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**Department:**  
**Public Works; Roads and Transport**  
North West Provincial Government  
Republic of South Africa

## **SUPPLY CHAIN MANAGEMENT POLICY**

**POLICY NO.:** SCM2008/005  
**NAME OF POLICY:** MANAGEMENT OF SUPPLY CHAIN PERFORMANCE POLICY

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## PREAMBLE

Since the Department uses public funds to finance its procurement of goods and services, it is obliged to ensure that the best interest of the public is served when these funds are spent. "Best interest" includes satisfying requirements at the most favourable conditions, including price; ensuring that business and industries are afforded the best possible opportunity to satisfy such requirements on a competitive basis; and adhering to National Government's medium-term policy initiatives, including Broad-Based Black Economic Empowerment (BBBEE) and the Preferential Procurement Policy Framework Act.

## 1. DEFINITIONS AND ABBREVIATIONS

For the purposes of this policy, the following definitions apply:

<b>Accounting Officer:</b>	the Accounting Officer of the North West Department of Public Works Roads and Transport, as defined in Section 36 of the PFMA.
<b>Black Economic Empowerment:</b>	as defined in the Broad-Based Black Economic Empowerment (BBBEE) strategy: "an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities". BBBEE defines "black people" as a generic term, which means Blacks, Coloureds and Indians.
<b>Firm price:</b>	the price that is only subject to adjustments in accordance with the actual increase or decrease resulting from the change, imposition, or abolition of customs or excise duty and any other duty, levy, or tax which, in terms of a law or regulation is binding on the contractor and demonstrably has an influence on the price of any supplies, or the rendering costs of any service, for the execution of the contract.
<b>Historical Disadvantaged Individuals:</b>	<p>a South African citizen –</p> <ul style="list-style-type: none"><li>(i) who, due to the apartheid policy that has been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act 110 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act 200 of 1993) ("the Interim Constitution"); and/or</li><li>(ii) who is a female; and/or</li><li>(iii) who has a disability.</li></ul> <p>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.</p>

## 2. PURPOSE AND OBJECTIVES

The purpose of this policy is to articulate the departmental guidelines regarding the management of supply chain performance through an intervening and retrospective analysis to determine whether the proper process has been followed, objectives are being achieved and to initiate any necessary corrective steps.

The performance of both the Supply Chain Management Directorate and the suppliers shall be measured through this analysis.

### **3. PRINCIPLES**

#### **3.1 Legislated**

The onus of responsibility for supply chain management is placed on the accounting officers, thereby giving effect to Section 38 (1)(a)(iii) of the PFMA. The supply chain management policy is strengthened by the issuing by National Treasury of the Framework for Supply Chain Management as published in Gazette 25767 dated 5 December 2003 in terms of Section 76(4)(c) of the PFMA.

The framework serves as a formal requirement to accounting officers to ensure the implementation of the supply chain management process as an integral part of their financial systems.

#### **3.2 Business Imperatives**

Performance management in the Department shall be driven by the need to fulfill critical business imperatives.

The following critical business imperatives are applicable to the Supply Chain Management Directorate:

- (a) Black economic empowerment
- (b) Promotion of SMME's
- (c) Adhering to the Preferential Procurement Policy Framework Act, including the specific goals when applicable
- (d) Payment of suppliers within 30 days from the date of receiving the supplier's invoice
- (e) Receiving bay timeframes
- (f) Obsolete stock due to old, incorrect storage methods
- (g) Incorrect stock ordered.

The following critical business imperatives are applicable to suppliers:

- (a) Quality of goods delivered
- (b) Required quantity delivered
- (c) Delivered within required timeframe
- (d) Incorrect stock delivered.

### **4. LEGISLATIVE FRAMEWORK**

#### **4.1 Legislation**

- (a) Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999)
- (b) Treasury Regulations (March 2005)
- (c) Preferential Procurement Policy Framework Act, 5 of 2000
- (d) Preferential Procurement Regulations, 2001
- (e) Broad Based Black Economic Empowerment Act, 53 of 2003
- (f) National Treasury Supply Chain Management Guidelines

#### **4.2 Departmental**

- (a) Financial Management Delegations of Authority
- (b) Supply Chain Management Delegations of Authority

### **5. SCOPE OF APPLICATION**

This policy applies to all departmental employees, learnership participants, interns and duly appointed cost centre managers in particular.

## 6. PROCEDURAL GUIDELINES

### 6.1 The Performance Cycle

The performance cycle shall be initiated by a process that identifies norms and standards (both bad and good) for each of the critical business imperatives. The ability to define metrics, KPIs, and exception conditions, as well as to update such definitions when the environment changes, is the desired outcome of the performance management system.

Once exceptions have been identified, users need to understand the potential root causes, the alternative courses of actions available, and the impacts of such alternative actions. This should enable prompt reaction to the performance exceptions with corrective actions. But once responses have been defined, it is only through flawless and timely execution of such responses that the Department shall achieve performance improvement. These responses should then be documented, and the system updated with data and information regarding both the occurrence and resolution of the performance exceptions.

The responsive actions could, in some cases, result in new definitions of exceptions, business rules, and business processes. Hence, a continuous process of validation and updating is needed in the cycle.

Successful supply chain performance management also requires education of officials on the needs and approaches of performance management, the creation of a collaborative environment, and the assignment of accountability to the appropriate officials.

### 6.2 The Performance Management Tool

The model is integrated with the different phases of supply chain management, namely demand management, acquisition management, logistics management and disposal management.

Integration shall be achieved by the identification of critical business imperatives applicable to each phase of supply chain management. These business imperatives can be categorised into strategic, operational, compliance and reporting objectives:

CATEGORY	BUSINESS IMPERATIVE
Strategic	Availability of industry profiles to ensure the setting of realistic targets for PPPFA
	Promotion of equal opportunity to all businesses when obtaining price quotations
	Black economic empowerment
	Promotion of SMME
	Promotion of equal opportunity to all businesses during the bidding process
	Only assets no longer required are disposed of
Operational	Objective and independent SCM practitioners
	Objective and independent bid evaluation committee members
	Identification of procurement needs
	Accurate and correct supplier details

CATEGORY	BUSINESS IMPERATIVE
	Effective disposal of unwanted assets
	Effective bid adjudication process
	Effective issuing /distribution of items
	Quality and quantity of goods received
Compliance	Bid Evaluation Committee (BEC) members cleared to the level of "Confidence"
	Compliance with: <i>Threshold Values for the Invitation of Price Quotations and Competitive Bids</i> , Practice Note Number SCM 2 of 2003
	Prescripts of the Preferential Procurement Policy Framework Act, Act 5 of 2000 and its associated Regulations
	Payment of suppliers within 30 days from the date of receiving an invoice
Reporting	Management of donations received by the Department on behalf of the State
	Management of donations made by the Department on behalf of the State

The following table details the Metrics and Key Performance Indicators for each business imperative:

	Business imperative	Metrics	KPI
<b>Demand management</b>			
<b>Strategic</b>			
	Availability of industry profiles to ensure the setting of realistic targets for PPPFA	Industry analysis	<ul style="list-style-type: none"> <li>PPPFA profiles for each industry, reviewed annually</li> </ul>
<b>Operational</b>			
	Identification of procurement needs	<ul style="list-style-type: none"> <li>Historical analysis</li> <li>Lead and delivery time analysis</li> <li>Economic order quantity</li> <li>Optimal procurement method</li> <li>Commodity analysis</li> </ul>	<ul style="list-style-type: none"> <li>Departmental needs assessment, reviewed annually</li> </ul>
<b>Acquisition management</b>			
<b>Strategic</b>			
	Promotion of equal opportunity to all businesses when obtaining price quotations	<ul style="list-style-type: none"> <li>Supplier database</li> </ul>	<ul style="list-style-type: none"> <li>The list must be updated at least every quarter to allow for all potential suppliers to register</li> <li>Advertisements should be placed in the local media for businesses to register as potential suppliers</li> <li>Rotational basis when requesting price quotations</li> </ul>
	Black economic empowerment	<ul style="list-style-type: none"> <li>Supplier database</li> <li>Allocation of bids</li> </ul>	<ul style="list-style-type: none"> <li>Identification of BEE, HDI and SMME status of suppliers on database</li> <li>Number of bids allocated to BEE's</li> </ul>
	Promotion of SMME	<ul style="list-style-type: none"> <li>Allocation of bids</li> </ul>	<ul style="list-style-type: none"> <li>Number of bids allocated to SMME's</li> </ul>
	Promotion of equal opportunity to all businesses during the bidding process.	<ul style="list-style-type: none"> <li>Deviation from competitive bidding process</li> </ul>	<ul style="list-style-type: none"> <li>Limited bidding particulars</li> <li>Urgent and emergency cases particulars</li> </ul>
<b>Operational</b>			
	Supplier details must be accurate and correct	<ul style="list-style-type: none"> <li>Internal audit investigations</li> <li>Exception reports</li> </ul>	<ul style="list-style-type: none"> <li>Integrity of supplier database</li> </ul>
	Effective disposal of unwanted assets	<ul style="list-style-type: none"> <li>Monthly Bid Evaluation Committee meetings</li> </ul>	<ul style="list-style-type: none"> <li>Number of meetings held</li> </ul>
	Effective bid adjudication process	<ul style="list-style-type: none"> <li>Proper record keeping of bid adjudication process</li> </ul>	<ul style="list-style-type: none"> <li>Availability of documentation</li> </ul>

	Business imperative	Metrics	KPI
<b>Compliance</b>			
	Compliance to: <i>Threshold Values for the Invitation of Price Quotations and Competitive Bids</i> , Practice Note Number SCM 2 of 2003.	<ul style="list-style-type: none"> <li>Up to an estimated value of R 5 000</li> <li>Up to an estimated value of R 100 000</li> <li>Above an estimated value of R 100 000</li> </ul>	<ul style="list-style-type: none"> <li>Full adherence to specified thresholds</li> </ul>
	Prescripts of the Preferential Procurement Policy Framework Act, Act 5 of 2000 and its associated Regulations.	<ul style="list-style-type: none"> <li>Use of point system</li> </ul>	<ul style="list-style-type: none"> <li>Full adherence to prescripts</li> </ul>
<b>Reporting</b>			
	Management of donations received by the Department on behalf of the State.	<ul style="list-style-type: none"> <li>Report of donations received</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly report submitted to the Executive Authority</li> </ul>
	Management of donations made by the Department on behalf of the State	<ul style="list-style-type: none"> <li>Report of donations made</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly report submitted to the Executive Authority</li> </ul>
<b>Logistics management</b>			
<b>Operational</b>			
	Effective issuing /distribution of items	<ul style="list-style-type: none"> <li>Number of hours in receiving bay</li> </ul>	<ul style="list-style-type: none"> <li>Receiving bay must be cleared within 48 hours</li> </ul>
	Quality and quantity of goods received	<ul style="list-style-type: none"> <li>Receiving clerk checking the goods received</li> </ul>	<ul style="list-style-type: none"> <li>Completed GRN</li> </ul>
<b>Compliance</b>			
	Payment of suppliers within 30 days from the date of receiving an invoice  <i>The Department commits itself to processing payments to certain categories of SMME suppliers in under 30 days.</i>	<ul style="list-style-type: none"> <li>Timeframe</li> </ul>	<ul style="list-style-type: none"> <li>30 day limit to pay suppliers</li> <li><i>Limit (under 30 days) as defined by the Department</i></li> </ul>
<b>Disposal management</b>			
<b>Strategic</b>			
	Only assets no longer required are disposed	<ul style="list-style-type: none"> <li>Disposal committee/Board of Survey approval</li> </ul>	<ul style="list-style-type: none"> <li>Minutes of meetings</li> </ul>

### 6.3 Service Provider Non-Performance

Non-performance by service providers is defined as “*non-achievement of the project objective and non-delivery of the predetermined and contracted deliverables*”.

The consequences of and recourse for service provider non-performance shall be clearly detailed in the contract signed by both parties at the conclusion of the acquisition process and shall primarily include non-payment of invoices until the requisite deliverables have been met. It may however warrant termination of the contract and further penalties to cover the departmental cost of re-bidding.

In addition, a service provider may also be removed from the departmental supplier list and the Department may, if appropriate, consider informing the national and provincial Treasury of the circumstances for possible inclusion of the service provider on the national black-list.

## **7. RESPONSIBILITIES AND OBLIGATIONS**

Overall responsibility for the implementation of this policy rests with the duly delegated Director: Supply Chain Management. Further responsibilities assigned to the Supply Chain Management Directorate are outlined in Clause 6 above.

## **8. COMMENCEMENT OF THE POLICY**

This policy is effective from the signature date below.

### **APPROVED**



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**P J N VAN STADEN**  
**DEPUTY DIRECTOR GENERAL**

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1 September 2009

**Date**