to bidding information**

To meet the objectives of this Policy :

- All bidding information shall be made available to all interested and affected parties including the Council of Lepelle – Nkumpi.
- Every bidder shall be informed of the final bid results.
- The Accounting Officer shall present a report to Council every quarter containing , amongst others , the following information for each and every bid awarded over R 30 000 :
  - Description of the bid requested
  - A list of all bidders
  - Price of each bid
  - Successful bidder
  - Reasons ( if applicable ) for the lowest priced bid not being successful.

## **Amendment of the supply chain management policy**

- 66.** (1) The accounting officer must –
- (a) at least annually review the implementation of this Policy; and
  - (b) when the accounting officer considers it necessary, submit proposals for the amendment of this Policy to the council.
- (2) If the accounting officer submits proposed amendments to the council that differs from the model policy issued by the National Treasury, the accounting officer must –
- (a) ensure that such proposed amendments comply with the Regulations; and
  - (b) report any deviation from the model policy to the National Treasury and the relevant provincial treasury.

- (3) When amending this supply chain management policy the need for uniformity in supply chain practices, procedures and forms between organs of state in all spheres, particularly to promote accessibility of supply chain management systems for small businesses must be taken into account.

## **6.7 Procurement to local contractors**

- 6.7.1 The municipality may, in the bid specification for construction or infrastructure projects with cost estimate above R3 million, require contractors whose head offices are not located in the area of jurisdiction of the Lepelle Nkumpi Local Municipality or whose head offices are located in the area of jurisdiction of the Lepelle Nkumpi Local Municipality to subcontract at least 30% of their contract value including construction work, skills transfer and procurement of goods and services in line with the bill of quantities in the bid, to a local contractor registered in the municipal local contractor database.
- 6.7.2 With no liability to the municipality, no construction work on awarded contracts above R3 million shall commence unless the contractor has satisfied the Municipal Manager Or his delegated authority with the following in respect of subcontracted work:
- 6.7.3 The contractor has nominated a local contractor within the municipal database for Local contractors;
- 6.7.4 The contractor has signed a subcontract which is legal and valid and is subject to Written consent of the municipality with such a contract indicating amongst others:
- 6.7.4.1 The contractor will pay the local sub-contractor timeously at least 30 days after Submission of invoices by the subcontractor;
- 6.7.4.2 The Contractor grants the municipality the authority and power to deduct local subcontractor invoices from payments due to the contractor and pay to the subcontractor directly, should the contractor have previously defaulted in paying the local contractor after the municipality had paid the contractor payments covering the local contractors invoices;
- 6.7.4.3 The sub -contracted local contractor is registered in the municipal database for local contractors;
- 6.7.4.4 the sub -contracted local contractor is validly registered with the CIPC, is validly registered with appropriate CIDB grading and where applicable NHBRC;
- 6.7.4.5 the sub-contracted local contractor is owned by Historically Disadvantaged individuals resident in the Lepelle Nkumpi Local Municipality;
- 6.7.4.6 The sub-contracted local contractor will procure most goods and services with Lepelle Nkumpi Local Municipality;
- 6.7.4.7 The subcontracted local contractor will employ local residents within Lepelle Nkumpi Municipality.



6.4.5 In the ordinary course of business local contractors or contractors whose head offices are located within the jurisdiction of the Lepelle Nkumpi Local Municipality and contribute on atleast level 4 are not precluded from directly bidding for infrastructural and construction projects above R3 million if they meet requirements of the bid and shall be exempted from a requirement to subcontract 30% of the bid value to another local contractor in terms of section 53.1 of the policy.

6.4.6 The supply chain management unit must prior to the signing of the service level or appropriate agreement and commencement of construction by the contractor, facilitate and convene a meeting with the project management unit and the appointed contractor to consider and facilitate compliance with requirements of section 6.7.4

53.5 The Municipal Manager may in consultation with council, extend the requirement for **subcontracting of 30% of the contract value to other services and supplies**

### **Commencement**

**67.** This Policy is effective from the date of approval by Council.

### **Council Approval**

<b>Date</b>	
<b>Resolution Number</b>	
<b>Signature</b>	