

# SCM Review Update - 2016

## ■ Introduction

Procurement of goods, services and works over the next three years will amount to R1.5 trillion across all spheres of government. This is an enormous amount of money. Wisely and efficiently spent, it can be a great force for good. It can ensure that those in need receive services, that infrastructure like roads and ports is built and maintained, that schools are well-equipped and that health services are widely available. It can also spread wealth to hard-working entrepreneurs who successfully tender for government contracts and, in doing so, create jobs. Even those not directly involved in public procurement can benefit, as suppliers to government source their supplies and materials from manufacturers, farmers and many others.

Efficiently and cost effectively managed public procurement can, through intelligent strategic procurement strategies, accelerate quality delivery of services and at the same time contribute to economic growth. The 2014 Public Sector Supply Chain Management Review provided a frank assessment of the current SCM system and provides a roadmap for reform. This chapter provides a snapshot of progress that has been made since the release of the Review and the on-going programme of action.

The Office of the Chief Procurement Officer (OCPO) is accelerating measures to make it easy for business and government to transact; and at the same time ensure that government purchase what it needs at the right time, the right price, in the correct quantities and delivered to right location. Central to this objective is the following pertinent themes:

- Optimising procurement strategies;
- Supplier relationship management;
- eProcurement and digitalisation of procurement;
- Performance optimisation.

### **In brief:**

- Government is implementing procurement strategies that would result in savings of approximately R25 billion a year;
- Public procurement will be used to stimulate the South African economy and continue to create opportunities for growth;
- Specific measures are taken to eliminate unnecessary spending, eradicate waste and implement measures to contain costs to improve efficiency in spending programmes;
- Government is reducing red tape, barriers to doing business with the state and establishing mechanisms to engage with stakeholders in public procurement

## ■ Stakeholder engagement: an external view of public sector supply chain management

Stakeholder engagement is a core component of supply chain management and is the cornerstone of the SCM reform agenda. The views and experiences of suppliers on the inefficiencies and frustrations experienced on a daily basis in public sector procurement be cannot be ignored.

- Outreach programmes took place from August to October 2015 addressing more than 7 000 suppliers and 2 500 practitioners. Pertinent points, highlighted in the textbox below, were reported back to the OCPO and will be remedied in Procurement Bill and SCM Regulations to be launched from April 2016;

- Major role players such as the Black Business Council, Corruption Watch, Civil Society Organisations, Proudly South African, Labour Unions and a host of individuals provided inputs and advice what improvements should be made in public sector SCM; and
- A national survey was submitted to suppliers and 29 803 responses were received by 18 February 2016.

### HIGHT LIGHTS FROM SUPPLIER RESPONSES

- 87 per cent of suppliers have daily access to computer technology and Internet access in their businesses;
- 78 per cent of suppliers are prepared to share innovation freely with government. (Mechanisms need to be found to harness this.);
- 25 per cent feel they do not get timely and accurate feedback on invoice queries;
- 25 per cent feel government decision cycles are too slow;
- Payment within 30 days: 46 per cent feel they are paid on time while 34 per cent feel they are not paid on time;
- In another question "late payment" is however listed as the biggest barrier to doing business with government;
- Only 46 per cent of suppliers feel that they have a good understanding of legislation on SCM in government;
- Only 25 per cent feel doing business with government is much worse than dealing with their other customers;
- 65 per cent feel that access to working capital / funding is a barrier to doing business with government;
- Only 31 per cent agree that they have sufficient access to government tender opportunities/quotation requests;
- Suppliers expect communication from a wide range of media. This will require a fresh look at supplier communication.
- 91 per cent feel government should increase the use of technology in its interaction with suppliers.

## ■ Optimising procurement strategies and approaches

### Travel and accommodation

Together, national and provincial government spends approximately R10 billion annually on travel and subsistence. Of this R4.5 billion is spent on domestic air and land travel and accommodation services. Currently, procurement of the service is fragmented across all government entities resulting in duplication of effort and different pricing models. There are more than 40 travel agents doing business with the state and R1 billion a year is spent on commission. Of the R1 billion three travel agents receive collectively R550 million commission annually. In addition, these travel agents do not pass on negotiated discounts to government. Further, in the absence of a national travel policy, travel behaviour is not efficiently controlled. From 1 April 2016

- A national travel policy will be implemented that governs public sector travel;
- A standard remuneration model for travel agents will be introduced;
- A panel of qualified travel agents will be put in place;
- Negotiated corporate air travel rates will be introduced;
- Centrally negotiated hotel and lodging rates will be put in place;
- A central contract for car hire and shuttle services will be implemented; and
- Further work will be done on the Travel and Accommodation strategy to include services such as a conference management system, approved tour operators and coach and bus hire.

These interventions were discussed extensively with the travel industry and are expected to yield savings of R1 billion annually. The OCPO and the travel industry will continue to explore ways to reign-in all non-value-add costs related to hotel accommodation, flights, rental cars and distribution cost. However, the non-payment of creditors by government poses a significant risk for the travel industry. Currently outstanding creditors are in excess of R600 million, some dating back two years. The OCPO is exploring the introduction of travel and lodge cards to ensure timeous payment of invoices.

## **Fixed line, mobile, data and communication**

Together, national and provincial government spends approximately R3.2 billion annually on telecommunication. Spending on mobile is R800 million and fixed line R2.2 billion annually. Currently, the procurement of the service is fragmented across all government entities. Based on research and engagement of the South African supply market, savings of R400 million a year can be achieved. The project is currently at market engagement stage and awards will be made for implementation from 1 April 2016.

## **Standardised school plans**

In consultation with the National Department of Basic Education (DBE), to achieve maximum value on the school building programme and Accelerated School Infrastructure Delivery Initiative (ASIDI), uniform norms and standards for school construction has been set. Primary and secondary school designs have been standardised and costed. The construction of schools of approximately 4000 square meters in size should not cost more than R35 million. A reporting system will be implemented from 1 April 2016 where every education department and implementing agent will report monthly to National Treasury, DBE, provincial legislature and Parliament on adherence to these norms and standards.

A large part of the ASIDI programme is implemented through implementing agents like the Development Bank of South Africa (DBSA) and the Independent Development Trust (IDT) at exorbitantly high agency fees. This means that double consultancy fees are often paid to the implementing agency and the consulting professionals. This adds to cost. From 1 April 2016 these consultancy arrangement will be regulated.

## **Learner support materials**

In a number of provinces the delivery of learner support materials was managed through intermediaries. This practice added to cost. In 2012, when this practice was ended in Limpopo, spending on LTSM was reduced from R700 million was reduced to R150 million. Learning from this experience a centrally negotiated contract was put in place.

In consultation with the basic education sector the delivery of learner support materials has been negotiated centrally by the OCPO. The exit price for stationary packs was on average R110 per learner delivered. This will result in savings of R1.1 billion in 2016/17.

For textbooks, a logistics contract was negotiated. The price is per kg based. The average price for this contract is R5 per kg. The expected savings through this contract is expected to be R70 million.

## **■ Scope of centrally negotiated contracts**

Centralising public procurement provides government with an opportunity to reduce cost and increase value leveraging from economies of scale. The OCPO currently has 40 centrally negotiated contracts worth R28 billion in place. Departments, municipalities and entities spend R17 billion annually procuring from central contracts. These centrally negotiated contracts:

- Eliminate unnecessary duplication, reduce leakage and ensure better utilisation of scarce procurement skills
- Reduce the administrative burden for suppliers and result in policy consistency
- Provides an opportunity for long term supplier relationships and certainty in the market place
- Provide an opportunity for market intelligence across government
- Reduce the administrative burden government has with repetitive quotes which could have been directed towards contracts; and
- Allow government to refocus on contract management.

The OCPO will accelerate the centralisation of common goods and services across government and goods and services that are unique but common within a specific sector over the next three years.

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

- **Banking services.** Four major banks provide banking services to over 660 government entities. The system is fragmented with high transaction costs for banks and government. A feasibility study is underway to assess the cost and benefits of negotiating banking services centrally;
- **ICT infrastructure and services, desk tops and laptops.** Procurement of these items is vested with the State Information Technology Agency (SITA). SITA is currently implementing a procurement improvement plan to reduce leakage and increase value for government. The OCPO is improving specifications for government's ICT requirements. Currently, government spends R10 billion on ICT annually;
- **Health technology.** Pre-tender work in this area has been concluded. Given the complexity of these items, its centralisation will be phased in from 1 April 2016 starting with primary health care equipment. The tender process is underway; and
- **Leasing and accommodation.** The Department of Public Works currently manages the property portfolio on behalf of national government. Through GIAMA it sets norms and standards for asset management. The newly established State Property Management Agency is finalising a strategy to manage the entire property portfolio of all of government.

## Measures to avoid unnecessary purchases, reduce waste and the contain costs

### Improved demand management

It's a legal requirement that all procuring entities prepare and publish procurement plans. These procurement plans must be in line with the strategic plan and appropriation of a procuring entity and be properly costed. From 1 April 2016 national and provincial departments must publish their procurement plan on [www.etenders.gov.za](http://www.etenders.gov.za). Departments need to cost each item on the plan and strictly adhere to the published plan. A process is currently underway to ensure that all public entities and municipalities publish their procurement plans on the eTenders portal. Improved demand management should result in

- Improved planning of the entire supply chain management cycle;
- Alignment between budgets, strategy and projects and reduction in unplanned procurements;
- Improved costing and industry benchmarking;
- Visibility of planned procurement by an entity or department; and
- Reduction in the number of non-responsive or failed bids

### Reducing infrastructure costs and maintaining delivery standards

Government is projecting to invest over R750 billion in economic and social infrastructure over the next three years to support economic growth and improve the quality of life of its citizenry. Failure to deliver and maintain infrastructure disrupts the lives of people and communities and has economic consequences. An efficient and cost effective infrastructure supply chain management system is critical for economic and social progress.

To address current inefficiency in infrastructure delivery the following infrastructure reforms are underway or planned and should result in reducing costs by at least 20 per cent:

- The National Treasury Standard for Infrastructure Procurement and Delivery Management (SIPDM) in terms of the PFMA and the Model Supply Chain Management Policy (SCM) in terms of the MFMA was issued respectively during November 2015. In line with the National Development Plan, the standard separate supply chain management arrangements for infrastructure from that for general goods and services. The standard also sets out the minimum requirements for infrastructure related procurement supported by a control framework that institutions can be audited against;
- The consulting engineering professionals significantly contribute to increased infrastructure costs given the current percentage based fee structure of the industry. This often leads to overdesign and abnormal project

costs. A desktop study of some projects suggests that some of these projects are often up to 200 per cent high. A review is currently underway which will inform how the fees charged are to be regulated;

- Minimum norms and standards for health facilities will be implemented from 1 April 2016 onwards. The OCPO, in collaboration with the National Department of Health, will standardise the designs of all health facilities and set cost ceilings for their construction;
- Transparency in infrastructure procurement will be introduced. From 1 April 2016 procuring entities will be required to submit monthly procurement reports to the National Treasury, Parliament, provincial legislatures and municipal councils. This should improve quality and cost effectiveness as projects will be closely monitored; and
- Framework contracts for infrastructure delivery will be expanded. These contracts assist in speeding up the procurement process. However, if not properly implemented, framework contracts can be a source of corruption, increase in cost and exclusion as these contracts are duration based and there is no contractor rotation. Greater transparency on framework contracts will be introduced as part of the monitoring regime.

### **Review of existing contracts**

The OCPO is currently reviewing contracts of the top 100 suppliers that do business with government. The review seeks to

- Achieve product or service gains at the same price or rate;
- Improve processes leading to a reduction in workload;
- Result in price/rate reductions;
- Improve governments contracting capability to ensure better contracts; and
- Establish better supplier relationships.

### **Condonation**

As a part of the condonation process, accounting officers/authorities are required to provide proof to the OCPO that the appropriate action has been taken against any official who has been found negligent or not complying with the SCM process. This ensures that accounting officers/authorities put corrective measures in place. It also allows for continuous improvements in the SCM processes.

### **Disbarment of Suppliers**

Reports issued after conducting bid reviews and forensic investigations reveal that suppliers abuse the SCM system. Suppliers who abuse the SCM system will be disbarred. Abuse of the SCM includes corruption and non-performance on awarded contract. As part of the Public Procurement Bill currently being drafted, the disbarment regime is being reviewed to ensure decisive action is taken against suppliers who abuse the SCM system.

- The power to disbar will be vested with the OCPO. This will ensure consistency in the restriction process;
- A mandatory disbarment period of ten years will become applicable;
- Disbarred companies will be deregistered from CIPC, meaning that the company will not be able to trade;
- Directors of disbarred companies will be blacklisted on CIPC to ensure that they are in no position to register any company; and
- Directors of disbarred companies will be severally and jointly liable for any losses incurred by government through their actions.

### **Mechanism for managing abuse in the SCM System**

The OCPO will issue an Instruction during 2016 that will require AO/AA to establish a register for the reporting of any abuse or alleged abuse of the SCM system. Investigations of all allegations of abuse must be initiated within 30 days of receipt of the complaint. The relevant treasury must be informed of the outcome of

the investigation report, or draft investigation report, together with proposed actions within 14 days of receiving such report.

### **Strengthening the audit and risk function in government**

Procurement is a strategic function that requires appropriate checks and balances providing assurance on Accounting Authorities that SCM functions were executed in a manner that supports good governance practises. Internal audit and Risk Management units will be directed to ensure that:

- Audit of demand plans and procurement plans;
- Audit performance of supply chain units regularly;
- Audit and report on continuous improvements;
- The world is experiencing economic difficulties that result in measures taken by governments to reduce cost and increase efficiency and effectiveness. This will mean that
  - a) More change will come faster and more regularly
  - b) Compliance risk will increase in leaner organisations
  - c) Digitalisation will bring more information risk
  - d) Internal Auditors need to play a prominent role in ensuring that these emerging risks are properly addressed

### **Review SOE procurement practices, processes and contracts**

The performance of State Owned Companies (SOCs) forms the backbone of the economy. Their efficiency is paramount for economic growth. In line with the Minister of Finance's 2016 Budget Speech, from 1 April 2016 the OCPO will:

- Require SOCs to submit their procurement plans and publish them on their respective websites and on the eTender portal. This is to ensure transparency in the acquisition process;
- Monitor the project plans, SCM process and contracts;
- Review existing contracts with the aim of ensuring value for money;
- Do periodic sampling of contracts to test their adherence to SCM prescripts.

### **Eliminating barriers to do business with the State, reduce red tape and improve ease of doing business with government**

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

A number of technological SCM innovations have been phased in since 2015 and compliance to them will become compulsory from 1 April 2016. These include the Central Supplier Database, eTender Portal, gCommerce and eProcurement. These will result in:

- Reduced administrative burden for government and business;
- Improved consistent reporting of procurement information;
- Intelligent analysis of procurement data and enhanced sourcing strategies; and
- Efficient monitoring of procurement patterns, contracts and prices

## Central Supplier Database of government

The Central Supplier Database (CSD) for Government has been introduced on 1 September 2015. Suppliers register on this database once to do business with government. The CSD automates the verification of tax clearance certificates, company registration information, BEE status and personal identification information. Enhancements are being made to interface with government payroll systems. The introduction of the CSD has reduced the cost of doing business significantly as suppliers no longer have to incur costs of acquiring these administrative documents and register on the databases of each department, municipality and public entity. On the other hand this resulted in the reduction in tender documents required for submission when responding to a tender; reduced the possibility for corruption; and addresses the administrative failures identified by the Auditor-General.

So far, 95 000 suppliers have registered on the CSD and the estimated cost saving for government is R350 million by eliminating duplication of registration of suppliers at different departments and entities. Over 71 000 users have accessed the site in February 2016 alone with an average session of 6 250 per day. It takes on average 15 minutes and 36 seconds to register on the CSD. From 1 April 2016 registration on the CSD is compulsory for suppliers doing business with national and provincial government and their respective entities. The CSD will be compulsory for Local Government from 1 July 2016. The CSD can be accessed at [www.csd.gov.za](http://www.csd.gov.za)

## The eTender Portal

The eTender portal was introduced on 1 April 2015. It contains the following information:

- All bid documents for a particular tender;
- The list of tenderers and their respective prices;
- Details of the winning bidder; and
- Scores of the rest of the bidders.

The portal enhances transparency and over time will reduce corruption and the number of tender disputes. Bid documents are made available to bidders free of charge on a single platform that is searchable and accessible 365 days a year. To date, more than 2800 tenders representing approximately R40 billion in government business have been advertised on the portal. The portal is approximately visited 2600 times per day. Over 30 000 users have accessed the eTender portal in February 2016 alone.

Further enhancements will be made to publish demand and procurement plans of government departments, and adding alerts to businesses registered on the Central Supplier Database of government of relevant opportunities. From 1 April 2016 processing of bids through the eTender portal is compulsory for national and provincial government and their respective entities. The eTender portal will be compulsory for Local Government from 1 July 2016. This initiative will save government over R700 million a year on advertisement and printing costs. Transnet alone is already saving R1 million a month by using the eTender portal.

## Introduction of gCommerce

The gCommerce (government Commerce) platform was launched on 1 November 2015 providing a direct transacting platform similar to [www.amazon.com](http://www.amazon.com). The platform is specifically designed to transact on centrally negotiated contracts. Approximately 10 000 commodities have been loaded on gCommerce and is available to buyers in government to procure directly. The gCommerce catalogue will be expanded to 150 000 commodities in 2016/17. The platform makes it easy for government buyers to purchase centrally negotiated contracts and will make it easier for the OCPO to track transactions, buying patterns, prices and the ability to enhance future contracts.

## Enhancing the quotation system

Purchases under R500 000 for national and provincial government, and R200 000 for local government are done through a three quotation system. Approximately R78 billion worth of purchase are done through quotations. The current paper-based system is archaic, inefficient and the single largest source of corruption. A

process is currently underway to standardise the process across government. A uniform eProcurement platform for quotations will be introduced during 2016/17. This intervention will create greater visibility on this process and automatically stabilise prices for these categories of goods and services and overtime generate a reliable price referencing system. . The rotation ability of the system will enhance awarding business within a region, within a certain supplier bracket (eg SMMEs), and ultimately in a fair and transparent manner.

### **Addressing the 30 day payment problem**

The non-payment of suppliers on time has adverse effects on business and the economy, and at the same time result in inflated prices as suppliers transfer the cost of non-payment to the government. An assessment of annual financial statements across government shows that outstanding creditors is close to R80 billion. Suppliers who have not been paid must report this matter to the OCPO. The OCPO will put measures in place to ensure that the payment of outstanding creditors. Part of the measures will include non-transfer of funds to government department, entities and municipalities who don't meet their contractual obligations.

### **Support for SMMEs**

SMMEs play a vital role in growing the economy, creating jobs and establishing capability to making South Africa competitive in global markets. OCPO has finalised reviewing the PPPFA Regulations to accommodate requirements for supporting SMMEs, township and rural businesses, youth and women owned businesses, and localisation. The review is an interim measure pending comprehensive review of the existing legislative framework. The revised Regulations will take effect during April 2016 and will empower opportunities for SMMEs to access government business opportunities. In addition, procuring entities must, through commodity specialists, identify commodities and services that can be delivered through SMMEs.

## **■ Enhancing the legal environment**

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

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

### **The Public Procurement Bill**

The review of the current SCM legislative framework is underway. This will culminate in a single public procurement legislation addressing all the legislative and regulatory inefficiency in the system. The Public Procurement Bill is being finalised and will

- Fully establish the OCPO
- Ensure the SCM system is fair, equitable, transparent, competitive, and cost-effective in line with section 217 of the Constitution; and
- Provide for an agile system of preference that will support social-economic transformation consistent with section 217 of the Constitution.

End---