

Supply Chain Management Review: How Public Procurement can create value

A Presentation to the Standing Committee on Appropriations

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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Objectives of the SCM Review

- Provides a frank and candid assessment of SCM aspects:
 - Role of SCM in the public service;
 - Organisational structures and systems;
 - Roles of technical and political office bearers in SCM;
 - Capacity of SCM practitioners;
 - Legislation, regulations, policies and procedures in SCM;
 - Supplier management and relations;
 - Balance between social objectives and transformation and price and quality of goods and services
- Provides insights SCM reform agenda; and
- Provides a view of the role and functions of the Office of the Chief Procurement Officer.

Public procurement objectives

- Service delivery;
 - Quality, efficient, cost-effective
 - On time, right quality and quantity, the right price
- Socio-economic objectives;
 - Address economic imbalances (racial)
 - Women, youth, people with disabilities, SMMEs
 - Job creation
- Value-for-money and return on investment;
- Getting the **balance** between the objectives right is important

Status of current SCM system

- Fragmented SCM environment;
- Operational inefficiency in government;
 - High staff turnover at SMS level
- Limited or no accountability;
 - Politically and administratively
- Limited transparency;
- Lack of coherence between departments;
- Over emphasis on secondary objectives;
- Procurement not a strategic function; and
- Use of technology to automate, standardise and simplify SCM under utilised.

SCM Challenges

- The Audit Outcomes (national, provincial, local government and entities) consistently finds SCM operations to be irregular;
- There may be a slight improvement in one year, but is not sustainable and performance relapses the next year;
- The root cause of the poor SCM performance in government are:
 - **Direct SCM Work:** There are a lack of clear, standard directives for the whole government that represent all customer and commodity segments, aligned to an optimal operating model;
 - **Creating ‘Time’:** There are insufficient human resource capacity and management to complete activities in the expected time frames and per acceptable standards;

SCM Challenges continues...

- **Develop Ability:** There is a lack of competency (i.e. skills development, job aids and Integrated Management System) to ensure quality of outputs;
 - **Culture of Will:** The motivation and culture of the work force to do not live the SCM code of conduct;
 - **Oversight, accountability and enforcement:** Public confidence in the role of oversight with relevant accountability arrangements and enforcement measures of findings, are declining rapidly.
- Operational improvement requires impact in all four dimensions

Procurement a strategic function

- Where in the corporate hierarchy is procurement as a function?
- Is there alignment between procurement strategy and departmental strategy?
- Is there alignment between procurement capability and departmental strategy?
- Are procurement objectives clearly defined?
- Are procurement risks managed?

SCM capability maturity

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

2.8

SCM – compulsory capabilities

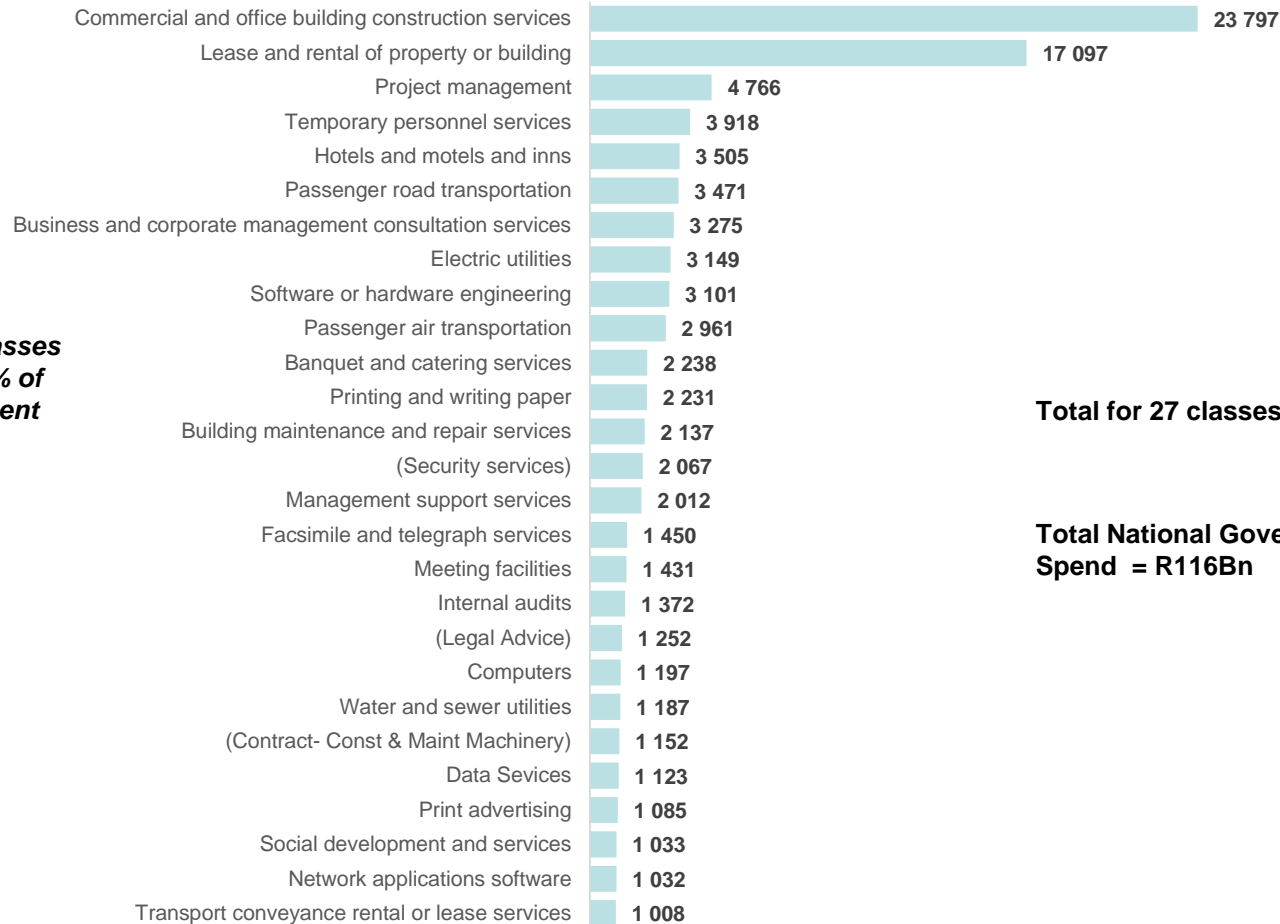
Procurement system should be based on the following capabilities:

1. Demand Planning
2. Procurement Planning
3. Items and Specifications management
4. Supplier management
5. Bids management through the required committees
6. Legal, Contracting and Disputes management
7. Supplies and Contract management (supply schedules)
8. Inspection and Quality management
9. Product and Services management (utilisation)
10. Audit and Enforcement

National Government Spend Overview by commodity class

Spend by commodity classes 2012 – 2014 (Rm)

**27 Commodity classes
accounted for 80% of
National government
spend**

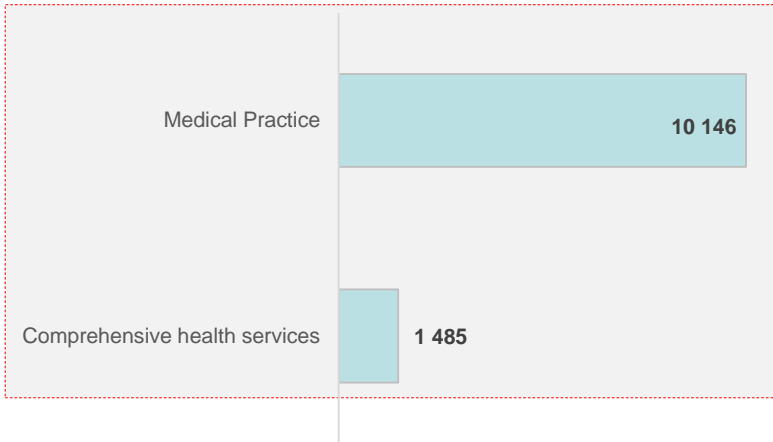


Total for 27 classes (80% = R94Bn)

**Total National Government
Spend = R116Bn**

Healthcare services

Healthcare Services spend 2012-2014 (Rm)

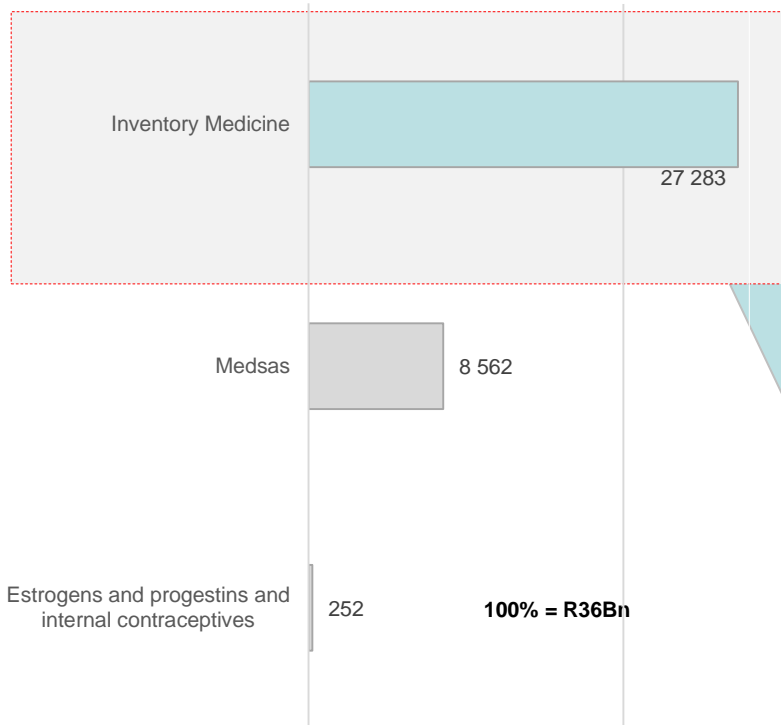


100% = R12Bn

| Family | *Class | *Commodity | Spend (Rm) |
|-------------------------------|--|---|---|
| Comprehensive health services | • Private sector Healthcare provider support persons | <ul style="list-style-type: none"> • Medical Service • Post Moterm | <ul style="list-style-type: none"> • 819 • 2 |
| | • Nutrition Services | <ul style="list-style-type: none"> • Nutrition Service -Education Facilities • Nutrition Service -Prisoners • Nutrition Service -Patients • Nutrition Service -Detainees • Nutrition Service -Welfare • Nutrition Service - Communities | <ul style="list-style-type: none"> • 431 • 85 • 41 • 17 • 4 • 4 |
| | • Healthcare centres | <ul style="list-style-type: none"> • Mobile healthcare centres or services | <ul style="list-style-type: none"> • 82 |
| Medical Practice | • Medical Laboratories | <ul style="list-style-type: none"> • Blood Analysis Laboratory Services | <ul style="list-style-type: none"> • 10 146 |

Drugs and pharmaceuticals

Drugs and Pharmaceutical spend 2012/13 -2014/15 (Rm)



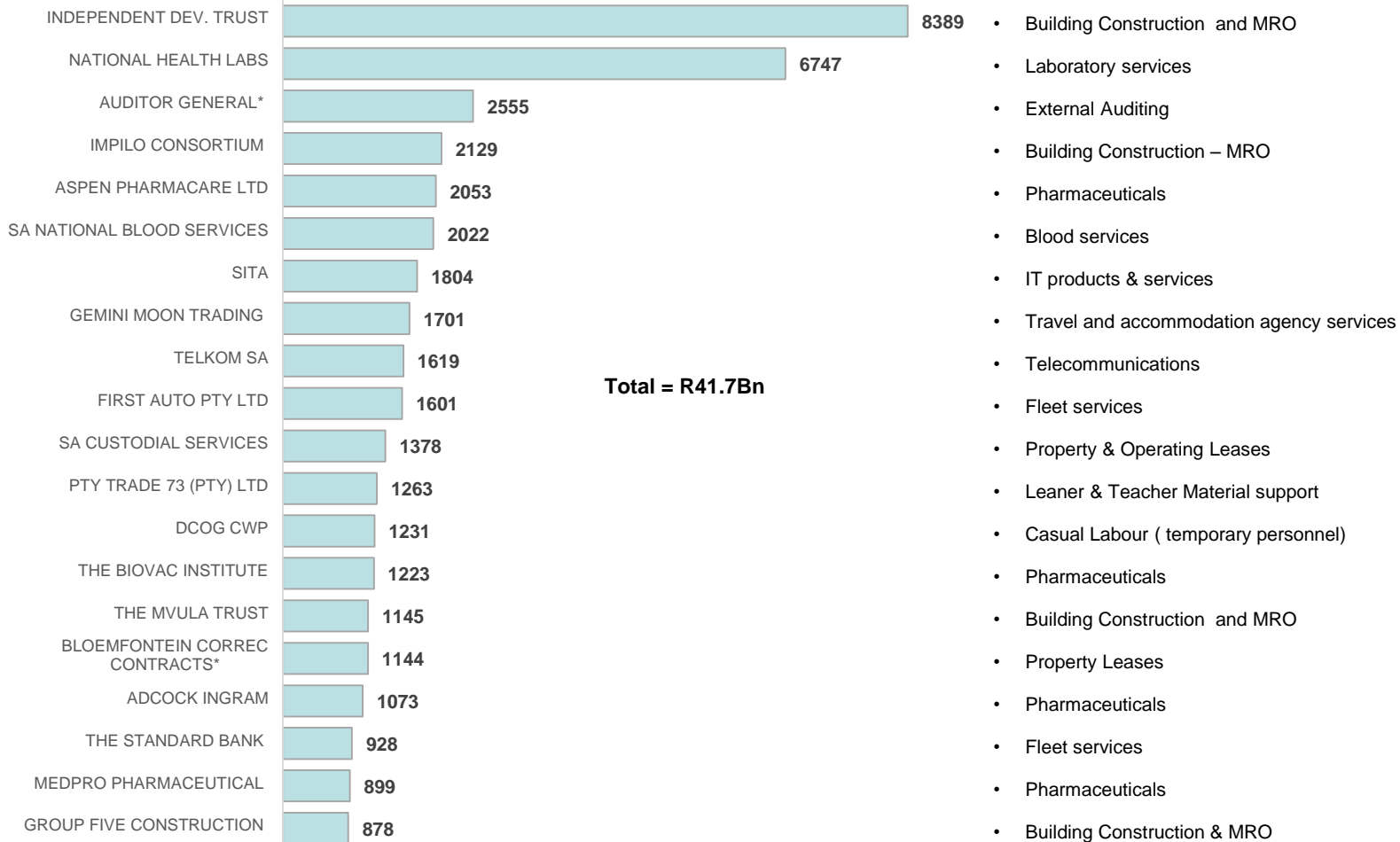
| Family | *Class | *Commodity | Spend (Rm) |
|--|--|--|------------|
| Inventory Medicine | <ul style="list-style-type: none"> (Inventory Med : Unspecified) (Inventory Medicine: Antiretroviral Drug) (Inventory Medicine: Tablets, Capsules and Lozenges) (Inventory Medicine: Vaccines) (Inventory: Animal Medicine) (Inventory: Animal Vaccines) | (Inventory Med : Unspecified) | • 15 494 |
| | | (Inventory Medicine: Antiretroviral Drug) | • 8 034 |
| | | (Inventory Medicine: Tablets, Capsules and Lozenges) | • 208 |
| | | (Inventory Medicine: Vaccines) | • 3 158 |
| | | (Inventory: Animal Medicine) | • 41 |
| | | (Inventory: Animal Vaccines) | • 77 |
| Medsas | • Medsas | (Medsas- Stock Purchase General) | • 8 563 |
| | | (Medsas- Miscellaneous Variance) | • 0.9 |
| | | (Medsas- Stock Issues) | • 0.04 |
| | | (Medsas- Purchase Variance) | • -0.09 |
| | | (Medsas- Stores Surpluses) | • -2 |
| Estrogens and progestins and internal contraceptives | • Estrogen, progestin, or internal contraceptive | • Oral contraceptives | • 252 |

National and Provincial Supplier overview

100% spend
=R431Bn

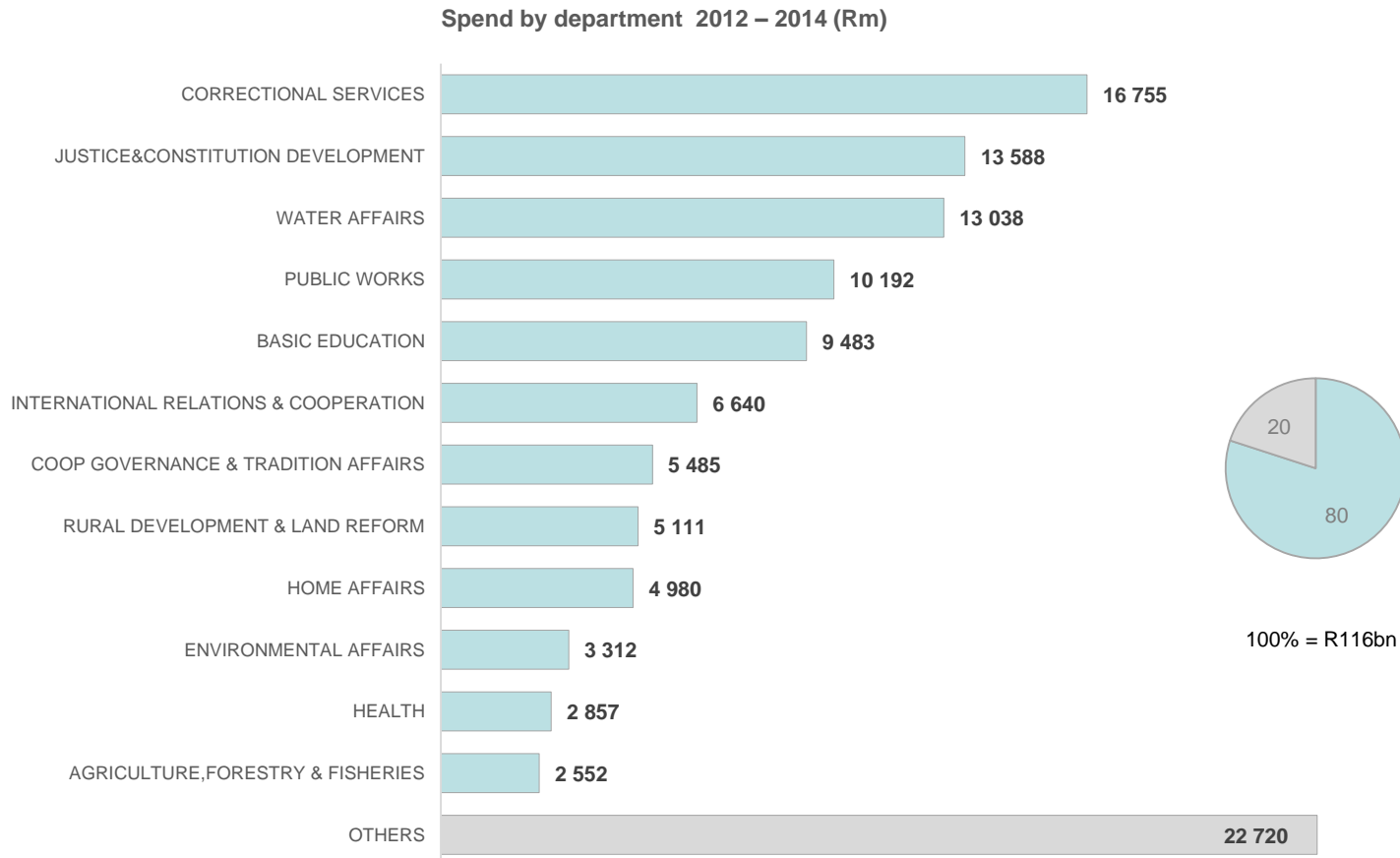


Top Government Suppliers* 2012-2014 (excluding government entities)



National Government Spend Overview by department

12 departments account for 80% of National government spend*



*excluding police and defence

Immediate areas for centralisation

- Travel and accommodation
- Telecommunications
- Computer services and hardware
- Consultancy/professional services
 - Financial first...later construction
- Education
 - Learner and teacher support materials
 - Infrastructure
- Health
 - Medical equipment, drugs and medicine

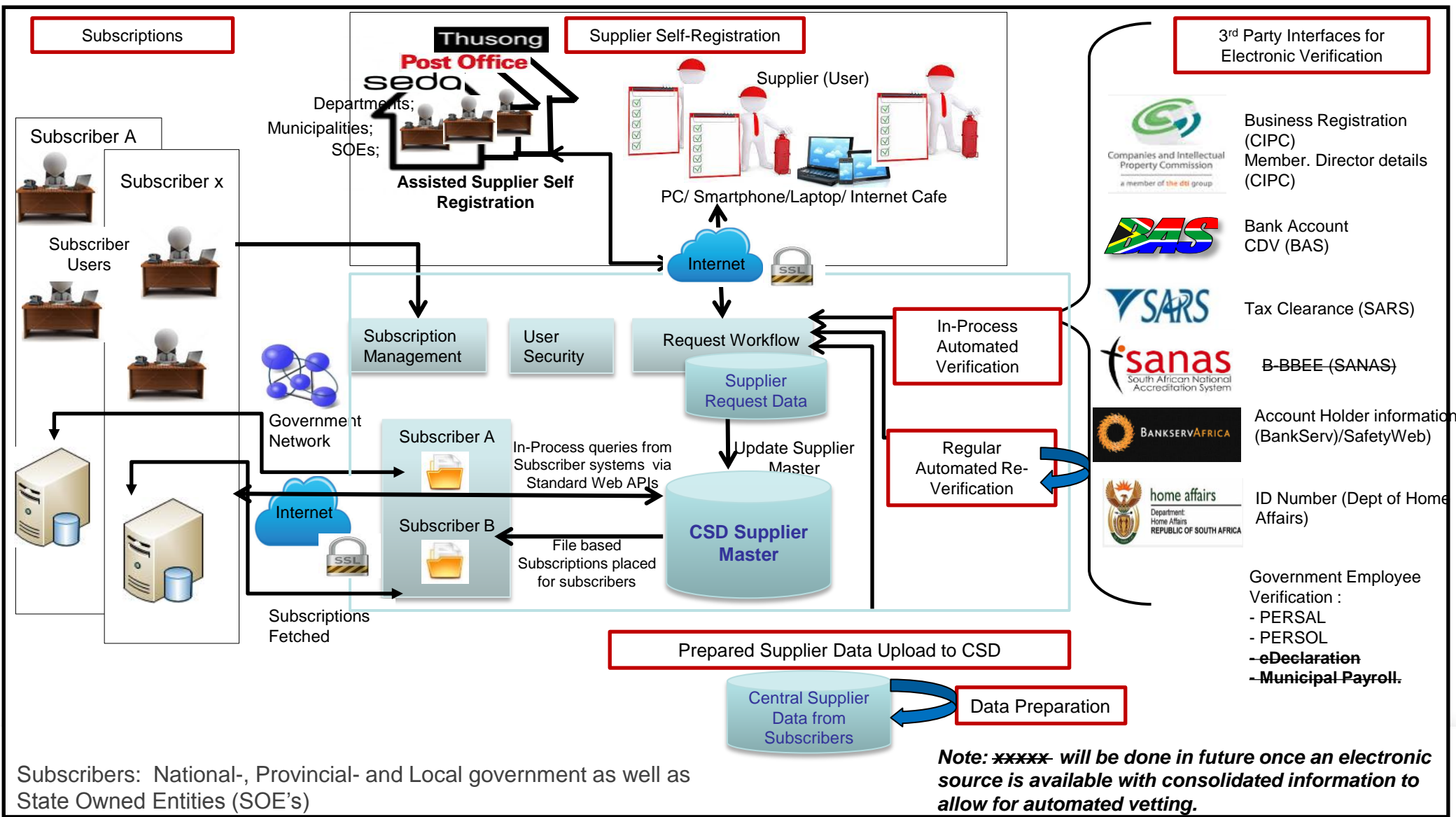
Areas for urgent review/intervention

- Construction/infrastructure standards
- Human settlements
 - Super profits
 - Indirect cost on other programmes
- Public entities
 - Relevance
 - Corporate structure
- Infrastructure delivery
 - All three spheres weak (pockets of excellence)

Areas for urgent review/intervention

- Travel and accommodation
- Telecommunications
- Computer services and hardware
- Consultancy/professional services
 - Financial first...later construction
- Education
 - Learner and teacher support materials
 - Infrastructure
- Health
 - Medical equipment, drugs and medicine

CSD HIGH LEVEL CONCEPTUAL SOLUTION



Subscribers: National-, Provincial- and Local government as well as State Owned Entities (SOE's)

E-Commerce site

The screenshot displays the National Treasury e-commerce interface. At the top left is the logo for the National Treasury, Department of the Republic of South Africa. A search bar is located at the top center, and a shopping basket icon at the top right shows '1 R 64'. On the left side, there are navigation menus for 'Dental instruments and related items (128)', 'Wheelchairs (8)', and 'All Categories'. Below these is a 'Filter By Supplier:' section with a list of suppliers: Bio-Rad, Bophepha Supplier CC, CE Mobility Wheelchairs (checked), Dental Discounts CC, Fedile Systems Development (Pty)Ltd, and GI'ESHA'S FASHIONS cc. At the bottom left, there is a 'Filter By Price:' section with a range from R0.00 to R3930.00. The main product area features a grid of wheelchair listings. The top row shows three items: a white and black wheelchair, a wheelchair with a 'QUICK VIEW', 'ADD TO SHOPLIST', and 'ADD TO CART' overlay, and a blue wheelchair. Each listing includes a description, dimensions, and a price of R3,916. The bottom row shows three smaller images of different wheelchair models.

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Search... All Categories

Your Basket 1 R 64

Dental instruments and related items (128)
Wheelchairs (8)
All Categories

Filter By Supplier:

Filter by Supplier...

- Bio-Rad
- Bophepha Supplier CC
- CE Mobility Wheelchairs
- Dental Discounts CC
- Fedile Systems Development (Pty)Ltd
- GI'ESHA'S FASHIONS cc

Filter By Price:
R0.00 - R3930.00

Filter... Sort: Default Show: 15

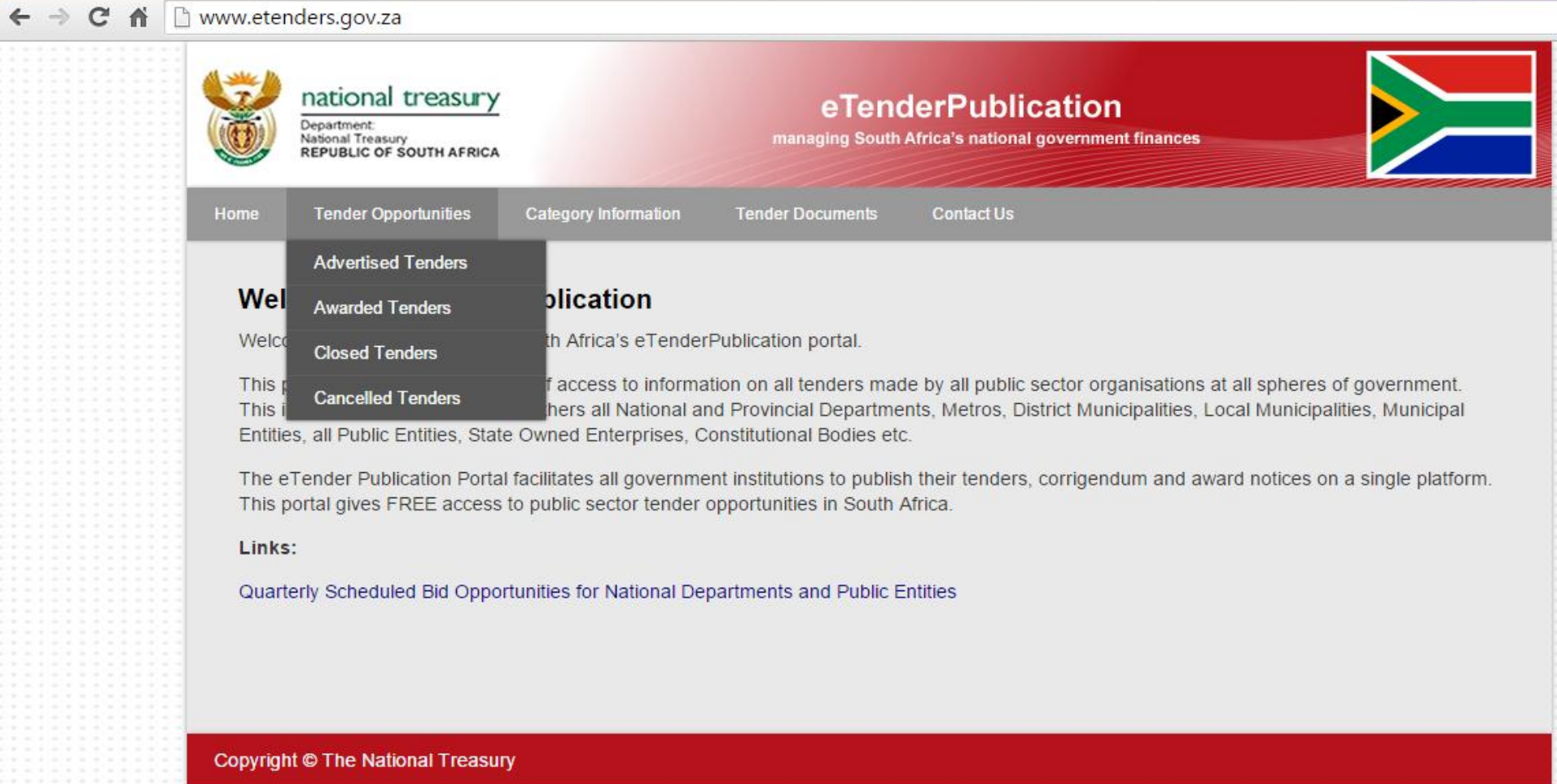
QUICK VIEW
ADD TO SHOPLIST
ADD TO CART

Base seating systems, seat cushion, Air filled cushions with flexible base. Size 46 cm (18") wide, 41 cm long, no higher than 10 cm.
As listed in Special Requirements and Conditions
R3,916 ★★★★★

Base seating systems, seat cushion, Air filled cushions with flexible base. Size 46 cm (18") wide, 46 cm long, no higher than 10 cm.
As listed in Special Requirements and Conditions
R3,916 ★★★★★

Base seating systems, seat cushion, Air filled cushions with flexible base. Size 51 cm (20") wide, 41 cm long, no higher than 10 cm.
As listed in Special Requirements and Conditions
R3,916 ★★★★★

E-tendering



The screenshot shows a web browser window with the URL www.etenders.gov.za. The page header includes the National Treasury logo and the text "national treasury Department: National Treasury REPUBLIC OF SOUTH AFRICA". The main heading is "eTenderPublication" with the tagline "managing South Africa's national government finances" and the South African flag. A navigation menu is visible with the following items: Home, Tender Opportunities, Category Information, Tender Documents, and Contact Us. The "Tender Opportunities" menu is expanded, showing a list of options: Advertised Tenders, Awarded Tenders, Closed Tenders, and Cancelled Tenders. The main content area features a "Welcome to eTenderPublication" section, a paragraph describing the portal's purpose, and a "Links:" section with a link to "Quarterly Scheduled Bid Opportunities for National Departments and Public Entities". The footer contains the text "Copyright © The National Treasury".

Conducive SCM environment: Pre-condition

- Procurement is a strategic function
 - Must be recognised as such
 - Greater investment needed in building capability
- We need to deal with the political economy
 - Political interference must stop
 - Who do we turn to if there is political interference?
- Optimise use of technology
 - Automate, standardise and simplify procedures
- Enforcement is essential consequence of oversight and accountability

For noting

The Committee **notes** the strategic importance of SCM in service delivery and achieving South Africa's developmental and transformational objectives;

- **supports** the positioning of the SCM as a strategic function including the following actions be effected:
 - SCM performance criteria be included in the performance agreements of Accounting Officers;

For noting (cont)

- Accounting Officers conduct a capacity review of SCM staff and take remedial action where required;
- Accounting Officers brief Executive Authorities quarterly on the SCM performance in their departments, municipalities or entities.

For noting (cont)

- The Committee supports the OCPO's initiatives to accelerate SCM reform by modernising the function in the public service:
 - Finalise the legal framework governing the OCPO and SCM function in government;
 - Simplifying, standardising and automating procurement activities across all spheres of government;
 - Modernise SCM technology and upscale the intelligent use thereof;
 - Develop SCM capacity of government.

Questions

Any questions or further clarifications?