public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

# SUPPLY CHAIN MANAGEMENT POLICY

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**DEPARTMENT OF PUBLIC WORKS**

**DATE:**

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# Definitions and Abbreviations

**“Bid”** means a written offer in a prescribed or stipulated form in response to an invitation by the Department for the provision of goods, services or works with a value threshold above R500 000.00.
**“Bid Adjudication Committee / Bid Committee”** means the committee at head office or in the Regional Offices, that adjudicates over bids issued by the Department, adjudicate over the sourcing strategy and award bids as per the recommendation of the Bid Evaluation Committee or reject the recommendations, where the value of the bid is above R500 000.00.
**“Bid documentation”** means the standard documentation utilised by the Department when soliciting a bid or quote.
**“Bid evaluation committee”** means the committee appointed to evaluate bids.
**“Bid specification committee”** means the committee that is appointed to develop the sourcing strategy and approve the bid specifications or terms of reference.
**“Bidder”** means a vendor that submits a bid for contracts with a value threshold above R500 000.00.
**“Black people”** is a generic term which means Africans, Coloureds and Indians as per the BBBEE Act
**“Broad-based black economic empowerment” (BBBEE)** means the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to:

a. increasing the number of black people that manage, own and control enterprises and productive assets;

b. facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;

c. human resource and skills development; achieving equitable representation in all occupational categories and levels in the workforce;

d. preferential procurement; and

e. investment in enterprises that are owned or managed by black people.

**“CIDB”** means the Construction Industry Development Board.
**“Contractors”** means a contractor as per the CIDB Act.
**“Custodian Asset Management Plan”** means a Custodian Asset Management Plan as defined by the Government-wide Immovable Asset Management Act.
**“Functionality criteria”** means the suppliers ability to meet the service delivery requirements.
**“Generic scorecard or any relevant charter”** means the scorecard that is promulgated in terms of the BBBEE Act.
**“Government”** means the government of the Republic of South Africa.
**"Historically Disadvantaged Individual" (HDI)** means a South African citizen, who:

a. Due to the apartheid policy that had been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983, (Act No. 110 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act No. 200 of 1993: "the Interim Constitution), and / or

b. Is a female, and / or

c. Has a disability;

provided that a person who obtained South African citizenship on or after the coming to effect of the Interim Constitution is deemed not to be an HDI.

**“Immovable asset”** means an immovable asset as defined by the Government-wide Immovable Asset Management Act.
**“Movable Asset register”** means the register in which all the movable assets of the Department are recorded.
“**National Bid Adjudication Committee (NBAC)”** means the Bid Committee that sits at Head office.

**"Official"** means an employee of the Department.
**"PFMA"** means the Public Finance Management Act, 1 of 1999.
**"Potentially emerging contractor"** means a contractor that is registered as a potentially emerging contractor in terms of the Emerging Contractor Development Programme of the government (ECDP).
**"Preference points"** means points allocated to preference in terms of the Preferential Procurement Policy Framework Act 5 of 2000.
**"Quote"** means a written offer in a prescribed or stipulated form in response to an invitation by the Department for the provision of goods, services or works with a value threshold below R500 000.00.
**"RDP goals"** means the socio-economic goals of the government of the Republic of South Africa.
**"Regional Bid Adjudication Committee (RBAC):"** means the Bid Committee that sits at the Regional Office.
**"Relevant Bid Adjudication Committee"** means the National Bid Adjudication Committee or the Regional Bid Adjudication Committee as the case may be.
**"Responsiveness (eligibility) criteria"** means the criteria or requirements that are stipulated in the bid documents which the suppliers must achieve in order to qualify to be evaluated.
**"Supplier / Service provider"** means a vendor that provides goods or services to the Department.
**"Supplier register"** means a register of all suppliers or service providers that intend doing business with the Department.
**"Supply Chain Management Regulations"** means the regulations in terms of Regulation 16A of the regulations to the PFMA.
**"Term contractor"** means a supplier that has been awarded a contract with the Department to supply specified goods or perform specified services or works for a specified period.
**"The Department / DPW"** means The National Department of Public Works and its regional offices.
**"The State"** means the government of the Republic of South Africa and any of its Departments or institutions.
**"Vendor"** means an enterprise that provides a bid or quote with the intention of entering into a contract with the Department to supply the Department with goods, services or works.

# Background

1. Since the inception of the procurement reform process in 1995 the Department of Public Works (the Department) has been actively involved in conceptualising and implementing procurement reform. The White Paper on Public Works beyond 2000 called for a Ten Point Plan to advance individuals and businesses that were disenfranchised before 1994. This was the Department's first attempt to implement procurement reform and advance previously disadvantaged individuals.

2. In 1996, Targeted Procurement (TP) was developed by a Procurement Task Team and adopted by the Department as a means of implementing procurement reform. TP was primarily aimed at construction enterprises and excluded other procurement environments. Unfortunately, this approach fragmented the Department's procurement policies between TP, and the policies adopted to support the appointment of consultants and provisioning administration.

3. In September 2003 Cabinet adopted the Supply Chain Management (SCM) policy to replace outdated procurement practices. The SCM framework is characterised by a number of key differences from procurement including:

   a. moving away from central control by National Treasury and the State Tender Board towards increased responsibility and accountability by the accounting officer of each department;

   b. introducing a preference point system to address socio-economic issues, value for money and the scoring of bids thereby facilitating the move away from relying solely on the traditional practice of only accepting the lowest price bid;

   c. linking procurement practices to the planning and budgetary process through the introduction of demand management practices;

   d. assessing the value of assets based on its contribution to service delivery and return of public funds invested;

   e. introducing uniformity in bid documentation to reduce the uncertainty amongst bidders; and

   f. improving the uniformity in government's preferential procurement policies and processes.

4. The most significant change brought about by the SCM regulations (16 A) was abolishing the National State Tender Board and the implementation of bid adjudication committees accountable to the accounting officer.

5. **THIS POLICY WILL BE IMPLEMENTED WITH EFFECT FROM 01 MAY 2008.**

# Introduction

6. The SCM Regulations are intended to modernise public sector procurement, provisioning and related functions. The implementation of an integrated SCM system will contribute significantly towards the improvement of financial management in the public sector. At the same time, SCM aims to create a consistent framework for achieving good governance and the Government's preferential procurement objectives. A basic principle is that managers should be given the flexibility to manage within a

framework that satisfies the Constitutional requirements of transparency and accountability. The four major objectives of SCM are to:

a. transform government procurement and provisioning practices into a SCM function;

b. introduce a systematic approach to the appointment of consultants;

c. create a common understanding of the preferential procurement policy; and

d. promote the consistent application of 'best practices' throughout government's supply chain whilst embracing the "value for money" principle.

e. Supply Chain Management is a critical function in achieving the overall objectives of DPW. In virtually all aspects of its core business DPW depends on suppliers of different kinds to:

f. deliver goods and services to DPW;

g. increase its own capacity by sourcing in private sector capacity;

h. supply accommodation to its clients; and

i. deliver services to DPW and its clients.

7. Supply Chain Management differs from procurement in that it requires DPW to better understand its needs for goods and services. As well as land, property leases, engineering, construction works and built environment professional services by linking the needs back to the strategic planning and budgetary processes. This places an obligation on DPW to manage the demand for these goods and services in a proactive manner so as to allow the SCM Unit to ensure that the required supplier capacity is available to the department.

8. It also affords DPW the opportunity to manage its relationship with suppliers in a more proactive and consistent manner by minimising volatility in demand (the so called hockey stick effect in acquisitions towards the end of the financial year) and to build longer term relationships with suppliers through term contracts. These longer term relationships, if well managed, should allow DPW to obtain improved prices from its suppliers and manage the overall quality of goods and services, land, property leases, engineering and construction works and built environment professional services.

9. The Supply Chain Management Regulations establishes a SCM system consisting of the following six elements:

a. Demand Management

b. Acquisition Management

c. Logistics Management

d. Disposal Management

e. Risk Management

f. SCM Performance & Monitoring

10. These six elements are essential in managing the supply chain proactively to ensure delivery.

11. This Supply Chain Management Policy addresses some of the critical gaps in the old policies of the Department and sets a consistent framework for managing, monitoring and reporting Supply Chain Management activities that provide the basis for the improvement of SCM operations and services.

12. This policy is aimed at providing a framework to achieve and sustain a strategically focussed Supply Chain Management operation. This framework is required to continuously improve planning processes and the overall business performance of DPW as a key client to the construction and property economy in South Africa thereby maximising the impact of DPW on transforming these sectors and building a sustainable empowerment component. It provides the basis for simplifying the Department's Supply Chain Management operation and accelerating the delivery of services to clients. Compliance with this policy is essential to achieve the socio economic objectives of Government, as well as building the credibility of the Department.

13. Most importantly this policy complies with the strategic aim of good governance, and establishes a Code of Conduct both for staff of the Department and suppliers to the Department. By monitoring compliance the Department aims to improve financial governance and eliminate fraud and corruption.

14. The purpose of this document is to formalise the Department's supply chain management policy within the context of the Supply Chain Management Regulation 16A which will be brought into effect through the policy framework consisting of the following three components:

    a. **Directives,** which provide specific direction on supply chain management and key decision points.

    b. **Delegations,** which assign specific responsibilities to DPW role-players in terms of section 38(1)(4) of the PFMA.

    c. **Business processes,** which align the department's day-to-day procedures with the overall requirements of the policy, directives and delegations.

# Policy Objectives

## Primary objectives

15. The primary objective of this policy is to create an environment that enables the Department to manage the supply of goods, services and works in a manner that is fair, equitable, transparent, competitive and cost effective, by:

    a. adherence to the relevant legislative and regulatory requirements within the framework of broader contemporary government priorities;

    b. implementing enhanced supply chain management functions to improve the role of SCM in service delivery by DPW through:

        i. demand management to link SCM practices to the strategic planning and budgeting processes and to improve strategies and planning for acquisition, maintenance and disposal;
        ii. uniform acquisition and disposal approaches to goods and services, land, property leases, engineering and construction works and built environment professional services to simplify DPW's interaction with its supplier base;
        iii. improving contract management practices and monitoring the adherence of suppliers to conditions of contracts;
        iv. including practises that promote single point of responsibility with contractors;
        v. practices to reduce the cost and lead times of acquisitions through a single supplier register, the use of term contracts and panels of consultants where appropriate;
        vi. a just in time and direct delivery approach to the provisioning of goods thereby minimising the need for stores and unnecessary stock takes, with the exception of high-turnover and essential items;
        vii. improving Logistics Management (including fleet management) for the department by modernising policies, embedding user accountability and streamlining processes for requesting Logistics Management and reconciling the cost of services;
        viii. enhancing the movable asset management function to improve the return on funds invested by the department, life-cycle management and total cost of ownership;
        ix. improving monitoring and evaluation of SCM functions and managing the inherent risk to DPW due to the extent of its use of external suppliers; and
        x. practices to improve payment to suppliers.

    c. implement the principles of the Black Economic Empowerment Act in government acquisition and disposal processes;

    d. introducing the concept of value for money to balance socio-economic and black economic empowerment objectives with the cost of the product and services, through appropriate scoring models;

    e. ensuring the principles of fair dealing, competition and transparency of acquisitions through the Bid Specification, Bid Evaluation and Bid Adjudication Committees; and

f. mitigating the risk of fraud and other irregularities through monitoring, evaluation and risk management.

16. Inherent to achieving these objectives are the principles of good corporate governance and adopting and adhering to the code of conduct by all officials involved in Supply Chain Management by:

a. implementing enhanced Supply Chain Management functions to improve the role of SCM in service delivery by DPW through:

i. Demand management to link SCM practices to the strategic planning and budgeting processes and to improve strategies and planning for acquisition, maintenance and disposal;
ii. Uniform acquisition and disposal approaches to goods and services, land, property leases, engineering and construction works and built environment professional services to simplify DPW's interaction with its supplier base;
iii. Improving contract management practices and monitoring the adherence of suppliers to conditions of contracts;
iv. Including practises that promote single point of responsibility with contractors;
v. Practices to reduce the cost and lead times of acquisitions through a single supplier register, the use of term contracts and panels of consultants where appropriate;
vi. A just in time and direct delivery approach to the provisioning of goods thereby minimising the need for stores and unnecessary stock takes, with the exception of high-turnover and essential items;
vii. Improving Logistics Management (including fleet management) for the department by modernising policies, embedding user accountability and streamlining processes for requesting Logistics Management and reconciling the cost of services;
viii. Enhancing the movable asset management function to improve the return on funds invested by the department, life-cycle management and total cost of ownership;
ix. Improving monitoring and evaluation of SCM functions and managing the inherent risk to DPW due to the extent of its use of external suppliers; and
x. practices to improve payment to suppliers.

b. implement the principles of the Black Economic Empowerment Act in government acquisition and disposal processes.

c. introducing the concept of value for money to balance socio-economic and black economic empowerment objectives with the cost of the product and services, through appropriate scoring models.

d. ensuring the principles of fair dealing, competition and transparency of acquisitions through the Bid Specification, Bid Evaluation and Bid Adjudication Committees.

e. mitigating the risk of fraud and other irregularities through monitoring, evaluation and risk management.

## Empowerment initiatives

17. The Department will determine its preference strategy and award points for preference objectives in accordance with the Preferential Procurement Policy Framework Act (PPPFA) and its Regulations. Through the use of scoring models the Department will determine the ratio of points for empowerment in the achievement of its pre-determined goals and targets.

18. In order to ensure that the Department achieves effective transformation in construction the Department will apply the following empowerment principles to its empowerment initiatives:

    a. use annualised cash-flows for maintenance contracts rather than the total tender amount to determine the Construction Industry Development Board (CIDB) grading in which the tender will be invited;

    b. when inviting contractors to tender for works, the department will apply Regulation 25(8) of the CIDB Regulations;

    c. the Department will apply Regulation 25 (7A) of the CIDB Regulations for Construction Works procurement and subject to the maximum values allowed by the department; and

    d. standardizing the preference points for quotations.

## Interim measures for awarding preference points (All acquisitions)

19. Presently the PPPFA has not been amended to give effect to the scorecards and the relevant charters. In the interim, the provisions in the PPPFA apply to preferencing. The emphasis currently in the PPPFA with regard to empowerment, is ownership by HDI's as defined in the PPPFA.

20. DPW will continue to award preference points for the preference goals as determined by the PPPFA.The Department will award preference points for ownership and equity within the categories of people with no franchise prior to 1983 and 1993 Constitutions, women and people with disability, as well as for other socio economic goals.

21. Preference Points will be awarded based on percentage claimed in each category.

## Preference points for quotations (all acquisitions)

22. The Department will focus preference points for quotations up to R 500 000, on ownership only. No preference points will be awarded for quotations below R 30 000. The Department will award preference points as per Table1.

| **Preference points for quotations** | |
|---|---|
| **Preference** | **Points allocated** |
| People with no franchise before the 1983 and 1993 constitutions | 14 points |
| Women | 4 points |
| Disabled persons | 2 points |
| **Total** | **20 points** |

**Table 1**

# Empowerment in construction related acquisitions

## Using annualised cash flows for maintenance contracts

23. CIDB regulation 25(1)(b) provide for the monetary value of contracts that fall over more than one financial year, to be split over the period the contract extends. For example a contract with a value of R 2 million, which extends over 2 financial years, will have a monetary value of R1m in each financial year.

24. The Department will use annualised cash-flows for maintenance contracts rather than the total bid amount to determine the CIDB grading in which the bid will be invited. Although it is acknowledged that the cash flow may be higher in the repair phase of the contract, the value of maintenance contracts that spans more than one financial year will be divided by the number of financial years that the contract spans.

## Potentially Emerging Contractors

25. Potentially Emerging Contractors will be invited to tender for work in a category that is one higher than that in which they are graded provided these contractors are part of the department's contractor development programmes (ECDP and CIP). The Department will provide the necessary support to such contractors as required by the Potentially Emerging Contractors support programmes (ECDP and CIP. Contractors who are not on ECDP and/or CIP but happen to be the preferred bidder will be awarded such contracts upon confirmation from the department that CIP/ECDP type support will be provided.

## Evaluating and awarding tenders from contractors that tender in a higher grading than that which they are registered

26. Regulation 25(7A) of the CIDB Regulations states that an organ of state may subject to its procurement policy and notwithstanding anything to the contrary contained in this regulation, evaluate and award a tender offer from a bidder (tenderer) who is registered, but who tendered outside of his or her tender value range as contemplated in regulation 17, provided that :

    a. the margin with which the bidder (tenderer) exceeded his or her tender value range, is reasonable; and

    b. the award of the contract does not pose undue risk to the organ of state.

27. The Department will evaluate contracts from (including those received from potentially emerging contractors) and award contracts to CIDB registered contractors that bid for contracts in a financial range that is higher than that which they are registered, provided that the tender offer does not exceed the maximum value set by the Department. The following table illustrates the maximum that CIDB contractors may tender in the higher value range. The Department will not evaluate or award any contract to any contractor that exceeds the maximums in table 2 below.

| Margins by which an applicant may exceed its grading which is considered reasonable | |
|---|---|
| **Grade of Contractor** | **Maximum that the contractor may exceed the financial value of its grading** |
| Grade 1 (R0 – R200 000) | 15% of financial grading (maximum of R230 000) |
| Grade 2 & 1 PE (R 200 000 – R500 000) | 15% of financial grading (maximum of R575 000) |
| Grade 3 & 2 PE (R500 000 – R1 500 000) | 15% of financial grading (maximum of R1 725 000) |
| Grade 4 & 3 PE (R1 500 000 – R3 000 000) | 15% of financial grading (maximum of R3 450 000) |
| Grade 5 & 4 PE (R3 000 000 – R5 000 000) | 10% of financial grading (maximum of R5 500 000) |
| Grade 6 & 5 PE (R5 000 000 – R10 000 000) | 10% of financial grading (maximum of R11 000 000) |
| Grade 7 & 6 PE (R10 000 000 – R30 000 000) | 5% of financial grading (maximum of R31 500 000) |
| Grade 8 & 7 PE (R30 000 000 – R100 000 000) | 5% of financial grading (maximum of R105 000 000) |
| Grade 9 & 8 PE (R100 000 000 – no limit) | |

**Table 2**

28. The Department will no longer apply functionality criteria to determine the highest scoring bidder for contractors registered with the CIDB. Bids received from contractors, invited in terms of the CIDB standards for uniformity, will only be evaluated according to price and preference. The Department, in managing its risk will apply additional risk assessment criteria to assess whether the highest ranking bidder is capable of conducting the work. Should the risk assessment indicate that the highest scoring bidder poses a risk to the department, the project manager must motivate to the National Bid Adjudication Committee, why the highest scoring bidder should not be awarded the bid. The Department reserves the right to verify any information submitted by a bidder. The Department further reserves the right to use quality / functionality scoring in instances where such is deemed necessary in terms of the CIDB regulations.

# Empowerment in property related acquisitions

29. The SCM Policy takes its guidance on empowerment in property related acquisitions from the document: “Property Management Strategy on Black Economic Empowerment (BEE), Job Creation and Poverty Alleviation”. The document places emphasis on the following empowerment aspects related to property acquisitions.

## Property leases

30. DPW will promote empowerment by offering long term leases to companies that are contributing the most to empowerment. The thresholds to determine lease periods per empowerment contribution are articulated in the document mentioned above “Property Management Strategy on Black Economic Empowerment (BEE), Job Creation and Poverty Alleviation” publication.

## Lease to specification

31. DPW will foster empowerment by entering into long-term leases with HDI landlords to manage and or construct buildings that government will lease from them, with an option for DPW to own those

properties upon expiry of those leases. Such leases will be governed by Regulation 16 of the Public Finance Management Regulations on Public Private Partnerships.

### Tenant installation

32. When government leases new properties, or renew the leases of existing properties, there is often a need to refurbish such properties. DPW will promote the objectives of the Extended Public Works Programme and National Youth Service by specifying participation goals based on the goals of these two programmes.

33. Lease specifications must include participation goals in line with the following:

| **Jobs to be created per tenant installation** | | | | |
|---|---|---|---|---|
| **Category A** | **Category B** | **Category C** | **Category D** | **Category E** |
| Above R 100 million | R 50 and < R 100 million | R 20 and < R 50 million | R 10 and < R20 million | R 10 and < R 2million |
| 500 Jobs created | 300 Jobs created | 200 Jobs created | 100 Jobs created | 50 Jobs created |

**Table 3**

### Property brokering

34. DPW will foster empowerment in the property sector through brokers (estate agents) through specifying participation goals for property ownership when leasing through brokers.

### Acquisition of property

35. DPW will target Historically Disadvantaged Enterprises for the purchasing of land and properties through the preference points system.

## Future Implementation of Broad Based Black Economic Empowerment

36. The Department will implement Broad Based Black Economic Empowerment (BBBEE) once the PPPFA has been amended to include the principles of the BBBEE Act (Act 53 of 2003). The Department will then use the generic scorecard or any relevant charter specific to the sector from which it acquires, including but not limited to, for example:

    a. The construction charter.

    b. The property charter

    c. The financial services charter.

# Demand Management

## Purpose of Demand Management

37. The purpose of demand management is to ensure that resources to fulfil the needs identified in the strategic plan are delivered at the correct price, time, place, quantity and quality to satisfy the needs.

38. Proper demand management practices will allow the SCM unit to prepare itself and the supplier base to meet the need for services by DPW. Introducing demand management will require:

    a. that a needs assessment is conducted prior to the beginning of the MTEF period;

    b. specifications are precisely determined; and

    c. the supplier industry has been analysed.

## Needs assessment

39. The needs for goods and services in DPW can be derived from its functions and is informed by the 1997 White Paper that identify certain services to be sourced from other institutions and the private sector.

40. When assessing the needs for goods and services the SCM unit must give due consideration to:

    a. the geographical spread of DPW operations and assets;

    b. the distribution of suppliers in relation to the geographical spread of demand;

    c. the volume of demand in relation to the geographic spread of demand; and

    d. national priorities such as rural development, skills training and employment.

41. The needs assessment process must be embedded in the business planning and budgeting processes as part of the annual budgeting and business plan cycle. To comprehensively establish the needs of DPW three separate processes will be followed to determine the demand for:

    a. **Goods and services:** Demand for goods and services will be based on the annual approved budget. DPW will be required to detail the administration budget to the level where the need for goods and services can be determined;

    b. **Movable assets:** The demand for movable assets will be based on the movable asset management plans as required in terms of the movable asset management policy. The asset management plan must comprise of an acquisition plan, operations & maintenance plan (including safeguarding the asset), a funding plan and disposal plan. The need for movable assets will be derived from the movable asset management plans; and

    c. **Immovable Assets:** In terms of the Government Immovable Asset Management Act (GIAMA), DPW must annually prepare a custodian asset management plan. It is anticipated that the first comprehensive custodian asset management plan (C-AMP) will be completed by November 2008. A comprehensive C-AMP will include an acquisition plan, refurbishment plan, maintenance & repairs, and disposal plan. In the interim, the needs for built environment professional services, construction, building and contracting services, land, buildings and facilities will have to be estimated based on the annual budget and the business plan of the units involved in the acquisition of construction related services.

## Specifications

42. Specifications must be prepared for all goods and services that will be required by DPW. DPW has identified the goods and services that will regularly be used and intends that uniform standards and

specification will be used for these goods and services. Such goods and services include inter alia travel, transport, movable assets, office services, consulting services, built environment professional services and space and cost norms. Where uniform standards exist, officials must abide by these standards when drafting specifications for goods and services.

43. All specifications must be prepared free of interference by bidders and must be based on the principles listed below:

    a. Standards and specifications must promote the broadest possible competition, while the performance requirements must ensure that the critical elements of performance are achieved.

    b. As far as possible standards must originate from credible institutions such as the South African National Standards Authority, International Standards Organisation or institutions accredited by the South African National Accreditation System.

    c. Where standards do not exist for the built environment, DPW must use Agrément, DPW's own non-standard material and building system accreditation body.

    d. Specifications should be based on relevant characteristics and performance requirements, reference to brand names should be avoided. Where brand names are used, it should be accompanied by the words "or equivalent".

    e. Specifications should be precise and should avoid duplication of the same service or performance requirements.

44. Each specification, during evaluation by the bid specification committee, will be evaluated in terms of budget and expenditure priorities to ensure that these priorities are promoted in the specification. Expenditure priorities must, as far as possible, be addressed through the preferencing system, but the specification should also be aligned to the priority.

## Bid specification committees

45. All specifications must be endorsed by a bid specification committee prior to submission to the bid adjudication committee for approval to invite bids. A bid specification committee must consist of at least four people, one of which must be an SCM specialist.

## Supplier industry analyses

46. DPW will use its supplier register, the CIDB register of contractors and the various built environment professional registers to analyse the supplier industry. The information must be used to determine the potential suppliers for different categories of goods and services, geographic spread and empowerment profile.

# Supplier Management and Register

## Purpose of the Supplier Register

47. The DPW register of suppliers is a key instrument to ensure that the Department has sufficient appropriately qualified suppliers to provide the Department with goods or to perform required services, and at the same time aid development amongst emerging businesses. The objectives of the Supplier Register are to:

    a. assess the profile of suppliers available in the market;

    b. maintain an approved list of suppliers to aid the quotation method of acquisition;

    c. reduce administrative and bidding/quotation costs for both the Department and the supplier;

    d. support the Department's preference policy;

    e. support promotion of emerging suppliers and supplier development programmes;

    f. monitoring supplier performance by establishing a track record for suppliers;

    g. target supply side support resources to emerging suppliers (including the ECDP);

    h. reduce risks relating to the selection of suppliers; and

    i. report on the implementation of preference, black economic empowerment, and budget spending.

48. To meet these objectives supplier management processes must be supported by a single, credible and consolidated register of the Department's suppliers.

## Supplier Policy Principles

49. A supplier is a provider of goods or services, which meets the criteria of the Department, is registered on the Department's supplier register and who is able to perform services or provide goods for the Department. The Department will only contract with suppliers registered on the supplier register. Suppliers to be registered on the Department's supplier register include consultants, professional and specialist service providers, and general goods and services providers. Contractors registered with the CIDB will not be required to re-register with the Department.

50. The following key principles will apply to the supplier register:

    a. The use of the register will be mandatory for the acquisition through the quotation procedure for all goods and services.

    b. The use of the CIDB Register of Contractors is mandatory for the construction sector. Department officials are not allowed to operate any form of supplier register other than the official supplier register.

    c. Registration of a supplier on the supplier register does not guarantee that the said supplier will receive any work or contract from the Department.

d. The register will categorise the different service sectors and register suppliers for the respective service category or categories applied for.

e. Suppliers registered with the Department must be compliant with all relevant legal and statutory requirements.

f. The register will facilitate access by the small and emerging enterprises to work and development opportunities.

g. Suppliers who do not meet the criteria stipulated in the invitation to register will not be registered on the supplier register.

# Acquisition Management

## Purpose of acquisition management

51. The purpose of acquisition management is to ensure that acquisition delegations are in place in the organisation, the market is assessed and a sourcing (procurement) strategy is determined, bid documents are compiled, bids are solicited, responses are received, responses are evaluated,and assessed and awarded by the Bid Adjudication Committees.  For the purposes of this policy the process has been divided into 5 steps.

    a. Initiation;

    b. Preparation of bid documents;

    c. Solicitation;

    d. Evaluation;

    e. Assess and award by the Bid Adjudication Committees.

## A uniform acquisition policy

52. The Department must comply with the principles of fair, equitable, transparent, competitive and cost-effective processes throughout acquisitions. In order to achieve this, the principles discussed must be applied.  In implementing the policy DPW must:

    a. ensure that bid documentation and the general conditions of a contract are in accordance with –

        i. the instructions of National Treasury; or
        ii. the prescripts of the CIDB, in the case of a bid relating to the construction industry;

    b. determine an acquisition strategy for quotes (where applicable) and for bids, which promote competition;

    c. determine scoring models and the ratios to be used for the combination of price and functionality which will be determined and approved by the Bid Adjudication Committee process, and must be communicated to suppliers in all the advertisement and bid documents;

    d. advertise bids in at least the Government Tender Bulletin for at least 30 days before closure, except in urgent cases where bids may be advertised for a shorter period on approval of the Bid Adjudication Committee;

    e. in respect of construction related acquisitions, advertise projects on i-Tender@cidb, in accordance with CIDB Regulations;

    f. return late bids unopened to the bidder;

    g. assess bids in a consistent fashion against the pre-determined criteria contained in the acquisition strategy;

    h. before award, that the Acquisition Unit checks that the recommended bidder is not listed as a default supplier in CIPRO, and National Treasury;

i. reject bids that do not comply with the responsiveness (eligibility) criteria as approved in the acquisition strategy and with other requirements that were specified in the bid document;

j. document the reasons for rejecting a bid,

k. advise successful bidder/s of a successful bid and advertise award in the tender bulletin and other mediums that were utilised to advertise the bid;

l. enter into a legal contract for all successful bids; and

m. issue an order for all successful quotes and against a contract.

## Standard Acquisition Procedures and Evaluation Methods

53. To implement these principles, DPW adopts the Standard Procurement Procedures and Standard Evaluation Methods, as prescribed by the CIDB Standards for Uniformity, when soliciting any quote or bid.

## Scoring of bids and value for money (excluding construction bids)

54. The PPPFA and its Regulations prescribe a framework for a preferential procurement system. This Act and its Regulations incorporate the '80/20' and '90/10' scoring models which the Department will apply as required. Points scored for price (price or price/functionality) must be added to points scored for preference. The bid or quote should be awarded to the highest points/score. Any exceptions to this must be referred to the National Bid Adjudication Committee for approval.

55. Value for money is achieved by balancing the price (cost) of the goods and services, whilst achieving socio-economic objectives. The following key principles will apply:

a. Minimum functionality thresholds will be used to determine the ability of a bidder to execute the work or deliver the required product, but may not be used to target or exclude specific groups.

b. A higher weighting should be allocated to functionality criteria where the goods or service is complex and specialised, a lower weighting should be allocated to functionality where well-established practices and standards exist for the respective goods or service.

## Discontinuing quality or functional scoring on construction bids

56. The Department will no longer apply functionality criteria to determine the highest scoring bidder for contractors registered with the CIDB. Bids received from invited contractors, invited in terms of the CIDB standards for uniformity, will only be ranked according to price and preference by the Acquisition Unit. The Department, in managing its risk will apply additional risk assessment criteria to assess whether the highest ranking bidder is capable of conducting the work. Should the risk assessment indicate that the recommended bidder poses a risk to the department, the project manager must motivate to the Chief Director: Supply Chain Management, why the highest scoring bidder should not be awarded the bid. The Department reserves the right to verify any information submitted by a bidder.

## Bid Evaluation and Adjudication Committees

57. All bids must be evaluated by a bid evaluation committee prior to submission to the bid adjudication committee for approval of bids. A bid evaluation committee must consist of at least four people, one of which must be a SCM specialist.

58. Bid Adjudication Committees are established in terms of Regulation 16A to the PFMA to provide a control function to assess and award bids. The responsibility of the Bid Adjudication Committee is to ensure that the process of soliciting and evaluating bids is fair, equitable, transparent, competitive and cost effective. Bid Adjudication Committees may delegate to Adjudicator for the approval of quotations in order to ensure operational efficiency.

59. Members of the Bid Evaluation and Bid Adjudication Committees must be free of any conflict of interest when assessing bids. A Declaration of Interest certificate must be signed by all members who participate in these committees.

## Delegations

60. The accounting officer of DPW must ensure that appropriate delegations are in place for acquisitions in line with the National Treasury prescripts. All SCM directives and business processes issued by the SCM Unit must be approved by the Chief Director: Supply Chain Management.

# Logistics Management

## Purpose of Logistics Management

61. The purpose of Logistics Management is to place orders against contracts for goods and services, receive and distribute goods, coding of items, setting of inventory levels and manage stores or warehouses where stock are kept (including coding of items, setting of inventory levels), manage transport arrangements and monitor vendor performance. The logistic process must cater to activate the financial system to generate payments against orders placed/received.

62. The purpose of this policy is to regulate Logistics Management in DPW in line with the SCM framework. In this context the objectives are to:

    a. ensure uniform application of policy; policy directives and standard operating procedures for logistics;

    b. ensure that accountability is established with the relevant manager thereby improving the control and reporting function of Logistics Management (particularly as it pertains to the reporting of misconduct); and

    c. improve control over regular expenditure items such as travel and the use of DPW transport and fleet services.

## A uniform logistics policy

63. When the Department purchase goods and services the principles listed below must apply:

    a. A proper acquisition process (competitive bid or quotation) has been followed and a supplier has been duly contracted.

    b. All orders (including travel authorisations) have been authorised by the relevant manager, appropriately authorised thereto through his/her delegated authority, and must be raised through the:

        i. Works Control System (WCS) for all construction related goods and services;
        ii. Property Management Information System (PMIS) for all property related goods and services;
        iii. Logistics Information System (LOGIS) system for all other goods and services not covered by the WCS or PMIS.

    c. The budget must be available and approved and the order must be placed against the relevant budget.

    d. Goods and services must be comprehensively described and must be within the specification of the contract or standard where such uniform standard exists.

    e. Goods and services must be received, verified against the specification and payment must be authorised by the relevant:

    f. manager responsible for raising the order when goods or services are directly received;

i. store manager, in the case of stored items;
ii. project manager in the case of project based services; and
iii. property manager in the case of accommodation.

g. All payments must be requested through the:

i. Works Control System (WCS) for all construction related goods and services;
ii. Property Management System (PMIS) for all property related goods and services;
iii. LOGIS system for all other goods and services not covered by the WCS or PMIS.

h. Store and warehouse items must be monitored for use and only sufficient surpluses must be kept to ensure stock in case of delayed deliveries.

i. Regular stock counts must be conducted to verify stock levels and record any losses.

j. Assets must be recorded in the relevant asset register on receipt.

## Delegation and accountability

64. The accounting officer of DPW must establish delegation and accountability for the use of goods and services, the management of budget, placing of orders and verification of invoices with the relevant manager who is responsible for that budget. The role of provisioning and Logistics Management is that of monitoring and reporting and control for these processes are with the relevant management.

## Control over regular expenditure items

65. The Supply Chain Management Unit (SCMU) must implement a computerised workflow system to support the authorisation and control of expenditure for provisioning and Logistics Management. It must also improve the tracking of invoices and reconciling authorisations with actual expenditure. The workflow system must be configured to enforce the uniform policy requirements.

# Movable Asset Management

## Purpose of Movable Asset Management

66. The purpose of movable asset management is to enable DPW to meet its service delivery objectives efficiently and effectively by achieving the best possible match of assets with programme delivery strategies.

67. Movable Asset Management consists of the following key functions:

   a. **Performance monitoring** forms the basis of management of the asset throughout its life. It facilitates adjustments to the various plans, ensuring programme delivery needs are met and providing increased efficiencies. As part of this process, assets should be evaluated in terms of their physical condition, functionality, utilisation and financial performance.

   b. **The asset planning and budgeting processes** are required to determine the demand for movable assets and involve options analysis, determining the economic value and full life-cycle cost. The process also includes the preparation of an annual asset management plan for major or capital assets which comprise of an acquisition plan, operations and maintenance plan (including safeguarding the asset), a funding plan and a disposal plan.

   c. **Acquisition and disposal** will be dealt with according to relevant sections in this policy, including assets that fall under the control of the accounting officer by means other than the normal acquisition process.

   d. **Recording of movable assets**: All movable assets must be recorded in the asset register.

   e. **Asset Register:** The asset register must be used in the planning and budgeting and, must record the information with regard to control of the asset and the preparation of reports for National Treasury including annual financial statements.

   f. **Tracking of movable assets:** Assets must be tracked according to specific timeframes and the control of the asset must be updated as and when it changes. The following methods and timeframes will be applicable to the tracking of assets and stock take:

      i. cyclical counting of assets; and

      ii. automated stock-take of IT equipment attached to a local area or other network components.

## Life cycle planning and full life-cycle costs principle

68. The use of life-cycle costing techniques allows a full evaluation of the total cost of owning and maintaining an asset prior to acquisition. This creates the opportunity to determine the most cost-effective programme delivery solution. Estimating life-cycle costs prior to acquisition also establishes a standard, which is the basis for monitoring and controlling costs after acquisition. The planning, acquisition, capital and recurring costs should be included in determining the cost of a movable asset.

## Control over movable assets

69. The present DPW finance delegations will apply to asset management and control of the asset will vest with the Accounting Officer or his/her delegate as stipulated in the relevant delegations.

70. In terms of the delegations:

    a. control of, and accountability for, assets is established at the programme level;

    b. financial responsibility for assets is established through the budget process and by cost allocation attribution;

    c. condition, use and performance measures are established; and

    d. the performance of assets is an input to the next planning cycle.

71. An asset can come under the control of the accounting officer of DPW by means of the following mechanism (other than acquiring the asset through normal acquisition processes):

    a. **Transfer:** An asset that is transferred from another entity.

    b. **Vesting:** An asset that is vested in an entity.

    c. **Acquisition by joint venture:** An asset that is purchased constructed or developed as part of a joint venture.

    d. **Donation/gift/bequest:** An asset that is donated, given or bequeathed to an entity.

    e. **Seizure:** Some entities have control over and are accountable for the collection of revenues on behalf of the Government. Assets seized due to default of payment.

    f. **Contingent control:** Some arrangements, such as private sector investment in infrastructure afford an entity the right to take control of an asset.

# Disposal Management

72. The purpose of disposal management is to dispose of movable and immovable assets to the best value for money to the state. The SCMU is responsible for the following functions as it relates to disposal of movable assets:

    a. obsolescence planning;

    b. maintaining a data base of redundant material;

    c. inspecting material for potential re-use;

    d. determining a disposal strategy; and

    e. executing the physical disposal process.

73. In the case of immovable assets, the SCMU is only executing the physical disposal process. The remaining functions are executed by the (Immovable) Asset Management Branch. When disposing of immovable assets the SCMU must adhere to the requirements of the State Land Disposal Act as well as per the provisions of PFMA, PPPFA and the Government Immovable Asset Management Act (GIAMA). When State land is released either as per long term lease or outright sale, such a disposal should seek to address the imbalance of property ownership and Government initiatives such as land reform, land required for housing, schools, clinics, etc should receive priority. A disposal implementation plan, clearly outlining the targets should be approved at Executive Authority level. When properties are disposed the Expanded Public Works Programme (EPWP) principles should be part of the disposal condition when those assets are developed or refurbished by the long-term tenants or purchasers.

74. The primary methods of disposal of movable assets include sale by public auction, howevertender, sale by private treaty, trade-in and write-off and letting and transfer of assets to other government entities may also be considered.

75. An asset disposal plan must be prepared that will:

    a. prepare and evaluate proper costing to support the selection of the most cost-effective disposal methods;

    b. identify those areas most susceptible to fraud or risks and introduce appropriate preventive measures;

    c. identify and communicate the preferred arrangements for disposals to relevant staff;

    d. engage experts to draft the terms of contract and to assist in preparing the contract (particularly for complex and non-standard disposals) to minimise the exposure to risk;

    e. provide clear instructions to the agent engaged to undertake the disposal; and

    f. monitor and evaluate disposal performance regularly for achievement, fair dealing, cost-effective choice of disposal methods and for compliance with the disposal policies and objectives contained in the SCM Policy.

76. When disposing assets by means of a bid process the normal bid process will apply. It will consist of:

a. Initiation;

b. Preparation of bid documents;

c. Solicitation;

d. Evaluation;

e. Assess and award by the Bid Adjudication Committees.

# Risk management

77. The audit committee and the accounting officer must facilitate a risk assessment to determine the material risks to which the department may be exposed and to evaluate the strategy for managing those risks.

78. The Risk Management team will be responsible for:

    a. assessing the nature and extent of the risks associated with DPW's operations,

    b. deciding on an acceptable level of loss or degree of failure,

    c. deciding how to manage or minimise the risk; and

    d. monitoring, reporting and, from time to time, reassessing the level and implications of the risk exposure.

79. Risks are primarily addressed through directives for the SCM process. The key risks have been identified and the risk management strategy and plan must address each in detail:

    a. Fraud, corruption and collusion: This must be addressed by adequate segregation separation of duties between specification, acquisition, ordering, vendor performance management and approval of invoices.

    b. Theft and losses of assets: Regular tracking of assets.

    c. Misuse, abuse of assets: Authorisation for acquisition or use of assets must be properly addressed in delegations.

    d. Accountability and control of assets: Accountability and control are not recorded and properly established.

    e. Effective life-cycle management of movable assets: This must be addressed through asset management plans for movable assets.

    f. Asset Register: The asset register must be kept up to date. Assets must be registered as they are received and tracked and recorded throughout its life-cycle.

    g. Demand not determined in advance: This will place undue pressure on the acquisitions unit, which may lead to mistakes in the acquisition process and consequential legal actions by suppliers.

# Performance management

80. The purpose of the monitoring process is to undertake a retrospective analysis to determine whether the proper processes have been followed and whether the desired objectives were achieved. Some of the issues that may be reviewed are:

    a. compliance to norms and standards;

    b. cost efficiency of SCM process (i.e. the cost of the process itself); and

    c. if the supply chain practices are consistent with Government's broader policy focus.

81. The following key indicators need to be measured:

    a. Achievement of goals.

    b. Compliance to uniform standards.

    c. Savings generated.

    d. Stores efficiency.

    e. Cost variance per item.

    f. Contract breach.

    g. Productivity and skills.

    h. Cost efficiency of procurement process (i.e. the cost of the process itself).

    i. Whether supply chain objectives are consistent with Government's broader policy focus.

    j. That the material and construction standards become increasingly aligned with those standards that support international best practice.

    k. That the principles of co-operative governance as expounded in the Constitution are observed.

    l. That the reduction of regional economic disparities are promoted.

82. It is recommended that at the completion stage of each project an assessment of the supplier/service provider (including consultants where applicable) be undertaken and that this assessment should be available for future reference.

# Implementation of this policy

83. DPW has been successful in ensuring that a uniform acquisition policy has been establish for the acquisition of services in relation to the construction, maintenance and refurbishment of capital (immovable) assets. The main aim with implementing this policy is to streamline the old procurement and logistics processes and simplify processes in line with SCM. At the same time the directives and processes will be re-engineered to address the SCM challenges in the Department. Some of the key initiatives in SCM are listed below:

    a. Establishing a demand management capacity and implementing demand management processes including:

        i. Uniform specifications for goods and services.
        ii. Uniform specifications for movable assets, based on life-cycle costing principles.

    b. Establishing the supplier register.

        i. Understand the market and the suppliers operating in the market.
        ii. Ensure pre-assessment of suppliers based on the needs identified in the budget and operational plan.

    c. Improving and expediting the acquisition process by:

        i. The acquisition of DPW's own Logistics Management term contracts.
        ii. The acquisition of consulting services through a panel of consultants rather than ad-hoc acquisition processes.
        iii. Applying the learning from term-contracts to maintenance, minor construction, facilities management, building and contracting services and exploring new methods of acquiring services on a longer term basis.
        iv. Critically assessing the acquisition process for land and buildings which are locality bound, that must often be acquired through negotiated processes and where valuations can be used to determine whether the state is acquiring a property at fair market value.
        v. Addressing leasing and the renewal of leases on facilities where the practicality and costs of moving a state department from its current accommodation to new accommodation exceeds the benefits of full competitive bidding.
        vi. Implementing the Acquisition and Disposal directive.
        vii. Implementing the Supplier Register directive

    d. Improving Logistics Management by:

        i. Implementing uniform logistical processes for DPW.
        ii. Establishing accountability and control.
        iii. Assessing the skills and capacity in the logistical unit and align it with the needs of Supply Chain Management practices.

iv. Developing and implementing directives for:
   i. International and travel and subsistence
   ii. Domestic travel.
   iii. Domestic subsistence.
   iv. Subsidised vehicles.
   v. Senior managers Services
   vi. Middle Managers Services.
   vii. Fleet management.
   viii. Entertainment.
   ix. Telecommunications including cellular phones.
   x. Photocopying.
   xi. Venue and conferences.
   xii. Inventory and stores.

e. Implementing the asset management policy by predominantly focussing on the life-cycle management principles and total cost of ownership

f. Establishing a risk management and monitoring an evaluation unit.