UNIVERSITY OF KWAZULU-NATAL

IMPROVING SERVICE DELIVERY BY LOCAL GOVERNMENT: A CASE FOR IMPROVED SUPPLY CHAIN PERFORMANCE MANAGEMENT

By

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DECLARATION

I, NOTHANDO BIZANA declare that

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ABSTRACT

The Constitution of the Republic of South Africa passed in 1996 created three spheres of government - national, provincial and local governments. The local government sphere is at the coal face of service delivery as it is closest to the local communities. The goods and services required by the state to provide services to communities are procured from the private sector. Section 217 of the Constitution stipulates that procurement should be done by a supply chain management system that is fair, equitable, transparent, competitive and cost effective. The Constitution made provisions for the creation of supply chain management departments in municipalities whose policies would be guided by the ideals of Section 17 of the Constitution.

This study explores the nature and role of local government and provides insight into the concept of service delivery in the South African context. The aim of the study was to provide insight into public sector procurement supply chain management in order to determine how an effective supply chain performance management system could possibly improve service delivery by local government. The nature of this study is descriptive and exploratory. Primary data was collected using in-depth interviews with eight participants at four metropolitan cities. The literature review section of this study discusses three aspects: (1) the nature, roles and responsibilities of local government; (2) supply chain management in the public sector; and (3) performance management. The literature review revealed that local government has a constitutional mandate to deliver quality services to communities using effective and efficient supply chain management processes. Monitoring of and reporting on projects is critical as it informs future planning and budgeting. Feedback is given on progress and where necessary control measures are introduced to ensure effective service delivery to local communities.

The findings of this study indicate that all the participating cities follow the prescribed requirements of the Public Finance Management Act, Municipal Finance Management Act and the Municipal Systems Act amongst others. Challenges identified include: weak internal controls, inadequate contracts management, lack of performance monitoring and reporting, lack of proper and integrated planning, and unresponsive supply chain processes. It is suggested that internal controls need to be strengthened in all areas of supply chain management. Personnel should be held accountable for their actions at all times.
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LIST OF ACRONYMS

AG – Auditor-General

B-BBEE - Broad-Based Black Economic Empowerment

BFO – Budgeting for Outcome

CIDB – Construction and Development Board

CIPS – Chartered Institute of Purchasing and Supply

CMF – Contracts Management Framework

CMG – Contracts Management Guidelines

COGTA – Cooperative Governance and Traditional Affairs

IDP – Integrated Development Plan

ILGM – Institute for Local Government Management of South Africa

KPI’s - Key Performance Indicators

LED - Local Economic Development

LGTAS – Local Government Turnaround Strategy

MFMA – Municipal Finance Management Act

NPMAC - National Performance Management Advisory Commission

MSA – Municipal Systems Act

MTREF – Medium Term Revenue and Expenditure Framework

OGC – Office of Government Office

PAJA – Promotion of Administrative Justice Act
PALAMA – Public Administration and Leadership Management Academy

PDI - Previously Disadvantaged Individual

PFMA – Public Finance Management Act

PM – Performance Management

PMS – Performance Management System

PPPFA - Preferential Procurement Policy Framework Act

SANC – South African Network of Cities

SCM - Supply Chain Management

SDBIP - Service Delivery Budget Implementation Plan

SMME – Small, Micro Medium Enterprises
CHAPTER 1 – INTRODUCTION, BACKGROUND AND RESEARCH APPROACH

1.1 INTRODUCTION

The Constitution of the Republic of South Africa (Constitution) provided for the creation of the following three spheres of government: national, provincial and local government (Republic of South Africa, 1996, s. 40). Local government was created with the mandate of providing services in a sustainable manner that will ensure social and economic development within communities.

In 1996, Moosa (1996, p. 2) predicted that municipalities would be faced with the challenge of meeting the high expectations of the disadvantaged people of South Africa within the shortest possible time. Moosa also argued that the gap of unfulfilled needs is so great that it would take time for Government to fulfil them all. The service delivery protests experienced by South Africa from 1994 till 2010 clearly indicate that communities are not satisfied with the pace of service delivery (European Union Municipal Outreach, 2010, para. 8). In a fact-finding mission, it was revealed that municipalities are faced with challenges that include, but are not limited to, lack of capacity, unaccountable officials, and maladministration (Cooperative Governance and Traditional Affairs (COGTA), 2009, p. 18). These challenges require innovative and creative solutions to enable municipalities to deliver sustainable services to local communities in the shortest possible time.

Legislation provided for the creation of Supply Chain Management (SCM) Departments in municipalities as a vehicle through which services could be procured from private service providers. “Supply chain management has an inextricable link to long-term quality service delivery, human capital development and associated socio-economic growth” (Boateng, 2010, p. 1). The focus of this study is on exploring the nature of SCM in local government and how supply chain performance management could be used to achieve sustainable service delivery.

Performance needs to be measured in order to be managed. The Municipal Systems Act No 32 of 2000 aligns South African local government legislation with international trends that require “performance audits of local government function” (Hatting, 2005, p. 1). Legislation requires that mechanisms to monitor and review performance management system be put in place (Republic of South Africa, 2000a, s. 40)

This study reviews the current guidelines for performance management, in South Africa and abroad. It has become apparent that if the “performance of supply chains is not managed, there will then almost certainly be gradual discrepancies in service quality and this inefficiency will
pass undetected by programme officials, thereby creating sizable deficiencies over time (even though unintended) that escape notice until a major problem draws unfavourable attention to them” (Ammons, c. 2005, p. 14). The recent service delivery protests in South Africa are a case in point.

Primary data for the study was collected from four metropolitan municipalities. The plan behind data collection, interpretation, analysis and reporting is discussed in detail in Chapter 5. The research findings are presented and discussed in Chapter 6. Finally, recommendations for the challenges discussed in Chapter 6 are made in chapter 7, and should be read in line with the limitations discussed in the same chapter.

1.2 BACKGROUND AND THE NEED FOR THE STUDY

After a significant spike in service delivery protests in South Africa in 2009, the Institute for Local Government Management of South Africa (ILGM) submitted a report in 2010 to Parliament on service delivery protests. The report suggested that the area in need of consideration is that of “governance in municipalities, specifically with regard to the awarding of tenders and the appointment of service providers” (Institute for Local Government Management of South Africa (ILGM), 2010, p. 2). In addition the ILGM report indicated that “the awarding of tenders is perversely secretive and patently manipulated, and that it is the primary consideration in terms of the appointment of staff in a municipality” (i.e. individuals are employed only if it is felt they will comply in allocating tenders to a particular, chosen grouping of people) (ILGM, 2010, p. 3). Furthermore, lack of proper monitoring and evaluation systems within municipalities has also created opportunities for ‘tenderpreneurs’ to loot millions of Rands from taxpayers (Sangonet Pulse, 2010).

Consistently, the Auditor – General’s reports show lacklustre results as far as municipal finances and governance processes go. Reports such these compel one to want to delve deeper into municipal affairs with the aim of finding solutions to the identified challenges.

The aim of this study is to explore the nature and role of local government and provide insight into the concept of service delivery in the South African context. The services that municipalities provide to communities are sourced from private companies using supply chain management principles. In addition, the aim is to further provide insight into public sector supply chain management so as to determine how an effective supply chain performance management system could possibly improve service delivery by local government. The findings and recommendations of this study will add to the body of research on local government in South Africa with regard to the impact of effective supply chain performance management on
service delivery in local government. Both local and international best practice experiences are drawn upon to determine how effective SCM processes can improve service delivery in local government.

1.3 INITIAL LITERATURE REVIEW

This section provides an overview of local government, service delivery protests, supply chain management and performance management within the sphere of local government, in South Africa.

The mandate and nature of local government and what makes it unique from other spheres of government is reviewed hereafter. Service delivery and the recent service delivery protests are defined in the context of public sector supply chain management. A broad definition of supply chain management in general is explored. The concept of public sector supply chain management is discussed together with the factors that affect public sector supply chain management. The importance and need for supply chain performance management in local government, here in South Africa and abroad, are also discussed.

1.3.1 Supply Chain Management (SCM)

“Supply chain management (SCM) is a management philosophy aimed at integrating a network (or a web) of upstream linkages inside the organisation and downstream linkages (distribution and ultimate customer) in performing specific processes and activities that will ultimately create and optimise value for the customer in the form of products and services which are specifically aimed at satisfying customer demands” (Hugo, Badenhorst-Weiss & van Biljon, 2004, p. 5). This definition is comprehensive and details all the activities that need to be undertaken when sourcing, storing and distributing goods and services.

Another comprehensive definition of supply chain management is that “supply chain management combines procurement – purchasing/acquiring of goods – and inventory management – maintenance of proper storage and accounting systems for acquired goods, determining the optimal amount of the good or service to keep the inventory/storage, determining the minimum level of inventory at which an order must be placed and disposal of obsolete – inventory into one seamless integrated process” (Moeti, Khalo, Mafunisa, Nsingo & Makhonda, 2007, p. 123).

Boateng (2010, p. 1) defines supply chain management as the “seamless management of all the interlinked, value-adding activities that the delivery of goods and services entails, as they move
through a value chain en route to the ultimate customer. There is a supply chain associated with every product delivery, whether it be tangible or intangible, such as health and education, waste collection, financial services, tourism – and even service delivery by local government”. “In the education sector the focus of SCM could be to streamline the chain through which teaching materials are delivered to students; while in the health sector the focus could be on more on logistics and the effective movement of goods and services in and out of hospitals” (Ambe & Badenhorst-Weiss, 2011, p. 74).

The general definitions of supply chain management have their origin in the private sector. Essentially, SCM in the private sector “integrates business functions such as sales, marketing, forecasting, research and development, production, procurement, logistics, information systems, customer service and finance” (Larson, 2009, p. 224). In the private sector context, procurement is but one of the crucial elements of SCM.

Supply chain management in the public sector is addressed in the next section.

1.3.1.1 Public sector supply chain management

In general, government administrations have a fiduciary duty to deliver goods and infrastructure (roads, harbours) and services (health care and education) to its citizens (Odhiambo & Kamau, 2003, p. 10). Ambe & Badenhorst-Weiss (2012a, p. 244) define public procurement as the “function whereby public sector organisations acquire goods, services and development and construction projects from suppliers. Goods and services should be acquired in line with the general principles of fairness, equitability, transparency, competitiveness and cost-effectiveness enshrined in s217 of the Constitution” (Republic of South Africa, 1996, s217). As such, procurement is central to the government service delivery system as it comprises crucial activities that support service delivery (Cane, 2004; Ambe & Badenhorst-Weiss, 2012a, p. 244).

According to Ambe & Badenhorst-Weiss (2011, p. 82), public sector procurement amounts to billions of rands drawn from taxes. As a result, “the concepts of transparency and accountability are more significant in public procurement than in any other department because it is state money that is used to procure the goods and services” (Schapper, Malta & Gilbert, 2006, p. 1). Larson (2009, p. 224) further argues that because “public sector procurement serves a broader range of stakeholders; there is greater emphasis on accountability and transparency”. In order to ensure effective and efficient use of state resources, “public sector procurement is a process that is defined and governed by legislative bodies, innumerable laws, rules, regulations, policies, and procedures” (Dobler & Burt (1996, p. 747); Larson (2009, p. 223)). To institute
procurement best practices, a supply chain management system was adopted in South Africa in 2003 (Ambe & Badenhorst-Weiss, 2012a, p. 242).

In the public sector, SCM is regarded as a narrow concept, essentially an element of procurement rather than a concept that encompasses multiple functional areas (Larson, 2009, p. 224). However, Boateng (2010, p. 1) asserts that “procurement is one of the elements within a supply chain primarily focusing on the sourcing and purchasing of goods services within the supply value chain”. Ambe & Badenhorst-Weiss (2011, p. 74) expand on Boateng’s assertion by arguing that “public sector SCM is concerned with the co-ordination of all parties involved in delivering the combination of inputs, outputs or outcomes that will meet a specified public sector requirement”

In the South African context, Ambe & Badenhorst-Weiss (2012a, p. 246) contend that the aim of SCM is to “add value at each of the procurement processes – from the demand to the acquisition of goods and services, managing the logistics process and lastly to the disposal thereof”. These arguments place SCM as one of the crucial elements for achieving an effective delivery of quality services to the public.

The legislative framework and practices pertinent to local government supply chain management are discussed in the next section.

1.3.1.2 Supply chain management practices in local government

According to Hanks, Davies & Perera (2008), “SCM operates within a regulatory framework set by the national government and extended by provinces and local government bodies to specific policies, legislation and regulations”.

In South Africa, supply chain management in local government works within a legislative framework that includes the following:

- The Constitution of the Republic of South Africa No 108 of 1996 (Constitution);
- The Public Finance Management Act No 1 of 1999 (PFMA);
- The Preferential Procurement Policy Framework Act No 5 of 2000 (PPPFA);
- The Municipal Systems Act No 32 of 2000 (MSA);
- The Municipal Finance Management Act No 56 of 2003 (MFMA);
- Promotion of Administrative Justice Act No 3 of 2000 (PAJA);
- Construction Industry Development Board Act No 38 of 2000 (CIDB); and
- The Broad-Based Black Economic Empowerment Act No 53 of 2000 (BBBEEA).
The National Treasury adopted two documents in an effort to provide guidelines for effective implementation of SCM policies. These are as follows:

- **Policy to guide uniformity in procurement reform processes in government.** This document adopted in conjunction with provincial treasuries to replace the outdated procurement and provisional practices in municipalities (National Treasury, 2003).

- **Supply chain management: a guide for accounting officers of municipalities and municipal entities.** The aim of this document is to provide guidelines on the adoption of the integrated SCM function and its related managerial responsibilities assigned to accounting officers in terms of section 62 and 95 of the Municipal Finance Management Act (MFMA). This document also explains how Chapter 11, part 1 of the MFMA, the municipal SCM regulations and the SCM policy can be adopted as an operational process for accounting officers to deal with each step of the SCM cycle (National Treasury, 2005, p. 1).

The Framework for Supply Chain Management stipulates six elements of SCM that are essentially the framework for the SCM system (National Treasury, 2003, s. 3(2)(c). The six elements are underpinned by the principles of fairness, equitability, transparency, value for money and competitiveness (Republic of South Africa, 1996, s. 217). Elements of the South African government SCM that local government ascribe to are stated below:

(i) demand management;
(ii) acquisition management;
(iii) logistics management;
(iv) disposal management;
(v) risk management; and
(vi) performance management.

Each of these elements is dealt with in more detail in Chapter 3. The focus of this study is on the manner in which local government carries out the activities of these six elements towards achieving effective service delivery.

The next section deals with the nature, role and structure of local government.

### 1.3.2 Local Government

Chapter 7 (s151) (1) of the Constitution created the local government sphere of government. Chapter 7 (s152) (b-c) states that local government has to “ensure the provision of services to
communities in a sustainable manner and to promote social and economic development’’ (Republic of South Africa, 1996, s. 152 (b-c)).

The Constitution stipulates that the sphere of local government “consists of municipalities established for the whole of the territory of the Republic” (Republic of South Africa, 1996, s. 151). South Africa accordingly has 283 municipalities across its nine provinces. They are categorised as follows:

- A – Metropolitan Municipalities;
- B – Local Municipalities; and

Each of these categories is dealt with in more detail in chapter 2. However, the focus of the study will be on category A – Metropolitan Municipalities.

1.3.2.1 The role of local government

As cited in the Constitution, municipalities have a developmental role that they must fulfil. “Developmental local government is local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives” (Republic of South Africa, 1996, s. 153(a-c)). Being a developmental municipality includes providing basic services to all South Africans, and improving the lives of those South Africans living in poverty.

According to COGTA (2009, p. 6), the concept of ‘basic needs’ or ‘basic services’ involves the provision of:

- “water;
- Sanitation;
- Electricity;
- refuse removal;
- housing; and
- other (i.e. education, health, roads, transport, sports and recreation, street trading, parks, and community halls)”

1.3.2.2 Structure of local government

The Municipal Systems Act defines a municipality as “an organ of state within the local sphere of government consisting of political structures, office bearers and administration of the
municipality” (Republic of South Africa, 2000a, s. 2(a-d). Local government is meant to deal
with the public as prescribed in various pieces of legislation. The following are some of the
legislation applicable to local government:

- Constitution of the Republic of South Africa, No 108, 1996 (Constitution);
- Preferential Procurement Policy Framework Act, 2000 (PPPFA) (Act No. 5 of 2000);
- Broad-Based Black Economic Empowerment Act, 2003 (BBBEE) (Act No. 53 of
  2003);
- Public Finance Management Act (PFMA) (Act 1 of 1999);
- Municipal Finance Management Act, 2003 (MFMA) (Act 56 of 2003);
- Municipal Structures Act, 1998 (MSA) (Act 117 of 1998); and

1.3.2.3 Reasons for service delivery protests at local government level

In the recent past, South Africa has been hit by a wave of service delivery protests. The main
reasons for these protests are as follows:

- Municipalities are not providing services or are only providing shoddy services.
- Decision-making is unresponsive and undemocratic, thereby undermining people’s
  livelihoods and interests.
- There is financial mismanagement, fraud and corruption at the municipal level. The
  residents clearly identified these issues as being responsible for the poor service
delivery in their areas.
- Protests are being held against perceived corruption, sudden enrichment and
  conspicuous consumption by municipal councillors and staff (Atkinson, 2007, p. 58).

1.3.2.4 Challenges that impede effective service delivery at local government level

Local government is faced with a mirage of challenges that impact upon its ability to render
effective service delivery to the people. The challenges are vast, and while some are common to
all municipalities, others are unique to certain municipalities. Common challenges facing
municipalities are: lack of capacity, under-spending by municipalities, unaccountable senior
officials, and violations of MFMA and SCM (Research Unit of Parliament of the Republic of
South Africa, 2009, p. iv). A lack of internal controls, poor governance, and the fact that most of
the audit committees in municipalities do not function effectively are given as financial
challenges facing municipalities (COGTA, 2009, p. 4).
1.3.2.5 The way forward

In response to the service delivery protests, the Government undertook a study of all 283 municipalities to understand the status of local government. The data generated by that study resulted in the Local Government Report. This report was used as a basis for the Local Government Turnaround Strategy (LGTAS). During a fact-finding mission, the following were identified as being among the root causes for much of the current municipal failure: (1) misaligned national and provincial government policies; (2) inappropriate interference by political parties; and (3) a breakdown of values at a societal level (COGTA, 2009, p. 18).

According to Ambe & Badenhorst-Weiss (2011, p. 84), national government is considering introducing strategic sourcing initiatives and transversal contracts in an effort to significantly increase efficiencies and service delivery. A transversal contract is defined as “a contract facilitated and awarded by the national or provincial Treasury with negotiated prices considering the economies of scale, frequency and other variables” (Limpopo Department of Health, 2013, p. 1). Supply chain management best practices are being introduced as a way to improve efficiency in service delivery.

Leadership awareness of the vital importance of information for planning, budgeting and performance management is critical. “The role of oversight needs to be emphasised – particularly the role of internal audits, audit committees and councillors” (Parliamentary Monitoring Group, 2010, p. 7).

This chapter has thus far discussed the nature of local government and has provided an overview of the recent service delivery protests. The next section addresses performance management, particularly supply chain performance management in particular.

1.3.3 Performance Management

Performance management in local government happens at municipal level and within the SCM Department. The Municipal Systems Act stipulates the parameters for performance management at municipal level. The Treasury provides guidelines for performance management within the SCM Department. This section deals with the general principles of performance management that can be applied at municipal level and also at SCM Departmental level.

Performance management is defined as the “use of performance measures and standards in order to: (1) establish performance targets and goals; (2) prioritise and allocate resources; (3) inform managers about necessary adjustments or changes in policy or programme directions so
as to meet goals; (4) frame reports concerning the success of meeting performance goals; and (5) improve the quality of public practice” (Loosley, 2005, para. 5).

The National Performance Management Advisory Commission (NPMAC) acknowledges that performance management is an “on-going, systematic approach for improving results through evidence-based decision making, continuous organisational learning, and a focus on accountability for performance” (National Performance Management Advisory Commission (NPMAC), 2009, p. 11). Table 4.3 in Chapter 4 depicts the accountability time-frames for performance monitoring, measuring and reviews.

1.3.3.1 Purpose of implementing supply chain performance management

Moeti et al (2007, p. 12) argue that the introduction of SCM policies came about as a way to combat fraud and corruption in South Africa ‘made possible through poor procurement management and control”. Notwithstanding the comprehensive legislation and measures in place to regulate SCM processes, incidents of financial mismanagement, fraud and corruption remain a major challenge in SCM processes throughout the country (Ambe & Badenhorst-Weiss, 2011, 85). Considering that SCM may account for more than a third of all of a government’s spending, an effective system to monitor and improve supply chains is crucial (Schapper et al, 2006, p. 1; Ambe & Badenhorst-Weiss, 2011, p. 85). SCM best practices are being introduced in an effort to increase efficiency in service delivery and meet the expectations of citizens. If services are provided in a cost-effective manner, cost savings gained could be channelled to other critical services; this is what the citizens view as value of for money.

Local governments implement performance management systems for a number of reasons, namely:

- to improve the budget process as well as priority setting;
- to encourage accountability;
- to sharpen focus on results;
- to evaluate and monitor contracts;
- to improve capacity for learning and improvement; and

According to Ambe & Badenhorst-Weiss (2011, p. 76) there are various benefits to the public sector for effective supply chain performance management. Some of the benefits include:

- “Better risk allocation. Risk is allocated to the party best placed to manage it.
• **Greater visibility.** Visibility could create subcontracting opportunities, resulting in increased competition.

• **Better defined requirements.** Early involvement of supply chain personnel shapes business need through thorough market research.

• **Improved ability to identify risks or bottlenecks.** It is important to understand all the dynamics at play for each individual contract” (Ambe & Badenhorst-Weiss (2011, p. 76).

The benefits of managing supply chains effectively contribute towards understanding how the businesses of all tiers of service providers work. Possessing this kind of information has a potential to create opportunities for cost savings, and improved quality.

In general, “performance management assists local government in translating their mandate into a set of measures that encourage accountability, which in turn leads to great improvements in services and programmes at local government level” (Ammons, c. 2005, p. 5).

### 1.3.3.2 Implementing performance management within local government

The performance management practices that represent the way performance management is applied to the on-going operations of the South African Government are discussed in the next section.

**Planning** involves “expressing the organisation’s mission, formulating measurable organisation-wide objectives or priorities, and identifying strategies for achieving the objectives” (NPMAC, 2009, p. 26).

**Management** in performance management is the aligning of operations to achieve the desired results. “It includes managing operational processes; managing staff through human resource practices; and managing external relationships, primarily partners and contractors that assist organisations to achieve results” (NPMAC, 2009, p. 29).

**Evaluation** involves verifying, understanding and applying results. It is the “process whereby an organisation, having measured its own performance, assesses whether or not it is doing the right thing and whether or not it is getting better at it” (COGTA, 2001, p. 31).

In terms of **measurement**, “performance measures gauge the quantity, quality, efficiency and impact of the work of government” (Ammons, c. 2005, p. 3).
Reporting refers to performance reports, which also “give programme officials feedback that either provides reassurance that the programme is performing as intended or, if not, inspires employees and supervisors to consider new strategies” (Ammons, c. 2005, p. 15).

1.3.3.3 Performance measurement systems within local government

According to Ambe & Badenhorst-Weiss (2011, p. 85), “the different types of performance measurement systems that can be applicable to public sector supply chains are:

Balanced Scorecard (BSC). This approach was developed by Kaplan and Norton (1992-1996) to assist organisations align organisational performance measures with strategic plans and goals.

SCOR Model. This model is used as a SCM diagnostic, benchmarking and process improvement tool by manufacturing and service companies in a variety of industries around the world.

These systems and others are discussed in more detail in Chapter 4.

1.3.3.4 Performance measures

The previous discussion on the implementation of performance management in local government revealed that performance measures play a crucial role in performance management. A good set of performance measures must be multi-dimensional in order to effectively gauge the quantity, efficiency, quality, effectiveness, impact and productivity of a department (Ammons, c. 2005, p. 5). Ammons further argues that the four principal categories of performance measures are: (1) output measures, (2) efficiency measures, (3) outcome measures, and (4) productivity measures. These measures are dealt with in more detail in Chapter 4.

1.3.3.5 Challenges facing performance management

In the aftermath of the service delivery protests, a Commission was set up by Parliament to determine the state of local government. The aim was to uncover the reasons for poor service delivery at local government level. A report submitted by the Audit Committee revealed that 28% of municipalities around the country lacked internal auditing of performance management, while 29% of municipalities did not have performance information. Municipalities with insufficient performance information made up 22% of the total figure. In addition, 21% submitted their performance information late (Parliamentary Monitoring Group, 2010, p. 7).
Performance management is discussed in more detail in Chapter 4 and reveals that South Africa is not the only country that lags behind the accepted norms in terms of performance management. Ammons (c. 2005, p. 14) observed that the main reasons for not implementing and measuring performance management are: (2) limited resources; and (2) lack of capacity.

The initial literature review provided a brief overview of the principles and practices of performance management. The next section addresses the research methodology used for collecting, analysing and presenting the study’s data.

1.4 RESEARCH QUESTIONS

South Africa has seen a wave of service delivery protests at local government level in various parts of the country. Local government is faced with numerous challenges in delivering services to local communities. The aim of this study was to answer the following two questions:

1. What potential role can supply chain performance management play in local government?
2. Can supply chain performance management improve service delivery at local government level?

1.5 RESEARCH OBJECTIVES

In order to answer these research questions, the following objectives were set:

- to identify the roles and responsibilities of local government in order to provide insight into service delivery and/or lack thereof;
- to define SCM in terms of the local government sphere in South Africa;
- to provide insight into supply chain performance management in local government;
- to provide insight into the public sector supply chain system, in order to determine how an effective supply chain performance management system, could improve service delivery provided by local government; and
- to make recommendations for the implementation of effective supply chain performance management that may ensure improved service delivery by local government.
1.6 RESEARCH METHODOLOGY AND DESIGN

1.6.1 Literature Review

This study consists of a literature and empirical study. A literature review was conducted to provide insight in the supply chain management practices in the local government sphere in South Africa. The secondary data helped shape the direction of this study and the information gathered from the literature study was used to develop a semi-structured interview guide.

1.6.2 Research Methodology

The research methodology section outlines the steps that were taken during the research process in order to answer the research questions. The study is by nature descriptive and exploratory and uses a qualitative approach. Qualitative research produces more in-depth, comprehensive information than does quantitative research (Key, 1997, para. 3), it allows for more diversity in responses, and also has the capacity to adapt to new developments or matters during the research process itself.

“Descriptive research is research in which a specific situation is studied either to see if it gives rise to any general theories or to see if certain existing general theories are borne out by that specific situation” (Goddard & Melville, 2004, p. 9). The aim in this study was to describe the nature of local government in South Africa in order to understand and uncover the reasons for the recent service delivery protests.

“Exploratory research is undertaken with the objective either to explore an area where little is known or to investigate the possibilities of undertaking a particular research study” (Kumar, 2005, p. 10). This is the most appropriate approach in order to provide a deeper understanding of what supply chain performance management is and how effective supply chain performance management could improve service delivery provided by local government.

There were two reasons for choosing the explorative approach, namely (1) vital elements of the study were based on existing research and secondary data, and (2) primary sources needed to be explored to determine the role of SCM and performance measurement in local government.
1.6.3 Demarcation of the Study

There are 283 municipalities in South Africa; with eight category A or metropolitan municipalities. This study focuses on category A, the metropolitan municipalities only. Four of the eight metropolitan municipalities participated in this study, namely Ekurhuleni, City of Johannesburg, City of Cape Town, and eThekwini. To include all 283 municipalities in South Africa is beyond the scope and feasibility of this Masters study.

A convenience sample was used and this study is limited to four metropolitan municipalities. The chosen sample portrays and explores participants’ perceptions about supply chain management practices in local government. A pilot study was conducted at the eThekwini Municipality because the two participants were keen to participate in the pilot study. The findings of the pilot study are included in the findings of this study.

Table 1.1: List of metropolitan municipalities

<table>
<thead>
<tr>
<th>METROPOLITAN MUNICIPALITIES</th>
<th>PROVINCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Buffalo City Metropolitan Municipality</td>
<td>Eastern Cape</td>
</tr>
<tr>
<td>2. Nelson Mandela Bay Metropolitan Municipality</td>
<td></td>
</tr>
<tr>
<td>3. City of Cape Town Metropolitan Municipality</td>
<td>Western Cape</td>
</tr>
<tr>
<td>4. Ekurhuleni Metropolitan Municipality</td>
<td>Gauteng</td>
</tr>
<tr>
<td>5. City of Johannesburg Metropolitan Municipality</td>
<td></td>
</tr>
<tr>
<td>6. City of Tshwane Metropolitan Municipality</td>
<td></td>
</tr>
<tr>
<td>7. eThekwini Metropolitan Municipality</td>
<td>KwaZulu-Natal</td>
</tr>
<tr>
<td>8. Mangaung Metropolitan Municipality</td>
<td>Free State</td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction

The participants in this study are listed in Table 1.2.
Table 1.2: List of participants

<table>
<thead>
<tr>
<th>METROPOLITAN MUNICIPALITY</th>
<th>DESIGNATION OF PARTICIPANT</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Ekurhuleni</td>
<td>Director: Expenditure and Payments</td>
</tr>
<tr>
<td></td>
<td>Director: Project Management Office</td>
</tr>
<tr>
<td></td>
<td>Senior Accountant: Tender Administrator</td>
</tr>
<tr>
<td>eThekwini Municipality</td>
<td>Deputy Manager: Supply Chain Operations</td>
</tr>
<tr>
<td></td>
<td>Senior Manager: Performance and Risk Management</td>
</tr>
<tr>
<td>City of Cape Town</td>
<td>Manager: Demand and Risk Management</td>
</tr>
<tr>
<td>City of Johannesburg</td>
<td>Assistant Director: Administration and Procurement Services</td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction

1.7 LIMITATIONS TO THE STUDY

The limitations of this study are:

- This research study focused on four out of the eight metropolitan cities in South Africa only. The four municipalities that were investigated are in Johannesburg, Durban and Cape Town, cities that are widely accepted as economic hubs of the country. Therefore the findings are not representative of all the other, smaller municipalities. By their nature, metropolitan cities have more resources than do district and local municipalities. The findings of this study could form the basis or foundation for the development of a research survey – a quantitative instrument to be used in a further study to include all 283 municipalities in South Africa.

- Face-to-face interviews were conducted with seven of the managers of the participant cities. Unfortunately two of the managers were not available for personal interviews as they were extremely busy. The two managers who responded in writing to the questions are responsible for contracts management and performance management, and they work alone in their offices. It was not possible to obtain clarity on the written responses as the managers were not available to answer further questions due to their high workload. However, their colleagues were kind enough to answer where they could.
1.8 LAYOUT OF THE STUDY

Chapter 1: Introduction, background and research approach

Chapter 2: Local government in South Africa: roles, responsibilities and challenges

Chapter 3: Supply chain management

Chapter 4: Performance management in local government

Chapter 5: Research methodology

Chapter 6: Findings and discussion

Chapter 7: Summary, conclusion and recommendations

1.9 CONCLUSION

This chapter provided a synopsis of the contents of this research study. The concept of SCM in general was discussed to provide context to the study. Public sector SCM and the supply chain management practices in local government were explored.

The focus of this study is on supply chain management practices in local government. The nature, role and structure of local government were addressed. Local government has a constitutional mandate of delivering quality services to the citizens of the Republic of South Africa through supply chain management principles. Services delivered to the citizens are procured in the private sector using state funds raised from public taxes. As such, local government is under pressure to provide services in a cost effective and efficient manner. Therefore, it becomes important to constantly monitor and effectively manage supply chain management so as to improve the level and quality of service delivery.

This concludes the first chapter. The second chapter deals with the roles, responsibilities and challenges in local government in South Africa.
CHAPTER 2 – LOCAL GOVERNMENT: ROLES, RESPONSIBILITIES AND CHALLENGES

2.1 INTRODUCTION

The Constitution of the Republic of South Africa (Constitution) created local government as a “distinct sphere of government; in addition to the national and provincial spheres of government” (Republic of South Africa, 1996, s. 151(1). This meant that local government has constitutional autonomy to govern the affairs of their local citizens. The three spheres of government are interrelated and interdependent. The Constitution provides for the economic and social development of communities, stating that “local government has to ensure the provision of services to communities in a stable manner and to promote social and economic development” (Republic of South Africa, 1996, s. 152(b-c)).

The cooperative structure of the different spheres of the South African government allows local government – which is the closest sphere of the government to the people – to be better equipped to “render services aimed at achieving a healthy socio-economic and political environment” (Van der Waldt, 2007, p. 17). According to Mfene (2009, p. 217), service delivery is a “concerted effort among the three spheres of government; local, provincial and national”.

Local government is faced with the task of fulfilling the high expectations of communities that were previously disadvantaged. Statistics revealed in this chapter show that significant inroads have been made in providing basic services to these communities. However, the increase over the past few years of municipal service delivery protests indicates that communities are not satisfied with the existing level of service delivery (Luthuli, 2009, p. 460). It is shown in this chapter that 32% of service delivery protests happen due to dissatisfaction with the level and quality of service delivery. The services that municipalities deliver to citizens are procured from the private sector using supply chain management principles. Examples of these services are provided later on in the chapter.

“The aims of democratizing our society and growing our economy inclusively can only be realized through a responsive, accountable, effective and efficient local government system that is a part of a developmental state” (COGTA, 2009, p. 3). This chapter reviews the nature and origins of local government. The roles and responsibilities of a developmental local government are identified and discussed. The link between supply chain management and service delivery is discussed. The reasons for service delivery protests and the challenges facing municipalities
in terms of delivering and effective service are explored. Possible solutions are suggested later on in the chapter.

2.2 ORIGINS OF LOCAL GOVERNMENT

The origin of municipalities in South Africa can be traced back to 1652 when the Dutch first settled at the Cape of Good Hope (Van der Waldt; 2007, p. 3). The municipal system implemented by the Dutch settlers continued until the British settlers established their own system of municipal government in 1836 when they wrested control of the colony from the Dutch (Van der Waldt; 2007, p. 3). The transformation of local government started in 1990 and was implemented in a phased approach as shown by Figure 2.

Figure 2.1: Local government transformation process

Source: Adapted from South African Local Government Agency (SALGA, 2012).

The number of municipalities was consolidated from 980 to 283 during the transition period. The aim of the consolidation was to facilitate equal access to services (COGTA, 2009, p. 5). Municipalities outsource the majority of the services they render to citizens, creating an increased interaction between the municipalities and private organisations.

The transformation of local government was underpinned by the provisions of the 1996 Constitution. Local government was transformed in two aspects: (1) “municipalities were
created for the whole of the territory of the Republic”; and (2) local government was elevated to a sphere of government with constitutional right and powers to govern local government affairs of its communities” (SALGA, 2012, para. 4).

Municipalities were created primarily to provide basic services to communities as they are the sphere of government closest to the people (Republic of South Africa, 1996, s. 152). The Constitution prescribes the basic values and principles that guide public administration officials in their efforts to provide basic services to the people as follows:

- “a high standard of professional ethics must be promoted and maintained;
- efficient, economic and effective use of resources must be promoted;
- public administration must be development-oriented; and
- services must be provided impartially, fairly, equitably and without bias” (Republic of South Africa, 1996, s. 195(1)).

Essentially, these principles promote that public officials conduct themselves in an ethical manner, with an intention to be honest and transparent when doing their work. Public officials ought to put the interests of the citizens first as clearly stated in the Batho Pele (People First) principles discusses in section 2.6.1 under the service delivery section.

### 2.3 LEGISLATIVE FRAMEWORK IN LOCAL GOVERNMENT

The Constitution provided for the establishment of legislation that would give expression to the fundamental goal of creating a developmental local government (Republic of South Africa, 1996, s.153). The initial process started with the formation of the White Paper Policy Committee, which formulated local government policy in 1998. Soon thereafter, various other pieces of legislation followed that give guidance on how municipalities ought to work in order to achieve their developmental role. Table 2.1 provides a timeline of local government legislation. Only those pieces of legislation that are pertinent to the study are dealt with in this section.
Table 2.1: Timeline of local government legislation

<table>
<thead>
<tr>
<th>YEAR</th>
<th>LEGISLATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>Democratically elected government assumes power. Interim Constitution is promulgated.</td>
</tr>
<tr>
<td>1996</td>
<td>Final Constitution is promulgated.</td>
</tr>
<tr>
<td>1997</td>
<td>Green Paper on Local Government is published.</td>
</tr>
<tr>
<td>2000</td>
<td>Municipal Systems Act (MSA) 32 of 2000</td>
</tr>
<tr>
<td>2001</td>
<td>Municipal Planning and Performance Management Regulations of 2001</td>
</tr>
<tr>
<td>2004</td>
<td>Municipal Finance Management Act 56 of 2003</td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction

Section 2 of the Municipal Systems Act defines a municipality as “an organ of state within the local sphere of government consisting of political structures, office bearers and administration of the municipality” (Republic of South Africa, 2000a, s. 2(a-d)). The Council carries political duties and legislative powers to pass by-laws and approve policies), and has a mayor as its political head, a speaker as its chairperson, and a municipal manager to head the administration of the Council (Van der Waldt, 2007, p. 8).

The Municipal Finance Management Act (MFMA) stipulates that each municipality must “establish a Supply Chain Management Department to implement its supply chain management policy” under the direct supervision of the chief financial officer (Republic of South Africa, 2003, s. 7(1-3). The accounting officer of a municipality is responsible for “developing and implementing an effective and efficient supply chain management system for acquiring goods and services” (Khalo, 2007, p. 204).

Services that municipalities provide to communities are sourced from private companies. Both the Public Finance Management Act (PFMA) Act 1 of 1999 and the Preferential Procurement Policy Framework Act (PPPFA) Act 5 of 2000 provide guidelines and processes to be followed when procuring goods and services. The MFMA puts emphasis on using state resources efficiently, while the PPPFA provides guidelines on procuring of goods and services in a manner that develops and supports local SMMEs, especially those run by previously
disadvantaged individuals (PDIs). The details contained in the PPPFA, MFMA and Broad-Based Black Economic Empowerment Act (B-BBEEA) are dealt with extensively in Chapter 3.

2.4 CATEGORIES OF MUNICIPALITIES

Municipalities are categorised in accordance with the categories prescribed in Chapter 7 of the Constitution (Republic of South Africa, 1996, s. 155(1)). This study focuses on metropolitan cities or category A municipalities.

Category A (Metropolitan cities) (8) – “Large urban complexes with exclusive municipal executive and legislative authority in its area” (Republic of South Africa, 1996, s. 155(1)(a)).

Category B (Local municipalities) (229) – “Local municipality that shares municipal executive and legislative authority in its area with the category C municipality within whose area it falls” (Republic of South Africa, 1996, s. 155(1)(b)).

Category C (District municipalities) (46) – “A District municipality has municipal executive and legislative authority in an area that includes more than one municipality” (Republic of South Africa, 1996, s. 155(1)(c)).

2.4.1 Metropolitan Cities

According to the Municipal Structures Act, a metropolitan municipality has the following characteristics:

- “areas of high population density;
- an intense movement of people, goods and services;
- extensive development; and
- multiple business districts and industrial areas” (Republic of South Africa, 1998, s. 2).

“Strong city economies provide jobs and incomes to raise the living standards of citizens and to improve the stability and cohesion of communities. They boost the tax base to fund better public services and generate the resources to support household remittances and state transfers to poorer regions. Strong city economies also promote productivity growth and innovation, partly because they contain the shared services, infrastructure, institutions and social amenities to attract investment, enterprises and skills” (South African Cities Network (SACN), 2012, p. 1). Appendix B is a map showing the geographic location of the eight metropolitan municipalities in South Africa.
Table 2.2 depicts some of the attributes of metropolitan municipalities.

Table 2.2: A synopsis of the metropolitan cities

<table>
<thead>
<tr>
<th>METROPOLITAN CITY</th>
<th>POPULATION (Million)</th>
<th>2010 GDP (Bill)</th>
<th>EXPENDITURE (Bill) (2010)</th>
<th>MPI (2011)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Johannesburg</td>
<td>4.1</td>
<td>361.2</td>
<td>1 (78%)</td>
<td></td>
</tr>
<tr>
<td>City of Tshwane</td>
<td>2.4</td>
<td>202</td>
<td>4 (72.7%)</td>
<td></td>
</tr>
<tr>
<td>Ekurhuleni</td>
<td>3.2</td>
<td>145</td>
<td>5 (72.1%)</td>
<td></td>
</tr>
<tr>
<td>eThekwini</td>
<td>4.3</td>
<td>233.9</td>
<td>2 (74.5%)</td>
<td></td>
</tr>
<tr>
<td>City of Cape Town</td>
<td>4.0</td>
<td>238.5</td>
<td>3 (73.8%)</td>
<td></td>
</tr>
<tr>
<td>Nelson Mandela Bay</td>
<td>1.5</td>
<td>73.1</td>
<td>6 (71.9)</td>
<td></td>
</tr>
<tr>
<td>Buffalo City</td>
<td>1.0</td>
<td>36.3</td>
<td>8 (63.6%)</td>
<td></td>
</tr>
<tr>
<td>Mangaung</td>
<td>0.9</td>
<td>40.3</td>
<td>7 (68.2%)</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>21.4 (42%)</td>
<td>1330.3 (58%)</td>
<td>456 (71%)</td>
<td></td>
</tr>
<tr>
<td>SOUTH AFRICA</td>
<td>50.0</td>
<td>2274.1</td>
<td>642.25</td>
<td></td>
</tr>
</tbody>
</table>

*MPI = Municipal Performance Index


In summary, the eight (8) metropolitan cities that account for 58% of South Africa’s national economic product are home to 42% of the country’s population. Metropolitan cities are critical developmental zones as “the developmental mandate of local government is implemented through metropolitan municipalities in the eight largest urbanised and industrialised centres in the country” (SALGA, 2012, para. 5). The role of a developmental municipality is discussed further in section 2.5.

This study includes a convenience sample of four (4) of the metropolitan municipalities, namely, City of Cape Town, eThekwini, Ekurhuleni and City of Johannesburg. The sample of participants is dealt with in section 5.5 in more detail.

2.5 THE ROLE OF A DEVELOPMENTAL LOCAL GOVERNMENT

Municipalities have a developmental role that they need to fulfil if they are to comply with the Constitution. A developmental local government is one that is “committed to working with
citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives” (Republic of South Africa, 1996, s152). A developmental local government is run by professional officials capable of addressing the social and economic needs of the citizens in an effective and efficient manner (Koma, 2010, p. 112).

The Green Paper on Local Government of 1997 identifies three aspects that define a developmental local government. These are depicted in Figure 2.2 and are explained briefly thereafter.

**Figure 2.2: Inter-related aspects of developmental local government**

- **Maximising economic growth and social development**

A developmental local government has an excellent public administration and intervenes in the local economy to encourage and promote social development (Koma, 2010, p. 112). Sound principles of public service and accountability are facilitated amongst its staff (COGTA, 2009, p. 5).
• **Integrating and coordinating**

A municipality needs to display leadership and vision by integrating and coordinating the activities of “community groups, private sector institutions, parastatals and trade unions in its local area in fulfilling its developmental role” (COGTA, 1997, p. 24).

• **Democratising development**

Local government, as the sphere of government closest to the people, represents community interests. Municipalities are obligated to respond to local needs, interests and expectations and to involve communities in the design and delivery of municipal programmes (Koma, 2010, p. 113).

2.5.1 **Approaches for Developmental Local Government**

Having defined what developmental local government is, the various ways of ensuring successful developmental goals/roles can now be explored. The four interlinked approaches that municipalities can adopt are as follows:

1. “integrating planning, budgeting and management;
2. managing the growth of local settlements;
3. mobilising its capacity for effective service delivery; and
4. linking growth and development” (COGTA, 1997, p. 23).

Each of these approaches are dealt with in more detail hereafter.

2.5.1.1 **Integrated planning, budgeting and management**

This approach involves identifying the critical tasks and then channelling resources towards addressing and fulfilling them. The following interventions, as depicted in Table 2.3, can be used to develop an integrated vision for service delivery.
Table 2.3: Interventions used to achieve integrated planning

<table>
<thead>
<tr>
<th>INTERVENTION</th>
<th>KEY ASPECT</th>
</tr>
</thead>
</table>
| Integrated Development Plan (IDP)  | Engaging with various stakeholders and interest groups to identify key community needs  
                                        | Systematic prioritisation of programmes and resource allocation  
                                        | Formulation of strategies and implementation of projects  
                                        | Use of monitoring tools to measure impact and performance   |
| Financial and Investment Planning   | Financial planning should be linked to IDP                                                                                                  |
| Environmental Management (EA)       | Use of Strategic EA to anticipate and address potential environmental consequences of proposed projects                                         |
| Performance Management (PM)         | Specified targets must be met by specified resources  
                                        | Monitoring of progress through key performance indicators (KPI’s) that include both efficiency measures and human development indices  
                                        | Over time, KPIs allow municipalities to adapt their IDPs using the benefit of hindsight                                      |


2.5.1.2 Managing the growth in local settlements

The rapid growth of urban centres means that municipalities must “plan and invest now in order to meet future land and infrastructure needs for industrial, commercial and residential development” (COGTA, 1997, p. 30).

2.5.1.3 Mobilising capacity for effective service delivery

A developmental local government requires significant capacity to fulfil existing and future needs of communities. The mechanisms that can be used to mobilise capacity are:

- **Public delivery** – Delivery is enhanced through integrated planning discussed in section 2.5.1.1
- **Public-Public partnerships** – Horizontal cooperation between municipalities to achieve economies of scale. Vertical co-operation to improve co-ordination at the point of delivery
2.5.1.4 Linking growth and development

Local Economic Development (LED) is a mechanism that can be used to address inequality and poverty. Municipalities need to promote investment and entrepreneurship by marketing their local areas. Growth and distribution can be promoted by promoting labour intensive jobs in building projects. The expanded public works programme is one such programme that promotes the employment of local youths and women to provide labour in infrastructure projects. Municipalities can also promote local procurement by buying from small and disadvantaged businesses (COGTA, 1997, p. 36).

Essentially, municipalities that are developmentally oriented achieve their objectives by (1) providing vision and leadership to coordinate the activities of public and private agencies, and (2) encouraging the community to participate in policy making (COGTA, 1998, p. 15).

The next section discusses the meaning of service delivery, what impacts service delivery and challenges that impede service delivery.

2.6 SERVICE DELIVERY AT LOCAL GOVERNMENT LEVEL

2.6.1 Definition of Service Delivery

Mfene (2009, p. 210) defines service delivery as “an encompassing activity aimed at promoting the general welfare of the community”. The Parliamentary Monitoring Group (2010, p. 4) further explains that service delivery is an “outcome, of which the scale and quality depends on factors such as: clear and realistic policies; appropriate allocation of powers, functions and financial resources; performance and accountability of State organs to implement policies; coordination between organs of State; public participation and involvement as well as the level of self-reliance of communities”.

The White Paper on Transforming Public Service Delivery stipulates the following “Batho Pele” eight (8) service delivery principles to ensure effective service delivery: “(1) consultation; (2) service standards; (3) access; (4) courtesy; (5) information; (6) openness and transparency;
(7) redress; and (8) value for money” (Department of Public Service and Administration, 1997, p. 15). The Batho Pele principles are based on the public administrative principles discussed in page 2 of the White Paper, and were developed in response to the high expectations that accompanied the emergence of a democratic South Africa (Nengwekulu, 2009, p. 347). These principles have become the yardstick by which the success or failure of a sphere of government’s public service delivery is assessed (Nengwekulu, 2009, p. 348).

Service delivery (or the lack thereof) is experienced mostly at local government level because local government is the “coalface of service delivery” (Moosa, 1996, p. 4). The basic services as stated in Part B of Schedule 5 of the Constitution include the provision of (1) water, (2) sanitation, (3) electricity, (4) refuse removal, (5) housing, and (6) other services (which includes education, health, roads, transport, sports and recreation, street trading, parks, and community halls).

Boateng (2010, p. 1), confers that “there is supply chain associated with every product delivered, be it tangible or not, health or education, waste collection, financial services, tourism and even service delivery in local government”. Boateng’s argument links service delivery to supply chain management. Ambe & Badenhorst-Weiss (2011, p. 88) also argue that “in the public sector, supply chain management is used as an instrument to enhance quality service delivery to citizens”. It is for this reason that supply chain performance management is critical to ensure continuous improvement in supply chain management. An effective supply chain management system should translate into enhanced quality service delivery to the citizens.

In the formative years of local government as we know it, it was acknowledged that disadvantaged South Africans have high expectations and anticipate a significant improvement in their standard of living. Moosa (1996, p. 6) warned that local government would require wisdom and creativity to meet those expectations in the shortest possible time due to the great reservoir of unfulfilled needs.

According to Mfene (2009, p. 215), “the perceived slow pace of service delivery, especially at local government level, has led to growing impatience and discontent among the poor communities”. Nengwekulu (2009, p. 348) agrees, saying that although major improvements in service delivery are evident, they are not enough to meet the high expectations brought on by the dawn of democracy in the country. As such, the “expectations of service delivery is disproportionately high in comparison with the level of service provided by local government” (ILGM, 2010, p. 2). Therefore, both Mfene (2009, p. 210) and ILGM (2010, p. 1) conclude that “if local government is the coalface of service delivery, it is safe to regard the service delivery
protests as a true barometer of the reaction of South Africans to the quality of the services rendered and a display of their dissatisfaction with the current state of affairs”.

The next section deals with the reasons behind the service delivery protests. Challenges facing municipalities are discussed and possible ways of overcoming those challenges are suggested.

2.6.2 The Nature of the Service Delivery Protests

This section seeks to demonstrate the nature of service delivery protests across the country and further explain the need to improve supply chain performance management. Jain (2010, p. 31) defines service delivery protests as a “natural and probable consequence of systematic institutional problems that exist in the provision of basic services to the most poverty stricken members of the South African society”. Jain further states that the poor people of South Africa make use of service delivery protests in order to demonstrate their dissatisfaction with what they perceive as a lack of or slow service delivery.

Ammons (c. 2005, p. 14) argues that if “performance of supply chains is not managed, there will then almost certainly be gradual discrepancies in service quality and this inefficiency will pass undetected by programme officials, thereby creating sizable deficiencies over time (even though unintended) that escape notice until a major problem draws unfavourable attention to them”.

For example, the MunicipalIQ Hotspot Monitor recorded 515 service delivery protests between 2004 and 2012 (MunicipalIQ Hotspot Monitor, 2012a, p. 1). A significant number of protests took place in metro areas, giving rise to Gauteng and the Western Cape’s prominent presence in provincial breakdowns of protest activities (MunicipalIQ Hotspot Monitor, 2011, p. 1). Since 2004, 49% of the protests recorded on the MunicipalIQ Hotspot Monitor were recorded in metro areas, and over one third (35%) were recorded in informal settlements. Figure 2.3 shows the service delivery protests in numbers.
Figure 2.3: Service delivery protests from 2004 to 2012

Source: MunicipalIQ Hotspot Monitor (August, 2012a)

Generally speaking, protests take place in wards that have (1) higher unemployment rates than does the average ward in their municipalities (the rate is also higher than the national average), and (2) worse access to services than does the average ward in their municipalities (but their access is not worse than the national average) (MunicipalIQ Hotspot Monitor, 2009, p. 1). Figure 2.4 shows a provincial breakdown of where service delivery protests took place in 2011.
Almost half the protests (49.4%) in 2011 took place in metropolitan areas, with Gauteng and the Western Cape “being the most predominant sites of protests in South Africa” (MunicipalIQ Hotspot Monitor, 2011, p. 1). Jain (2010, p. 22) explains that “communities are most likely to protest when they are ‘languishing at the periphery of municipalities’, a phenomenon most common in metropolitan areas”. Table 2.4 supports this claim by showing the spread of service delivery protests in Gauteng and the Western Cape.
Table 2.4: Spread of service delivery protests in metropolitan areas

<table>
<thead>
<tr>
<th>GAUTENG</th>
<th>WESTERN CAPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Tshwane (21%)</td>
<td>City of Cape Town (72%) (Khayelitsha, Nyanga, Langa and</td>
</tr>
<tr>
<td>City of Jo’burg (50%)</td>
<td>Gugulethu)</td>
</tr>
<tr>
<td>Ekurhuleni (9%)</td>
<td>Cape Winelands (5%)</td>
</tr>
<tr>
<td>Sedibeng (11%)</td>
<td>Overberg (1%)</td>
</tr>
<tr>
<td>Metsweding (2%)</td>
<td>Eden (22%) (Plettenberg)</td>
</tr>
<tr>
<td>West Rand (7%)</td>
<td>Central Karoo (0%)</td>
</tr>
</tbody>
</table>

Source: Adapted from Jain (2010, p. 23)

Seventy-two percent (72%) of the protests that took place in the Western Cape took place in the City of Cape Town, a metropolitan city. In Gauteng, a similar trend is evident as 80% of the protests took place in the three (3) metropolitan cities of Johannesburg, Tshwane and Ekurhuleni. According to Jain (2010, p. 23), this analysis shows that informal settlements on the outskirts of urban areas are disproportionately likely to engage in protests.

In support of the above statistics, “municipalities experiencing an influx of work seekers (whose expectations are not then met) are the most susceptible to service delivery protests – a trend that has most probably been tipped both by the recession and by the growing issue of inequality, especially where allegations of municipal maladministration and corruption fuel community frustration.” (MunicipalIQ Hotspot Monitor, Nov 2009, p. 1.).

2.6.3 Reasons for Service Delivery Protests

“Supply chain management has an inextricable link to long-term quality service delivery, human capital development and associated socio-economic growth” (Boateng, 2010, p. 1). The quality of services delivered to citizens correlates with the effectiveness of supply chain management. Naidoo (2010, p. 1) argues that many of the “service delivery issues can be solved through improvements in the supply chain”. In Figure 2.5, it is depicted that 32% of the reasons that lead to service delivery protests emanate from dissatisfaction with service delivery.

Ambe & Badenhorst (2012b, p. 11003) argue that “supply chain management promotes South Africa’s New Public Management model by means of improved financial management and is a strategic tool for management and enhancement of procurement practices”. The implication is that “supply chain management is an integral part of prudent financial management in the South African public sector management” (Office of Government Commerce (OGC), 2005, p. 11).
Financial mismanagement at municipal level has been raised as one of the reasons for service delivery protests. Therefore, effective supply chain management practices have a direct effect on good financial management that would result in improved service delivery to the citizens. The following issues have been identified by Atkinson (2007, p. 58) as being the reasons for the recent service delivery protests as shown in Figure 2.5.

- Municipalities are not providing services or are only providing shoddy services;
- Decision-making is unresponsive to the needs of the citizens and undemocratic, thereby undermining people’s livelihoods and interests;
- There are issues of financial mismanagement, fraud and corruption at municipal level. Residents across the country clearly indicated that these issues are being responsible for the poor service delivery in their areas; and
- Protests are levelled against the perceived corruption, sudden enrichment and conspicuous consumption of municipal councillors and staff.

**Figure 2.5: Reasons for service delivery protests**

![Pie chart showing reasons for service delivery protests](image)

- Service delivery: 32%
- Housing/Land: 28%
- Corruption/Financial Mgt: 15%
- No response from councillors regarding memorandums: 13%
- Issues around relocation: 4%
- Other: 8%

*Source: South African Institute of Race Relations (2010, p. 2)*
2.6.4 Challenges that Impede Effective Service Delivery at Local Government Level

Local government is faced with a host of challenges that impact upon its effective delivery of services to the people. Smith (2013, p. 1) argues that “supply chain misdemeanours are hampering the public and private sector’s efforts” to effectively deliver services to the people. The challenges are numerous, and while some are common to all municipalities, others are unique to certain municipalities. Nengwekhulu (2009, p. 351) and Smith (2013, p. 1) cite skills shortage in supply chain management, a bureaucratic work ethic, poor supervision, lack of performance management and monitoring, the impact of ill-discipline on public service delivery, and failure to understand that supply chain management dynamics lie at the heart of many of the issues relating to service delivery as major challenges. President Jacob Zuma (2013, p.1) conceded that in “addressing factors that affect service delivery, all spheres of government will need to understand the challenges faced in acquiring the right service provider”.

The list of challenges given hereafter is not exhaustive; it is merely a summary of the common challenges identified by the research unit of Parliament.

**Lack of capacity.** A shortage of the requisite skills has left many municipalities inadequately staffed, with grave implications for service delivery. Under-spending in municipalities is a direct result of the unavailability of adequately skilled people to undertake project planning and management.

**Violations of MFMA and supply chain management** result in tender irregularities, which in turn fuel corruption, erode confidence in municipal leadership, and compromise service delivery (The Research Unit of Parliament, 2009, p. iv).

**Lack of internal controls, poor governance** and the fact that most of the audit committees in municipalities do not function effectively are some of the financial challenges facing municipalities (COGTA, 2009, p. 4). Good governance is critical to the effectiveness and efficiency of an organisation as it is seen as a key measure of performance (ILGM, 2010, p. 1).

**The absence of supervision and performance management and monitoring** “has the potential to undermine the fulfilment of an organisation’s objectives” (Nengwekhulu, 2009, p. 355). Supervision, monitoring and performance management are central to ensuring the effective and successful implementation of service delivery as well as the effective execution of programmes and projects.
**Skewed recruitment, selection and appointment culture** results in people who do not meet the “minimum academic and professional qualifications being appointed into positions which are beyond their capacity, resulting invariably in poor services delivery” (Nengwekhulu, 2009, p. 358).

It is reported that **lack of accountability** on the part of senior officials remains a challenge. The actions of senior officials sometimes result in conflicts of interest. Furthermore, no action is taken against senior officials to make them accountable when they do not comply with regulations.

**Challenge of growing political interference** by “political heads who order the accounting officers to take decisions that are contrary to the provision of the PPPFA and the MFMA” (Nengwekhulu, 2009, p. 357).

### 2.7 THE WAY FORWARD

In 2008, in response to the service delivery protests, the Government undertook a study of all 283 municipalities in order to understand the status of local government. The results of this research resulted in the Local Government Report. This report was used as a basis for the Local Government Turnaround Strategy (LGTAS) (COGTA, 2009, p. 4).

It has been demonstrated that supply chain management is linked to service delivery, “building broad supply chain in all sectors would pay huge dividends in the struggle to get service delivery back on track” (Smith, 2013, p. 1).

The research conducted by the Government revealed that different municipalities have different capabilities, strengths and weaknesses. This revelation calls for a differential approach in terms of dealing with the current challenges. While some challenges are the same across the board, others are unique to certain municipalities. The key is to learn from those municipalities that are doing well, and then adapt the solutions to the specific situations at hand in other municipalities. Table 2.5 illustrates a few examples of excellence in certain areas of performance in different municipalities.
Table 2.5: Examples of good practice in local government

<table>
<thead>
<tr>
<th>MUNICIPALITY</th>
<th>AREA OF PERFORMANCE</th>
<th>REASON(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gamagarra – Northern Cape</td>
<td>Service delivery</td>
<td>Backlogs eradicated</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strong economic centre</td>
</tr>
<tr>
<td>Overstrand – Western Cape</td>
<td>Financial viability</td>
<td>Good credit rating</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Outstanding collection of rates</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Good CAPEX budget</td>
</tr>
<tr>
<td>Thabazimbi – Limpopo</td>
<td>LED</td>
<td>Strong economic sectors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Good engagement with business sector</td>
</tr>
<tr>
<td>Cape Winelands District</td>
<td>Planning Facilitation</td>
<td>Facilitates economic growth in district</td>
</tr>
<tr>
<td>Municipality – Western Cape</td>
<td></td>
<td>Excellent approach to PSM and IDP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Innovation to district IGR</td>
</tr>
<tr>
<td>West Rand District</td>
<td>Good governance</td>
<td>Focus on development facilitation</td>
</tr>
<tr>
<td>Municipality – Gauteng</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: COGTA (2009, p. 14)

The objectives of the LGTAS include: (1) “restoring people’s confidence in municipalities as the primary vehicle for attaining the objectives of a developmental state at a local level; and (2) rebuilding and improving the basic requirements for a functional, accountable, responsive, effective and efficient developmental local government. Institutional management, which embodies the leadership and management of people and processes, remains a challenge at local government level” (Institute for Local Government Management (ILGM), 2010, p. 2). It is critical that the leadership become “aware of the importance of information. The role of oversight needs to be emphasised – particularly the role of internal audits, audit committees and councillors” (Parliamentary Monitoring Group, 2010, 7).

2.8 CONCLUSION

Local government was created by the Constitution as a distinct sphere of government that would facilitate the effective provision of basic services to its immediate communities in a sustainable manner. Legislation was enacted to guide municipalities towards achieving the goals of a
developmental local government. Supply chain management policies are in place to guide how the procurement of goods and services that municipalities deliver to citizens should be carried out. The spate of service delivery protests in the recent past indicates that there are, amongst others supply chain management challenges inherent in the system that need to be addressed decisively. Research reveals that municipalities are different and differentiated approaches are therefore required in terms of resolving each municipality’s specific challenges.

This section dealt with the nature of local government and provided an overview of service delivery protests. The next section deals with supply chain management, with special emphasis on public sector supply chain management.
CHAPTER 3: SUPPLY CHAIN MANAGEMENT

3.1 INTRODUCTION

According to Rendon (2008, p. 203), public sector organisations manage an increasing number of service providers who provide goods and services to the citizens on behalf of the state. Boateng (2010, p. 1) asserts that “there is a supply chain associated with every product delivery, be it tangible or not: health or education, waste collection, financial services, tourism – and even service delivery in local government”. SCM is therefore an important aspect of service delivery in local government. Public sector procurement places great emphasis on accountability and transparency to the public, since it is the public’s money that is being used to fund state purchases (Larson, 2009, p. 224). As such, there is a growing need to “apply performance measurement methods and improve procurement processes” in the public sector (Rendon, 2008, p.201).

This chapter seeks to define the supply chain in a broader sense and also from a public sector perspective. The nature of supply chain processes and systems applicable to local government are explored. Demand management, acquisition management (contract management), logistics and performance management are also discussed in detail. The legal provisions that govern supply chain processes are looked at in the last section of this chapter.

3.2 SUPPLY CHAIN MANAGEMENT DEFINED

“Supply chain management (SCM) is a five-stage process that involves: (1) identifying an item or service required to fulfil the needs of the organisation; (2) identifying the most suitable service provider to satisfy that need; (3) establishing a fair and reasonable price for the item or service to be purchased; (4) enforcing the agreement for the purchase; and (5) managing the relationship to ensure there is not only timely delivery but that the delivery is of the agreed-upon standard” (Burt, Petcavage & Pinkerton, 2010, p. 6). SCM therefore allows for “efficient and effective flow of products/materials, services, information and financials from first-tier service providers through the various intermediate organisations/companies to the final end-user” (Coyle, Langley, Gibson & Novace, 2009, p.17).

According to Mentzer (2000, p. 2), “SCM is the systematic, strategic coordination of the traditional business functions within a particular company and across businesses within the supply chain for the purpose of improving the long-term performance of the individual companies as well as the supply chain as a whole”. The long-term performance of companies can be achieved by “creating and optimising value for the customer in the form of products and
services which are specifically aimed at satisfying customer demands” (Hugo, Badenhorst-Weiss & Van Biljon, 2004, p.5).

“SCM is a combination of all parties (external service providers, partner organisations, internal corporate services units), both inside and outside the organisation, that are involved in delivering the inputs, outputs or outcomes that will meet a specified public sector requirement” (Office of Government Commerce, 2005, p.5). The principles relating to the systematic integration of processes to enhance customer satisfaction apply to both the private and public sectors.

3.3 PUBLIC SECTOR PROCUREMENT

Procurement in the public sector is “governed by legislative bodies, laws and regulations” (Larson, 2009, p. 223). The Constitution stipulates that “there should be a procurement policy that provides for categories of preference in the allocation of contracts and protects the advancement of persons or categories of people previously disadvantaged as the result of unfair discrimination” (Republic of South Africa, 1996, s. 217(2)).

The Constitution also prescribes that an organ of the state must purchase goods and services in “accordance with a system which is fair, equitable, transparent, competitive and cost effective” (Republic of South Africa, 1996, s. 217(1)). The concepts of transparency and accountability are more significant in public procurement than in any other department because it is state money that is used to procure the goods and services (Schapper, Malta & Gilbert, 2006, p. 1). Performance management is necessary to ensure that state resources are used in an efficient and effective manner. However, the absence of confidentiality about the Government’s dealings with service providers and the Government’s inability to negotiate can lead to price becoming the focus point (instead of Total Cost of Ownership); and to a lack of collaborative long-term relationships with service providers (Larson, 2009, p. 224).

Governments across the globe have used public procurement as a “vehicle for implementing various socio-economic policies” (Qiao, Thai & Cummings, 2009, p. 372). According to Basheka (2008, p. 381), “government spending on goods and services, in many countries continues to exceed 20%”, thus giving a government enough muscle to entrench preferential procurement policies.

“Preferential procurement programmes were developed for a wide range of socio-economic goals, including fostering job creation, promoting fair labour conditions, promoting the use of local labour as a means to prevent discrimination against minority groups, encouraging equality
between men and women and promoting the increased utilisation of the disabled in employment” (Qiao et al., 2009, p. 377). In the USA, the Small Business Act of 1953 provides the legal base for set-aside programmes for small businesses that meet pre-determined standards. In 1919 the British Government sought to increase employment for disabled ex-servicemen. There has been a set-aside programme for aboriginals in Canada since 1995. Indonesia and Malaysia also have preferential procurement policies, which were established in 1974 (Qiao et al., 2009, p. 374). While Kashap (in Qiao et al., 2009, p. 379) calls for greater use of public procurement as a policy tool, critics believe that preference laws erode value for money and “violate the basic principles of public purchasing, like equity, open competition, impartiality” (Qiao et al., 2009, p. 380).

The 1996 Constitution of the Republic of South Africa made provision for the creation of legislation that would advance the inclusion of PDI’s and SMMEs in the mainstream economy. The legislative framework that guides local government SCM is depicted in Figure 3.1.

**Figure 3.1: SCM Legislative Framework in Local Government**

![SCM Legislative Framework](image)

**Source: Researcher’s own construction**

In a nutshell, the PFMA 1 of 1999, MSA and MFMA 56 of 2003 aim to promote sound and sustainable management of financial affairs; ensure transparency and accountability and provide
for the creation of SCM policy. The SCM policy seeks to promote the principles and objectives of the PPPFA 5 OF 2000, BBBEE Act 17 of 2003, CIDB, National Treasury Guidelines and SCM Regulations. Section 111 of the MFMA provides for the creation of the SCM Regulatory Framework; the SCM Regulations 2005. The Contract Management Framework (CMF) sets the ground rules for contracts management. The details contained in the PPPFA, B-BBEE and CMF are discussed in section 3.6 of this chapter.

The Promotion of Administrative Justice Act, 3 of 2000 (PAJA) and the Promotion of Access to Information Act, 2 of 2000 (PAIA) are some of the Acts that flow directly from the constitutional imperatives. PAJA, as the name suggests, seeks to promote administrative justice in public institutions. Appendix C is an extract from sections 1 and 6 PAJA accompanied by an example of a checklist of questions that Supply Chain Management Departments can ask when doing reviews.

3.4 SUPPLY CHAIN MANAGEMENT SYSTEMS IN LOCAL GOVERNMENT

Section 9(a-b) of the Supply Chain Management Regulations of 2005 contained in the MFMA 56 of 2003 stipulates that every SCM department must always have the following five elements of Supply Chain Management:

1. Demand Management;
2. Acquisition Management;
3. Logistics Management;
4. Performance Management;
5. Risk Management; and
6. Disposal Management (Republic of South Africa, 2005, s. 9(a-b)).

The elements of SCM mentioned above are all inter-linked so as to form an integrated supply chain process. According to the Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government, “the supply chain process links to budget planning processes and strongly focuses on the outcomes of the actual expenditure in respect of sourcing of goods and services” (National Treasury, 2003, p. 5). It is important to ensure that there is value added in each element so as to maximise the eventual outcome.

Disposal management is not relevant in this research study and is therefore not discussed. The focus is on demand management, acquisition management, logistics management and performance management.
Figure 3.2 shows the SCM model suggested in the Supply Chain Management Guide.

**Figure 3.2: Supply Chain Management Model for Government Entities**

![Supply Chain Management Model](image)

Source: National Treasury (2003, p. 20)

### 3.4.1 Demand Management

In local government, demand management begins with the formulation of the Integrated Development Plan (IDP). The IDP typically identifies the operational commitments and strategic objectives of a local municipality for a particular financial year. Chapter 2 of the SCM Regulations of 2005 contained in the MFMA 56 of 2003 defines demand management as a process that “ensures that the resources required to support the strategic and operational commitments of the municipality are delivered at the correct time, at the right price and at the right location, and that the quantity and quality satisfy the needs of the municipality” (Republic of South Africa, 2005, s. 10).

The Preferential Procurement Regulations stipulate that municipalities have a duty to properly plan for, accurately estimate the costs of the goods and services that they seek to procure. The
appropriate preference point system to be used when evaluating tenders must be determined together with the deliverables of performance indicators against which the successful bidder will be assessed (Republic of South Africa, 2001, s. 11(a-c)).

End-user needs in local government must be evaluated using market and commodity analysis as well as the supply and demand process (Khalo, 2007, p. 205). This component of SCM is critical because it “controls, co-ordinates and balances and influences the demand and supply for a firm’s products and services in an effort to reduce total costs for the firm and its supply chain” (Burt, Dobler, & Starling, 2003, p. 625). In the United Kingdom, it has been identified that it is at this stage of the supply chain management process that a municipality should start to consider the role SCM will play in the procurement process (Office of Government Commerce, 2005, p. 18). The complexity of a municipality’s business needs determine the level of SCM competence expected from the service providers.

It is the supply positioning matrix that is currently used in South African municipalities as the basis for developing a proper purchasing process suitable to their needs. The supply positioning matrix shown as Figure 3.3 depicts the different categories used to classify goods and services.

**Figure 3.3: Supply positioning model**

<table>
<thead>
<tr>
<th>NON-STRATEGIC CONTRACTS</th>
<th>STRATEGIC CONTRACTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BottleNeck Products/Services</strong></td>
<td><strong>Critical Products/Services</strong></td>
</tr>
<tr>
<td>Difficult to secure supply</td>
<td>Difficult to secure supply</td>
</tr>
<tr>
<td>Low relative expenditure</td>
<td>High relative expenditure</td>
</tr>
<tr>
<td>Unique specifications</td>
<td>Strategic to profitability and operations of buying business</td>
</tr>
<tr>
<td><strong>Routine Products/Services</strong></td>
<td><strong>Leverage Products/Services</strong></td>
</tr>
<tr>
<td>Easy to secure supply</td>
<td>Easy to secure supply</td>
</tr>
<tr>
<td>Low relative expenditure</td>
<td>High relative expenditure</td>
</tr>
</tbody>
</table>

**Source:** Adapted from National Public Procurement Policy Unit (2005), Hugo et al. (2006, p. 105) and Office of Government Commerce (2005, p. 21)
The supply positioning matrix can also be used to identify the level of intervention and involvement required on the part of the municipality. The level of complexity of one’s business needs determines the robustness required when selecting service providers and awarding contracts. Typically, a complex “business need” requires strong relationship management and a consistent performance management process.

Each quadrant in Figure 3.4 has distinct attributes that require appropriate strategies in order to extract value from the resulting contracts.

**Figure 3.4: Commodity attributes examples and strategies**

<table>
<thead>
<tr>
<th>ATTRIBUTE</th>
<th>EXAMPLES</th>
<th>STRATEGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low spend value – less than 1% of total spend</td>
<td>Fuel</td>
<td>Change demand attributes</td>
</tr>
<tr>
<td>Unique specifications – difficult to substitute</td>
<td>Facilities management</td>
<td>Robust service provider selection process</td>
</tr>
<tr>
<td>High risk of supply</td>
<td>Caterers</td>
<td>Post-award monitoring and relationship management</td>
</tr>
<tr>
<td>Complex supply chain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Critical to core business</td>
<td>Construction</td>
<td>Robust service provider selection</td>
</tr>
<tr>
<td>Spend is between 50-60% of total spend</td>
<td>IT Systems</td>
<td>Service provider management</td>
</tr>
<tr>
<td>High risk of supply</td>
<td></td>
<td>Achieve value for money</td>
</tr>
<tr>
<td>Supply Chain is complex</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spend value of 20-30% Low supply risk</td>
<td>Telecom Paper Cleaning</td>
<td>Volume demand can be leveraged</td>
</tr>
<tr>
<td>Standardised specifications Supply chain is basic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low supply risk Standardised specification</td>
<td>Stationery Subscriptions Consumables</td>
<td>Demand aggregation Standardisation</td>
</tr>
<tr>
<td>Low expenditure – less than 10% Supply chain is basic</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Office of Government Commerce (2005, p. 22), Hugo et al. (2006, p. 105) and the National Public Procurement Policy Unit (2005, ss21-24)

A thorough understanding of business needs and associated supply chain management gives an indication of the level of work required for the next stages in the supply chain management system. The demand management process is therefore critical to the successful and efficient supply chain management process in the public sector.
3.4.2 Acquisition Management

Acquisition management is a fundamental aspect of the preferential procurement policy and is geared towards ensuring meaningful participation in the economy by all South Africans. The Public Sector Procurement Guidelines document prescribes five Pillars of Procurement which every public institution needs to implement during the acquisition stage (Raga & Albrecht, 2008, p. 792). The five pillars are: value for money; open and effective competition; ethics and fair dealing; accountability and reporting; and equity.

**Value for money** is the best available outcome after costs and benefits from the procurement cycle are considered. The cheapest price does not necessarily translate to value for money. In pursuit of value for money, municipalities need to plan appropriately, monitor contracts, and ensure continuous improvement in the efficiency of internal processes and systems (Raga & Albrecht, 2008, p. 793).

**Open and effective competition** is another pillar in terms of how it relates to the following: accessibility to all of procurement policies, laws, procedures and practices; transparency within the procurement process; effective communication; and observance of the provisions of relevant legislation (Raga & Albrecht, 2008, p. 793).

**Ethics and fair dealings** means conducting business in a fair and reasonable manner and with integrity, as stipulated in the Constitution. Government employees need to deal with service providers in a scrupulous manner, without compromising the standing of the state by engaging in fraudulent and corrupt activities (Raga & Albrecht, 2008, p. 794). “Officials involved in the procurement process are required to declare conflicts or potential conflicts of interest in businesses submitting a tender” (Jones, 2007, p. 21).

**Accountability and reporting** essentially means that government officials are answerable to the relevant authority and citizenry for their plans, their actions, and the outcomes (Raga & Albrecht, 2008, p. 794).

**Equity** is crucial to public sector procurement in South Africa as it ensures that “government is committed to economic growth by implementing measures to support industry and especially advance the development of SMMEs and HDIs” (Raga & Albrecht, 2008, p. 794).

The activities of acquisition management are carried out in terms of applicable legislation, namely the PPPFA of 2001 and its regulations, the B-BBEE Act 53 of 2003, and the MFMA 56 of 2003. The provisions of the Supply Chain Management Regulations contained in the MFMA
determine the method to be used to source the needs of a municipality. The provisions contained within the MFMA are as follows:

- petty cash purchases are transactions that have a value of up till R2, 000.00;
- a written or verbal quotation is needed for any transaction with a value over R2, 000.00 but not exceeding R10, 000.00 (VAT included);
- a formal written price quotation is needed for procurement of a transaction with a value over R10, 000.00K but not exceeding R200, 000.00 (VAT included); and
- a competitive bidding process (tendering) is required for procurements above a transaction value of R200, 000.00 (VAT included) and for the procurement of long-term contracts (Republic of South Africa, 2005, s. 12).

The process of tendering for goods above R200, 000.00K is governed by the three bid committees stipulated in the Guide for Accounting Officers of Municipalities and Municipal Entities. The three bid committees, unique to public sector procurement, are discussed briefly in the next section.

**Bid specification committee (BSC)** compiles the specifications, determines the goals as stipulated in the PPPFA and defines the evaluations criteria and other special conditions of a specific contract (National Treasury, 2005, p. 22).

**Bid Evaluation Committee (BEC)** is a cross functional team composed of at least one SCM official and officials from the user department requiring the good or service. This committee is responsible for evaluating the bids using the provisions of the PPPFA. The outcome of the evaluation is sent to the bid adjudication committee for recommendation (National Treasury, 2005, p. 48).

**Bid Adjudication Committee (BAC)** should be made up of four (4) senior managers from different disciplines and a supply chain management official. This committee considers the recommendations of the BEC (National Treasury, 2005, p. 50).

### 3.4.2.1 Contract lifecycle

The Contracts Management Framework (CMF) has identified six stages or a contract lifecycle with important aspects to be considered for each stage. The contract lifecycle applies mainly to tenders above R200, 000.00.
**Procurement planning.** This process involves ensuring that the organisational needs identified during the demand management process are fulfilled according to the strategic plan and the budget processes. Potential sources are identified at this stage.

**Solicitation planning.** Documents needed to support the tender are prepared. The contract can be classified for management purposes and assigned to relevant stakeholders for them to manage it.

**Calling of tenders.** This is the process of obtaining proposals from the public in line with service delivery requirements. A tender containing the comprehensive specifications compiled by the BSC is advertised to the public in the appropriate media for a stipulated period of time.

Jones, (2007, p. 20) suggests that in the interests of transparency and competition, “all intended procurements should be widely published, and prospective tenderers should be informed of the procedures to follow in submitting a bid, the schedule for submission, the specification requirements of the procurement, the information that must be supplied in submitting a bid, and the type of procurement to be undertaken”. This kind of transparency ensures that the “public is informed in such a way that no citizen or private institution is excluded from the opportunity to tender their bids” (Moeti *et al.*, 2007, p. 124). Section 22 (1)(a) of the SCM Regulations of 2005 contained in the MFMA Act 56 of 2003 stipulates that tender bulletins, locally and nationally circulating newspapers, municipal notice boards and municipal websites are the preferred ways of advertising tender invitations (Republic of South Africa, 2005, s. 22(1)(a)).

The public must be informed of the preference point system to be used in the evaluation of the tender as well as of the deliverables or performance indicators by which a person awarded a contract will be assessed (Khalo, 2007, p. 210). The use of the preference point system (i.e. 80/20 or 90/10) is provided for in the PPPFA and is discussed later in this section. The nature and specification of the product or service must be clearly communicated, as should the closing date and time of the tender (Moeti *et al.*, 2007, p. 124).

**Source selection** essentially involves the receiving of bids and the evaluating of them by way of pre-set evaluation criteria in order to select the most suitable service provider. The BEC evaluates the bids and compiles a report with recommendations for the BAC.

In order to adhere to the requirement of fairness in public procurement, all the tenders received on time must be opened in public and the particulars of each tender must be made public and entered into an official tender register (Moeti *et al.*, 2007, p. 124). All bidders must be invited to attend the opening and awarding of the tenders to mitigate claims by bidders and other
interested parties of tenders being unfairly awarded (Moeti et al., 2007, p. 124). The tender register must be kept for auditing purposes (National Treasury, 2010b, p. 95).

A tender is acceptable for purposes of evaluation if:

- “it complies in all respects with the specifications and conditions of the bid;
- the bidder has completed and signed all the prescribed bid forms, thereby enabling the submitted bid to be properly evaluated;
- the bidder submitted the required original tax certificate and other clearance/registration forms as prescribed by various Acts and/or in the bid documentation; and
- the bidder has the necessary capacity and ability to fulfil the contract” (Khalo, 2007, p. 212).

A bid evaluation committee must compare all the tenders against each other using a set of predetermined criteria (Moeti et al., 2007, p. 124). “With the coming into effect of the 1993 and 1996 Constitutions, the practice of awarding tenders strictly based on price has to a large extent disappeared” (Bolton, 2007, p. 260). According to Bolton (2007, p. 260), the practice of accepting the lowest tender based on price alone was described in the Green Paper on Public Sector Procurement Reform as “inflexible” in the sense that it restricts the degree to which smaller enterprises can access the process.

After 1994, the preference point system stipulated in the PPPFA was ushered in, but with certain provisions. The total combined points allowed for functionality and price may, in respect of bids with an estimated rand value equal to or below R1 million, not exceed 80 points, while for bids with an estimated rand value above R1 million the total combined points may not exceed 90 points. What sets this system apart is that “preferences for being an HDI and/or sub-contracting with an HDI and/or achieving specified goals must be calculated separately, and must be added to the points scored for functionality and price” (Khalo, 2007, p. 212). The details of the preference point system are discussed in section 3.3.2.

The BAC awards tenders based on the recommendations of the BEC (Khalo, 2007, p. 213). An award letter must be drafted by the bid administration unit, and the successful bidder must accept the award by signing the acceptance letter (Khalo, 2007, p. 213). If the BAC wants to “appoint a bidder other than the one recommended by the BEC, the accounting officer must notify the Auditor-General, the relevant provincial treasury and the National Treasury of the reasons for deviating from the recommendation” (Republic of South Africa, 2003, s.114(1)).
In the event that an unsuccessful bidder requests that reasons be given as to why the successful bidder was chosen, the reason(s) for accepting a bid(s) and rejecting other bids must be given in writing and, where required, bid documents must be made available. This is another aspect that makes public procurement fundamentally different from private procurement.

In summary, during this stage of source selection, the following must be achieved:

- signing parties must be aware of the timelines and the availability of requirements stated in the contract;
- collaboration must be completed according to the agreed terms and conditions;
- legal requirements must be satisfied;
- relevant parties must be informed of the decisions; and
- executed documents must be appropriately filed (National Treasury, 2010b, p. 95).

**Contract administration.** This process involves ensuring that each party’s performance meets the contractual requirements (Rendon, 2008, p. 208). Performance must be monitored because it impacts on the relationship management framework, future budgets, and the risk management plan. Reporting requirements must be identified in terms of stakeholders, frequency, format and content (National Treasury, 2010b:95). Relationship management systems must be established and service provider reviews undertaken (Rendon, 2008, p. 208).

**Contract close-out.** On completion of the job, administrative matters must be concluded and all outstanding items resolved (Rendon, 2008, p. 208). This stage determines if there will be an automatic renewal or if a competitive bidding process is once again needed.

### 3.4.3 Logistics Management

In local government, logistics management is a process that involves contract management and inventory control (Khalo et al., 2007, p. 205). Inventory control includes warehousing activities such as receiving, binning and picking. Supply chain management policy must provide for an effective system of logistics management in order to provide for the setting of inventory levels, placing of orders, receiving and distribution of goods, stores and warehouse management, expediting orders, transport management, vendor performance, maintenance and contract administration. Contract management or ‘vendor management’ includes registration of vendors in the municipal database and monitoring progress during the execution of the contract (Republic of South Africa, 2005, s. 39). Contract monitoring is dealt with in section 3.4.4.2.
There are no pre-determined technical criteria for registration on the database as legislation provides for inclusion of all that want to register. However, application for registration must be accompanied by the following:

- company registration number and documents;
- VAT registration number;
- tax reference number;
- tax clearance certificate or authority for the municipality to obtain it from South African Revenue Services (SARS);
- proof of residence confirming that the company resides within the municipality
- whether the provider, spouse, child or parent is or has been in the service of the state for the past twelve months;
- good standing in terms of levies; and
- registration with a professional body where relevant (Republic of South Africa, 2005).

3.4.4 Performance Management

“Performance management is a monitoring process that undertakes a retrospective analysis to determine whether or not proper processes were followed and whether or not the desired objectives were achieved” (National Treasury, 2005, p. 12). Public procurement processes continue to gain critical importance in all spheres of government, thus increasing the need to monitor and measure performance (Rendon, 2008, p. 201).

According to Coyle et al. (2009, p. 24), performance measures are used to analyse and evaluate efficiency and progress of service providers over different time periods. The balanced scorecard management system is being implemented in local government in South Africa (Rendon, 2008, p. 202). Using the balanced scorecard approach, performance is measured in terms of four distinct categories, namely customer, internal processes, learning and growth, and financial (Rendon, 2008, p. 202).

The two most important aspects of performance management in the public sector are:

- internal processes; and
- contracts management.

Each of these is briefly discussed hereunder.
3.4.4.1 Internal processes

The internal processes that are reviewed can be categorised into two broad categories, namely compliance to norms and standards, and consistency of supply chain practices with the Government’s broader policy focus of preferential procurement. “Process performance management typically focuses on the concept of process capability and maturity” (Rendon, 2008, p. 204). Rendon (2008, p. 204) further explains that “process capability is the inherent ability of a process to produce planned results, while maturity is a measure of effectiveness or capability in any specific process”.

This study focuses on measuring contract management maturity, which can be defined as the “measure of effectiveness of an organisation’s contract management processes” (Rendon, 2008, p. 204). Contract management in this study refers to all the aspects of SCM under review.

3.4.4.2 Measuring process capability of contract management

The National Treasury (2010b, p. 17) defines contract management as a “legally binding agreement between one or more parties, usually consisting of terms and conditions presented in legally binding language and terminology”. Both the buyer and seller understand their responsibilities as stipulated by the terms and conditions of a contract.

Challenges around service delivery have resulted in governmental institutions throughout South Africa shifting their focus to the enhancing of service delivery. Emphasis is now being placed on good practice contract management as a means to increase revenue opportunities, decrease costs, and enhance service delivery (National Treasury, 2010b, p. 17).

In the United States, the Contracts Management Maturity Model (CMMM) is a tool used to measure performance in contracts management. Rendon (2008, p. 204) describes the CMMM as an “evolutionary roadmap which an organisation pursues in improving its contract management process capability from an immature process to a continuously improved or mature process”. The CMMM measures the level of maturity of each contract process. The details of contract processes are discussed in section 3.2.2. The CMG provides specific guidelines for dealing with the aspects of the contract lifecycle.

There are five levels of maturity that allow an organisation to assess its level of capability and effectiveness in terms of each aspect of the contract lifecycle in the procurement function (Rendon, 2008, p. 205). The following section briefly describes the different levels.
Level 1 – Ad hoc (Immature). While management acknowledges contract management processes and understands the value and benefit of using these processes, it applies the processes randomly (Rendon, 2008, p. 205). Rendon’s view will be tested against the responses of the managers that will participate in this research study.

Level 2 – Basic. There are basic, established contract management processes and standards that are applicable only to complex, critical and high value contracts (Rendon, 2008, p. 206).

Level 3 – Structured. Contract management processes and standards are fully established, institutionalised and mandated throughout the organisation. Formal documents and some processes are automated. Senior management provides guidance, and approves key contracting strategies, decisions, related contract terms and conditions, and contract management (Rendon, 2008, p. 206).

Level 4 – Integrated. Contract management processes are fully integrated with other organisational core competencies, such as finance, performance management and engineering departments. Metrics are used periodically to measure various aspects of the contract management process and to make contracts-related decisions (Rendon, 2008, p. 206).

Level 5 – Optimised. “Management systematically uses performance metrics to measure the quality and evaluate the efficiency and effectiveness of the contract management processes” (Rendon, 2008:207). “Contract management streamlining initiatives are implemented by the organisation as part of its continuous process improvement programme” (Rendon, 2008, p. 207).

Table 3.1 is an example of how the CMMM was applied to the contracting processes of a major Department of Defence in the United States.
Table 3.1: Contract management maturity model

<table>
<thead>
<tr>
<th>Maturity Levels</th>
<th>PROCUREMENT PLANNING</th>
<th>SOLICITING PLANNING</th>
<th>CALLING OF TENDERS</th>
<th>SOURCE SELECTION</th>
<th>CONTRACT ADMINISTRATION</th>
<th>CONTRACT CLOSEOUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Optimised (Immature)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Integrated</td>
<td></td>
<td></td>
<td></td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Structured</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Basic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Ad hoc (Immature)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>*</td>
</tr>
</tbody>
</table>


As can be seen from this table, contract closeout requires more attention than source selection as the maturity level is very low. Source selection is fully integrated with other organisational core competencies. Source selection is evaluated at pre-determined intervals so as to review progress and take corrective action when required.

The CMMM method does not only assess the level of procurement maturity, but also provides an organisational road-map for continuously improving the procurement processes (Rendon, 2008, p. 212).

Regular performance reviews must be conducted in accordance with the requirements for the classification of the contract. Non-performance needs to be addressed at least by way of a formal letter that points out specific non-performing areas and also states the remedial action(s) that are required (as well as the specific timeframes for these actions). Good performance also needs to be recognised (National Treasury, 2010a, p. 15).

3.5 WHY MANAGE CONTRACT RISK

According to Sebastian & Davison (2011, p. 171), the desire by citizens for affordable and effective governments and the redesigning of service delivery means that public institutions are looking for ways to improve their budget allocation and procurement processes. Effective risk management in contracts administration is viewed as a way to reduce losses and improve service delivery (Sebastian & Davison, 2011, p. 171).
Contract risk must be appropriately managed such that:

- all contracts set out risk identification, monitoring and escalation procedures and mechanisms which are in line with the municipality’s enterprise risk management plan;
- all contracts identify contingency plans for service provider or buyer failure;
- for key service providers and buyers, the contract manager monitors the financial health, tax compliance and overall performance of the service provider or buyer; and
- contract terms and potential ramifications around key issues including termination, warranty, indemnity, security, confidentiality and dispute resolution are understood by the contracts manager (National Treasury, 2010a, p. 15).

Typical contractual risk and contract administration challenges that contract managers need to constantly look out for are listed in Table 3.2.
Table 3.2: Types of contract administration challenges

<table>
<thead>
<tr>
<th>CONTRACTUAL RISK AND CONTRACT ADMINISTRATION PROBLEM</th>
<th>EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposal risk: Unclear scope of work</td>
<td>Ambiguous specifications lead to disputes over required performance</td>
</tr>
<tr>
<td>Surety and liability risk: Increased cost</td>
<td>Inadequate bonds and insurance fail to cover vendor failure</td>
</tr>
<tr>
<td>Schedule risk: Wrong product</td>
<td>Purchase orders clearly state completion dates</td>
</tr>
<tr>
<td></td>
<td>Completion dates delayed by municipality or service provider (with or without cause)</td>
</tr>
<tr>
<td>Contractual risk: Changed order</td>
<td>Changes made in the scope of work (additional work, money, time) after contract is awarded</td>
</tr>
<tr>
<td></td>
<td>Can be requested by either party for any reason</td>
</tr>
<tr>
<td>Contractual risk: Dispute resolution and personality conflict</td>
<td>Personality conflicts between project manager and service provider employees</td>
</tr>
<tr>
<td></td>
<td>Disagreements on any aspect of the contract between parties that cannot be easily resolved</td>
</tr>
<tr>
<td>Performance risk: Definition of acceptance</td>
<td>Completion of project is delayed due to non-acceptance of final product (when there is a difference in the two parties’ definitions of what was supposed to be delivered or provided)</td>
</tr>
<tr>
<td>Performance risk: Poor performance</td>
<td>Contract clearly states a level of expected performance but quality problems with service provider’s performance of work occur</td>
</tr>
<tr>
<td>Performance risk: Sub-contractors</td>
<td>The service provider uses subcontractors not on his payroll to perform any or all of the work and prior approval, for use of subcontractors, was received</td>
</tr>
<tr>
<td>Performance risk: Other sources</td>
<td>There are very few vendors that can perform the work</td>
</tr>
<tr>
<td>Performance risk: Risk of failure</td>
<td>The project has a high risk of failure (e.g. new technology/equipment, new vendor, project never done before, tight timelines, or budget)</td>
</tr>
<tr>
<td>Price risk: Cost</td>
<td>Project has a high cost</td>
</tr>
</tbody>
</table>

Source: Sebastian and Davison (2011, p. 174)
3.6 LEGISLATIVE FRAMEWORK GOVERNING THE TENDERING PROCESS

This research paper looks at the 2011 Regulations to the Preferential Procurement Policy Framework Act 5 of 2000, the Broad-Based Black Economic Empowerment Act 17 of 2003, and the Contract Management Framework and Guidelines. The most important aspects that are to be taken into consideration when allocating points during tender evaluation are given attention in the next section.

3.6.1 Preferential Procurement Policy Framework Act (PPPFA) 5 of 2000 (Regulations 2011)

In order to give effect to Section 217(3) of the Constitution, the PPPFA was promulgated in order to provide a framework for the implementation of the procurement policy as stipulated in Section 217(2) of the Constitution (Pauw et al., 2002, p. 243). This Act seeks to redress the economic imbalances of the past and thereby create “an economy that meets the needs of the people in a more equitable manner” (Department of Trade and Industry, 2003, p. 4). As a foundation upon which all procurement activities are to be based, the Act aims to:

- “advance the development of SMMEs and HDIs;
- promote the economic prosperity women and physically handicapped people;
- promote local enterprises in specific provinces, regions, local authorities, and rural areas; and
- support local locally produced products” (Raga & Albrecht, 2008, p. 795).

Government, being the “largest buyer of goods and services”, is required by this policy to source products and services from enterprises owned or part-owned by previously disadvantaged individuals (Republic of South Africa, 2000, s. 2(d)(i)).

The PPPFA essentially achieved the following: “the tendering process was made more accessible to black people; tenders were ‘unbundled’ into smaller tenders so as to give smaller enterprises a fighting chance when it comes to bidding; and a point system was introduced to award tenders on the basis of a combination of preference for targeted groups” (Republic of South Africa, 2001). The BEE Act of 2003 defines black people as “a generic term which means Black Africans, Coloureds and Indians who must have been South Africans prior to 1994” (Department of Trade and Industry, 2003, p. 5).
3.6.1.1 Preference Point System

Section 2(a) of the PPPFA stipulates that an organ of state must determine its preferential procurement policy and implement it within a prescribed framework (Republic of South Africa, 2000b, s. 2(a)). The Preferential Procurement Regulations of 2011 stipulate guidelines for the implementation of the 80/20 and 90/10 preference point systems as illustrated in Table 3.3.

Table 3.3: Comparison between the 80/20 and the 90/10 Preference Point Systems

<table>
<thead>
<tr>
<th>80/20 PREFERENCE POINT SYSTEM SECTION 5(1-5) OF PREFERENTIAL PROCUREMENT REGULATIONS, 2011</th>
<th>90/10 PREFERENCE POINT SYSTEM SECTION 6(1-5) OF PREFERENTIAL PROCUREMENT REGULATIONS, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Rand value equal to or above R30 000 and up to a Rand value of R1 million</td>
<td>• Rand Value above R1 million</td>
</tr>
<tr>
<td>• A maximum of 20 points may be awarded to a tenderer in respect of B-BBEE</td>
<td>• A maximum of 10 points may be awarded to a tenderer in respect of B-BBEE</td>
</tr>
<tr>
<td>• The points scored by a tenderer in respect of the goals contemplated above must be added to the points scored for price</td>
<td>• The points scored by a tenderer in respect of the goals contemplated above must be added to the points scored for price</td>
</tr>
<tr>
<td>• Only the tenderer who scores the highest number of points may be selected</td>
<td>• Only the tenderer who scores the highest number of points may be selected</td>
</tr>
</tbody>
</table>

Source: Republic of South Africa (2001, s. 3-4)
The 80/20 preference point system

The following formula must be used to calculate the points for price in respect of bids with Rand value equal to, or above R30,000.00 and up to a Rand value of R1 million.

\[
Ps = 80 \left(1 - \frac{Pmin}{Pt}\right)
\]

Where
- \(Ps\) = Points scored for price of bid under consideration
- \(Pt\) = Rand value of offer bid consideration
- \(Pmin\) = Rand value of lowest acceptable bid

“A maximum of 20 points may be awarded to a bidder for being an HDI and/or subcontracting with an HDI and/or achieving any of the specified goals. The points scored by a bidder in respect of the goals must be added to the points scored for price. Only the bid with the highest number of points scored may be selected” (Republic of South Africa, 2011, s. 3).

The 90/10 preference point system

The following formula must be used to calculate the points for price in respect of bids/procurement with a Rand value above R1 000 000:

\[
Ps = 90 \left(1 + \frac{Pt}{Pmin}\right)
\]

Where
- \(Ps\) = Points scored for price of bid under construction
- \(Pt\) = Rand value of bid under consideration
- \(Pmin\) = Rand value of lowest acceptable bid

“A maximum of 10 points may be awarded to a bid for being an HDI and/or subcontracting with an HDI and/or achieving any of the specified goals. The points scored by a bidder in respect of the goals must be added to the points scored for price. Only the bid with the highest number of points scored may be selected” (Republic of South Africa, 2011, s. 4).
Prior to 2011, HDI points were allocated based on ownership only. Since June 2011, HDI points are now allocated based on the seven pillars of the B-BBEE scorecard. The seven pillars are dealt with briefly in the next section.

3.6.2 Broad-Based Black Economic Empowerment (B-BBEE) Act No. 17 of 2003

This Act forms part of the transformative legislation aimed at providing procedural regulations that can be used to drive the transformation imperative.

In Balshaw & Goldberg (2008, p. 75), “Broad-Based BEE is defined as an integrated and coherent socio-economic process that contributes directly towards the economic transformation of South Africa and that helps bring about a significant increase in the number of black people that manage, own and control the country’s economy as well as a significant decrease in income inequalities”. In the B-BBEE Act, Broad-Based BEE is further defined as “the economic empowerment of all black people, as well as female 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 the following:

- “increasing the number of black people that manage, own or control enterprises and productive assets;
- facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
- human resources and skills development;
- achieving equitable representation at all occupational categories and levels within the workforce;
- preferential procurement; and
- investment in enterprises that are owned or managed by black people” (Balshaw & Goldberg, 2008, p. 75).

Both these definitions refer to an integrated approach, which is inclusive of all economic factors that contribute towards meaningful economic growth. Ownership and management are no longer the only focus points, as was previously the case in legislation preceding this Act.

3.6.2.1 BEE codes of good practice

The BEE Codes of Good Practice were gazetted on 9 February 2007 under Section 9(1) of the B-BBEEA of 2003. According to Balshaw & Goldberg (2008, p. 74), the codes of good
practice supplement the enabling framework created by legislation by providing details in respect of the implementation of broad-based BEE.

3.6.2.2 The seven pillars of broad-based black economic empowerment

While in the past the focus was on ownership and management only, broad-based BEE includes other empowerment factors, such as employment equity, indirect procurement, and socio-economic development. The codes provide the key determining qualification criteria for organs of state and public entities in their procurement and other interactions with the private sector (Balshaw & Goldberg, 2008, p. 74). As such, private sector companies need to use the guidelines provided in the codes when implementing B-BBEE objectives. Table 3.4 gives a summary of the B-BBEE generic scorecard.
Table 3.4: Summary of the generic B-BBEE scorecard

<table>
<thead>
<tr>
<th>B-BBEE PILLAR</th>
<th>WEIGHTING</th>
<th>REGULATORY OBJECTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIRECT EMPOWERMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ownership</td>
<td>20%</td>
<td>Encourages the sharing of ownership which will result in voting rights for black people and black women</td>
</tr>
<tr>
<td>Management</td>
<td>15%</td>
<td>Encourages senior black decision making at executive board and senior top management levels</td>
</tr>
<tr>
<td>EMPLOYMENT EQUITY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment equity</td>
<td>15%</td>
<td>Encourages companies to identify and recruit black people at professional, middle and lower management positions</td>
</tr>
<tr>
<td>Skills development</td>
<td>15%</td>
<td>Encourages companies to develop black talent through spending on skills development and learnerships</td>
</tr>
<tr>
<td>INDIRECT EMPOWERMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferential procurement</td>
<td>20%</td>
<td>Encourages development or expansion of black small, medium enterprises</td>
</tr>
<tr>
<td>Enterprise development</td>
<td>15%</td>
<td>Measures the extent to which enterprises procure from BEE-compliant companies. Encourages spending on small and micro enterprises as well as on black-owned companies</td>
</tr>
<tr>
<td>RESIDUAL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socio-economic</td>
<td>5%</td>
<td>Encourages initiatives intended to directly provide black people with a means of generating income for themselves</td>
</tr>
</tbody>
</table>

Source: Bravura Economic Empowerment Consulting (2006)

The generic scorecard comprises seven elements (see Table 3.4), which are measured as a score out of 100. The scorecard assists in explaining how each indicator is measured.

3.6.3 Contract Management Framework (CMF)

In 2010, the South African Treasury Department has recently published a comprehensive Contracts Management Framework which provides clarity on the process government entities must follow to achieve best practice in contract management. The deadline for its implementation is 2013.
Contract management forms part of the public sector supply chain management system. While significant effort was placed on supply chain management, institutions were left to their own devices with regard to contract management (National Treasury, 2010a, p. 18). The main drivers for contract management can be summarised as follows:

- improved information when it comes to making policy choices (i.e. allocating resources);
- more efficient use of resources in delivering chosen programmes; and
- an increase in the rate of delivery of basic services and the associated elimination of delivery backlogs (Smart Procurement, 2012f).

Information gathered from contract management should inform decisions made during demand management, acquisition management and performance management. Contract management procedures provided for in the Contract Management Framework are discussed in the next section.

**Recognition, measurement and disclosure of contracts.** Transactions must be correctly disclosed in financial reports.

**Planning, budgeting and reporting cycle.** In the public sector, budgeting is about tracking both expenditure and revenue whilst also maximising service delivery to communities within the available constraints with a view to sustaining the delivery over time.

**Oversight of contract management** involves ensuring the effective, efficient, economical and transparent use of resources. Contracts must be properly implemented, managed, enforced, monitored and reported.

**Resourcing contract management activities** with people, processes and systems results in effective contract management.

**Document and information management.** Contract management systems (computerised or manual) are used to record and report on key information and trigger points. Reporting information is useful for feeding demand management back into the planning and budgeting process. Information must be shared with all stakeholders to ensure a clear understanding of the correct procedures for the following: extension of contract period; the changing of conditions; price escalations; any other potential contract changes; and contract closure.

**Relationship management** with (1) external service providers and buyers, (2) internal service providers and (3) receivers is crucial to ensuring the successful execution of contracts as well as
enhanced service delivery. The level of the relationship is determined by the complexity of the business need identified during the demand management process.

**Performance management** must be linked to service delivery agreements, which are consistent with the strategic objectives of the institution. Policies and procedures, baselines, measurement metrics, methods, data sources, and collection responsibilities must be communicated to the service providers.

**Payment, collection, incentives and penalties.** Effective policies and procedures on payments and collections will ensure conformance to contract terms and conditions. Section 8.2.3 of the Treasury Regulations issued in terms of the PFMA stipulate that “all payments due to creditors must be settled within 30 days from receipt of an invoice”.

**Policies and procedures.** Contract management policies must be developed, reviewed annually, and adjusted as necessary with a view to continuous improvement in terms of enterprise contract management (National Treasury, 2010a).

In summary, effective contract management is thought to:

- increase awareness of all forms of contracts and their implications;
- help identify non-performing service providers, buyers and other stakeholders;
- develop strategic service providers, buyers and other stakeholders with a view to improving service delivery and reducing costs; and
- provide better value for money (Smart Procurement, 2012f).

The Contract Management Framework is a welcome addition to the existing legislation governing supply chain management in the public sector as it gives clear direction for managing contracts.

### 3.7 CONCLUSION

This chapter reviewed the following public sector management systems: (1) demand management; (2) acquisition management; (3) logistics management; and (4) performance management. These supply chain management systems feed into each other and create a snowball effect. Information collected during contract management is used as a basis when forecasts are made in the next cycle of demand management. A sound understanding of the services that must be rendered informs service provider selection during acquisition management as well as the level of contracts management required post award.
The Contract Management Framework published in August 2010 provides clear guidelines on public sector supply chain management pertaining to contract management. The 2011 Regulations to the PPPFA encourages both government entities and businesses to view empowerment from a broader perspective than does the narrower view that focuses on just ownership and management. This concludes Chapter 3. The next chapter deals with performance management.
CHAPTER 4: SUPPLY CHAIN PERFORMANCE MANAGEMENT IN LOCAL GOVERNMENT

4.1 INTRODUCTION

Performance management in local government happens at municipal level within the Supply Chain Management (SCM) Department. Various pieces of legislation, including the Municipal Systems Act, stipulate the parameters for performance management at municipalities. The treasury provides guidelines for performance management within the Supply Chain Management Department. The performance management guidelines given by the Government are based on international experience and have been adapted to suit the South African context.

Supply chain management units in South Africa’s municipalities were created by legislation as vehicles through which basic services (such as, provision of water, sanitation and electricity, houses and upgrading of roads) to be rendered to communities could be procured. As a result, the performance of a Supply Chain Management Department impacts (to a certain degree) the overall performance of a municipality. It has become apparent that “without managing the performance of supply chains, gradual slippages in service quality and efficiency can go undetected by program officials, creating sizable deficiencies over time, unintended, and escaping notice until a major problem brings unfavourable attention” (Ammons, c. 2005, p. 14).

A study conducted in the Mid-Western Municipalities in Asia revealed that “if a city integrates performance information into strategic planning, establishes specific performance goals, and publishes regular performance reports; that city is more likely to yield a significant impact on government decision making and management” (Ho, 2005, p. 227). South African municipalities are striving towards using performance feedback to improve decision-making processes and improving service delivery.

This chapter explores the principles of performance management and how they “transform and unite governmental practices in areas such as planning, budgeting, managing, evaluation, measurement and reporting into a single, well-aligned structure for improving results” (National Performance Management Advisory Commission (NPMAC), 2009, p. 14). The alignment between the Integrated Development Plan (IDP) and the Performance Management (PM) processes, the aim of which is to enhance service delivery, is explored.

Lastly, challenges facing municipalities relating to performance management are addressed in this chapter and possible solutions suggested by various authors are discussed. While the 2012 audit report shows improvements in performance management, much still needs to be done.
4.2 WHAT IS PERFORMANCE MANAGEMENT (PM)

The National Performance Management Advisory Commission (NPMAC) (2009, p. 11) defines performance management as an “on-going, systematic approach for improving results through evidence-based decision making, continuous organisational learning, and a focus on accountability for performance”. “Performance management is a strategic approach to management, which equips institutions with a set of tools to regularly plan, continuously monitor, periodically measure and review performance of the organisation in terms of indicators and targets for efficiency, effectiveness and impact” (Republic of South Africa, 2000a, s. 41). Luthuli (2009, p. 467) adds that performance management and measurement is a management tool used to “define strategies and programmes and establish systems to evaluate progress”.

Loosley (2005, para. 5) explains that “performance management involves the use of performance measures and standards so as to: (1) establish performance targets and goals; (2) prioritise and allocate resources; (3) inform managers about any necessary adjustments or changes in policy or programme directions if goals are to be met; (4) frame reports on the success of the programme in terms of meeting performance goals; and (5) improve the quality of public practice”.

4.2.1 Legislative Framework Relating to Supply Chain Performance Management

The following legislative provisions govern how performance is managed in municipalities.

<table>
<thead>
<tr>
<th>LEGISLATION</th>
<th>MAIN IMPLICATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>White Paper on Local Government (1998)</td>
<td>PM must be implemented to facilitate the developmental role of local government and increase its accountability</td>
</tr>
<tr>
<td>Municipal Systems Act (Act 32 of 2000)</td>
<td>Setting of delivery targets; monitoring and regulating municipal services provided; monitoring the impact and effectiveness of any services; and reviewing policies and programmes</td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction
4.3 WHY PERFORMANCE MANAGEMENT?

COGTA (1998, p. 3) provides for the implementation of performance management to facilitate the developmental mandate of municipalities. Performance information is useful to ensure “effective planning, proper allocation of resources, monitoring of progress and reporting of results” (Threewaterskloof Municipality, 2009, p. 2).

Performance management is implemented with the view to:

- improve the budget process and priority setting;
- translate vision, mission and IDP into clear measurable outcomes, indicators and performance levels that define success throughout the municipality;
- encourage productivity, creativity and accountability;
- create pressure for change at various levels and sharpen focus on results;
- encourage programme evaluation and contract monitoring;
- manage and improve poor performance; and

Performance management may assist local governments in translating their mandate into a set of measures that lead to improvements and encourage accountability (Ammons, c. 2005, p. 5).

4.4 IMPLEMENTING SUPPLY CHAIN PERFORMANCE MANAGEMENT IN LOCAL GOVERNMENT

The performance management practices discussed in the next section represent the way that performance management is applied to the on-going operations of Government (NPMAC, 2009, p. 25). The performance management cycle includes planning, budgeting, management and evaluation, measurement, and reporting (NPMAC, 2009, p. 10). They are discussed in turn hereunder.

4.4.1 Planning

Planning in a performance management context includes “defining the organisation’s mission, establishing measurable organisation-wide objectives or priorities, and identifying strategies for achieving the objectives” (NPMAC, 2009, p. 26). In a South African context, “the IDP process and the performance management process should appear to be seamlessly integrated” (COGTA, 2001, p. 16). The IDP contains a set of delivery priorities and objectives, a financial plan and
identified projects that contribute towards the achievement of the objectives of each and every municipality. The priorities include financial management, governance, and economic and social development.

In the United States, counties such as Mesa County, Colorado, have adopted the Budgeting for Outcomes (BFO) process. BFO involves directly aligning all estimated available funding to high level priorities (NPMAC, 2009, p. 29). The primary purpose of performance budgeting or the setting of priorities is to allocate funds to activities, programmes and services in a manner most likely to achieve the desired results. Priorities in this context are essentially the issues (given in order of importance) that a municipality declares to be its focus (COGTA, 2001, p. 17).

4.4.2 Setting of Key Performance Indicators (KPIs)

KPIs are measurements that help determine whether or not progress is being made in terms of achieving the determined goals and objectives (COGTA, 2001, p. 18). According to Dobler & Burt (1996, p. 763), “efficiency and effectiveness indicators are commonly regarded as important measures”. In addition to these measures, input and productivity measures are also equally important (Ammons, c. 2005, p. 6). Performance measures are dealt with later on in this section.

4.4.3 Management

Management in performance management involves aligning operations so that the targeted results are achieved. “It includes managing operational processes and managing external relationships, primarily partners and contractors that assist organisations to achieve results” (NPMAC, 2009, p. 29). A brief overview of these three activities is given in the next section.

Managing operational processes can be done by employing different performance management systems. Some of the systems that can be used to continuously measure and analyse performance include: (1) the Stat System; (2) Benchmarking; and (3) the Balanced Scorecard, amongst others (NPMAC, 2009, p. 30). In South Africa, the South African Excellence Model is one of the frameworks that can be adopted for performance measurement (COGTA, 2001, p. 27).

Governments around the world rely on private companies for service delivery. Their interaction with private vendors necessitates the instituting of performance management practices that will lead to improved service delivery results (NPMAC, 2009, p. 31).
4.4.4 Evaluation

Evaluation includes verifying, understanding and applying results. It is a process whereby the “organisation, after measuring its own performance, assesses whether it is doing the right thing, doing it right and better, or not” (COGTA, 2001, p. 31). Performance-based evaluation and auditing practices include the following:

- detailed performance reviews;
- on-going performance evaluation; and
- in-depth evaluation that examine the link between action and results (NPMAC, 2009, p. 34).

According to the Performance Management Framework for State and Local Government in Canada, the major practices of planning, budgeting, management and evaluation are supported by two cross-cutting practices, namely measurement and reporting (NPMAC, 2009, p. 35).

4.4.5 Measurement

According to Ammons (c. 2005, p. 3), “performance measures gauge the quantity, quality, efficiency and impact of the work of government”. Loosley further argues that “the measuring of performance cannot be an end result and should be applied as input to a process where the information is utilised as part of a management system to improve performance” (Loosley, 2005, para. 5). The key aspects of performance measurement that facilitate its usefulness for performance management are

- credibility and utility of information collected;
- relevance of the programme to stakeholders;
- timeliness; and
- cost of collecting data versus its relevance.

Performance measures are not an end in themselves; they are a means to an end insomuch as they form a part of performance management. The four types of performance measures most applicable to local government are discussed in section 4.5.

4.4.6 Reporting

Reporting should be done in a way that is easy for the readership to understand. The following aspects must be considered when compiling a performance report:
“reports should focus on results, highlighting the value of the service;
information should be meaningful, clear and understandable;
numbers alone may be misleading, therefore complementary comments should be included; and
performance information should be produced regularly and made accessible through multiple media” (NPMAC, 2009, p. 27).

Performance reports also give programme officials feedback that either provides reassurance that the programme is performing as intended or alternatively can inspire employees and supervisors to consider new strategies (Ammons, c. 2005, p. 15). See Appendix D, showing a detailed example of Performance Management Cycle.

4.5 PERFORMANCE MEASURES

The previous section, Section 4.4 revealed that performance measures play a crucial role in performance management. A good set of performance measures must be multidimensional in order to effectively gauge the quantity, efficiency, quality, impact and productivity of a programme (Ammons, c. 2005, p. 5). The Cape Winelands District Management has adopted ‘SMART’ measurements; in other words, it has adopted measurements that are Specific, Measurable, Achievable, Realistic and Time-framed. The performance measures relevant to Supply Chain Management departments will be discussed in the next section. Listed below are some of the indicators that are looked at when measuring service provider performance:

- “on-time deliveries;
- quality of goods/services;
- service capability/performance;
- price competitiveness;
- compliance with contract terms;
- response;
- lead-time;
- technical capability;
- environment, health and safety performance; and
- innovation” (Coyle, Langley, Gibson & Novace, 2009, p. 149).

Ammons (c. 2005, p. 5) suggests that Output Measures, Efficiency Measures, Outcome Measures and Productivity Measures are the four principal categories of performance measures.
4.5.1 Output (Workload) Measures

Output measures put emphasis on raw counts of activities or services and workload, rather than on efficacy or efficiency (Ammons, c. 2005, p. 5). A Supply Chain Management Department can use output measures to track the performance of processes in order to make daily management decisions (Kelly & Rivenbark, 2003, p. 130).

4.5.2 Efficiency Measures

Efficiency measures may be used to “assess whether the current level of efficiency in a given programme meets expectations or whether steps should be taken to improve efficiency” (Ammons, c. 2005, p. 6). In a Supply Chain Management Department the costs involved in delivering goods or services on behalf of a municipality should be monitored closely. The actual cost of goods/services, transportation and inventory carrying are some of the costs relevant to a Supply Chain Management Department (Coyle et al., 2009, p. 152).

4.5.3 Outcome (Effectiveness) Measures

“Output measurements are considered the heart of performance measurement because they capture the extent to which the service is meeting its service delivery goals” (Kelly, 2003, p. 140). The Government of South Africa chose to approach Performance Management using the outcome measures. The Government’s discussion document on improving its performance states that this approach requires that attention be given to the ‘Full Delivery Chain’. The document argues that this chain starts with the outcome to be achieved. The document then defines the output measures that must be used to check if local government is still on track in terms of delivering services to the public. The key activities that need to be successfully carried out in order to achieve the output are also described. Finally, the critical inputs are listed (The Presidency, 2009, p. 3). Table 4.2 in Chapter 4 – Performance Management illustrates the ‘Full Delivery Chain’ approach as applied at the Cape Winelands District Municipality.
### Table 4.2: Key concepts of the performance measures at the CWDM

<table>
<thead>
<tr>
<th>IMPACT</th>
<th>The developmental results of achieving specific outcomes. <strong>WHAT WE AIM TO CHANGE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>OUTCOMES</td>
<td>The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. <strong>WHAT WE WISH TO ACHIEVE</strong></td>
</tr>
<tr>
<td>OUTPUTS</td>
<td>The final products or goods and services produced for delivery. <strong>WHAT WE PRODUCE OR DELIVER</strong></td>
</tr>
<tr>
<td>ACTIVITIES</td>
<td>The processes or actions that use a range of inputs to produce the desired outputs and, ultimately, outcomes. <strong>WHAT WE DO</strong></td>
</tr>
<tr>
<td>INPUTS</td>
<td>The resources that contribute towards the production and delivery of outputs. <strong>WHAT WE USE TO DO THE WORK</strong></td>
</tr>
</tbody>
</table>

**MANAGING PROCESSES TOWARDS ACHIEVING THESE RESULTS**

**PLAN, BUDGET, IMPLEMENT AND MONITOR**

**Source:** Adapted from Cape Winelands District Municipality IDP (2011, p. 174)

In a Supply Chain Management Department, the metrics for this category would involve measuring the supply chain process. Coyle et al. (2009, p. 153) suggest three measures that can be used to measure the effectiveness of a Supply Chain Management Department, namely reliability, flexibility and responsiveness. These three measures are each briefly discussed in the next section.

**Reliability** refers to the ability to “deliver the correct product or service to the correct place, at the correct time, in the correct condition, in the correct quantity, with the correct documentation, to the correct customer” (Coyle et al., 2009, p. 153).

**Responsiveness** refers to the time taken to provide the required goods and services (Coyle et al., 2009, p. 153).

**Flexibility** is the ability of a supply chain to follow market trends and respond to them in a cost-effective manner (Coyle et al., 2009, p. 153).
4.5.4  Productivity Measures

Ammons (c. 2005, p. 10) argues that combining efficiency and effectiveness in a single measure fully addresses the dual dimension of productivity. This dual dimension refers to the benefit-to-cost ratio of any activity undertaken by a municipality. Ammons (c. 2005, p. 10) further argues that productivity measures are relatively rare in local government budgets and performance reports.

The KPIs are reviewed annually (as part of the performance review process) or whenever a municipality amends its IDP in terms of Section 34 of the Municipal Systems Act (2000). Municipalities can choose to focus on any one or more of the measures.

4.6  CHALLENGES FACING PERFORMANCE MANAGEMENT

In the aftermath of the service delivery protests of 2010, a Commission was set up to investigate the state of local government. The aim was to uncover the reasons for poor service delivery at local government level. A report submitted by the Audit Committee for the 2008/2009 financial year revealed that 28% of municipalities around the country had no internal auditing of performance management, while 29% of the municipalities had no performance information. It is therefore clear that performance management is not a priority in these municipalities. Municipalities that presented inadequate content of performance information made up 22% of the 283 municipalities in South Africa. Twenty-one percent (21%) of the 283 municipalities submitted their performance information late (Parliamentary Monitoring Group, 2010, p. 7).

The 2009/10 audit report revealed that seven municipalities out of 283 municipalities received clean audit reports, up from the three in the previous financial year. The City of Cape Town was the only metropolitan municipality that received a clean audit in the 2009/2010 financial year. A total of 57 municipalities (20%) had improved audits when compared with the previous financial year (Polity, 2011, p. 1). In the 2010/2011 audit report, the number of municipalities that received clean audits has almost doubled, from 7 to 13 (5% of municipalities) (MunicipalIQ Hotspot Monitor, 2012b, para. 2).

On the downside, the audit report revealed that 74% of the municipalities ignore supply chain processes. It also emerged that, contracts up to the value of R138 million had been awarded to municipal employees (specifically, nineteen councillors, one mayor, one municipal manager and two senior managers) (Polity, 2011, p. 1). In the 2010/2011 audit results, “poor government procurement and poor human resource management resulting in skills gap were cited amongst
the significant risks that prevented municipalities from receiving clean audits (Smart Procurement, 2012b, para. 1).

Although the 2010/2011 financial year audit results show an improvement when compared with the previous years, it is also evident that commitment to strengthening performance management accompanied by employing suitable qualified and experienced personnel can lead to great improvements in the audit outcomes.

**Figure 4.1: 2009/10 Financial Year audit report**

![Pie chart showing audit results]

**Source: Adapted from Polity (2011, p. 1)**

In the 2010/2011 financial year audit report, the non-alignment of the required documents is cited as a major factor in terms of those factors that negatively affect the accountability cycle. It is for this reason that the Cape Winelands District Municipality proposed that the IDP must be adopted (together with the Service Delivery Budget Implementation Plan (SDBIP) and Medium Term Revenue and Expenditure Framework (MTREF)) to ensure that accurate key performance indicators and performance targets are accurately captured in the IDP document (Cape Winelands District Municipality 2011/12 Integrated Development Plan, 2011, p. 173). Table 4.3 shows the accountability timeframes from the IDP phase to the reporting phase.
### Table 4.3: Accountability timeframes

<table>
<thead>
<tr>
<th>PHASE</th>
<th>ORGANISATIONAL ACTIVITY</th>
<th>TIMEFRAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRATEGY</td>
<td>Approve IDP and budget</td>
<td>June</td>
</tr>
<tr>
<td>PLANNING</td>
<td>Development of Service Delivery Budget Implementation Plan (SDBIP) and Medium Term Revenue and Expenditure Framework (MTREF)</td>
<td>July</td>
</tr>
<tr>
<td>MONITOR MEASURE &amp; REVIEW</td>
<td>Monthly Monitoring SDBIP and SDP Quarterly Review/s SDBIP and SDP Performance Measurement Reward and Recognition</td>
<td>Monthly</td>
</tr>
<tr>
<td>REPORTING</td>
<td>Quarterly reports</td>
<td>September &amp; March Jan</td>
</tr>
<tr>
<td>PERFORMANCE IMPROVEMENT</td>
<td>Performance improvement plans</td>
<td>January July</td>
</tr>
</tbody>
</table>


It must be noted that South Africa is not the only country that lags behind in performance management. Reports from abroad reveal that other local governments that do not have performance management in place cite “limited resources and lack of capacity” as reasons for not measuring their performance (Ammons, c. 2005, p. 14). These municipalities would rather allocate their limited resources to service delivery rather than on measuring and reporting performance. Another reason cited is the “lack of strong management and leadership to create a performance culture with measurable objectives, accompanied by sanctions and incentives” (The Presidency, 2009, p. 20). Some municipalities that have performance information collect it to conform to legislation, measuring output measures that do not give a full picture in terms of effectiveness, and the efficiency of service delivery initiatives is not measured (Ammons, c. 2005, p. 15).
4.7 CONCLUSION

In conclusion, this section dealt with the principles and practices of performance management within a local government environment. The reasons for implementing performance management were reviewed together with the benefits that accrue from it. The importance of setting realistic and appropriate performance measures was discussed. The discussions clearly show that focusing primarily on compliance with regulation and less on service delivery outputs does not improve performance in local government. It is also evident that local government should increase its capacity for learning from the evidence gathered over a period of time in order to produce better results for communities.

This concludes the discussion on performance management. The next section deals with the research methodology of this study.
CHAPTER 5: RESEARCH METHODOLOGY

5.1 INTRODUCTION

The preceding chapters dealt with the introduction to the study, an overview of local government, supply chain management and performance management in local government. The purpose of this chapter is to outline the research methodology of the empirical study. “Research involves gathering, processing and interpreting data, then intelligently and cogently communicating the results in a report that describes what was discovered from the research” (McNabb, 2002, p. 3).

Leedy & Ormrod (2005, p. 2) agree that “research is the systematic process of collecting, analysing and interpreting information (data) in order to increase our understanding of the phenomenon with which we are interested or concerned”.

This section demonstrates the planning and organisation that took place to arrive at the end goal of answering the research question. Tools and methods of collecting, verifying and interpreting the data are discussed herein.

5.2 RESEARCH QUESTIONS

South Africa has seen a wave of service delivery protests at local government level in various parts of the country. Local government in South Africa is faced with numerous challenges in delivering services to local communities. The aim of this study was to answer the following questions:

(1) What potential role can supply chain performance management play in local government?
(2) Can supply chain performance management improve service delivery at local government level?

5.3 RESEARCH OBJECTIVES

In order to answer these research questions, the following objectives were set:

- to identify the roles and responsibilities of local government in order to provide insight into service delivery and/or lack thereof;
- to define SCM in terms of the local government sphere in South Africa;
- to provide insight into supply chain performance management in local government;
• to provide insight into the public sector supply chain system, in order to determine how an effective supply chain performance management system, could improve service delivery provided by local government; and

• to make recommendations for the implementation of effective supply chain performance management that could ensure improved service delivery by local government.

5.4 RESEARCH METHODOLOGY AND DESIGN

The research methodology section outlines the steps that were taken during the research in order to find answers to the research questions. The study is by nature descriptive and exploratory, and contains qualitative elements.

Descriptive research is “research in which a specific situation is studied either to see if it gives rise to any general theories or to see if existing general theories are borne out by the specific situation” (Goddard & Melville, 2004, p. 9). Descriptive research involves “field studies that go into greater depth on a smaller number of issues using face-to-face or telephonic interviews techniques for data gathering” (McNabb, 2002, p. 87). This study has descriptive aspects as it provides insight into the public sector supply chain management system.

Saunders, Lewis & Thornhill (2003, p. 97) state that the objective of descriptive research is to “portray an accurate profile, events or situation”. This may be the precursor to a piece of exploratory research, as it is vital to have a clear picture of the phenomena on which you wish to collect data. This study is descriptive as the aims were to identify the roles and responsibilities of local government in order to provide insight into service delivery and/or lack thereof; to define SCM in terms of the local government sphere in South Africa; and to provide insight into supply chain performance management in local government.

Exploratory research is “undertaken with the objective either to explore an area where little is known or to investigate the possibilities of undertaking a particular research study” (Kumar, 2005, p. 10). Primarily, exploratory research provides the researcher with “insight about the research problem and ideas about the variables and issues associated with those problems” (McNabb, 2002, p. 86).

As indicated in Saunders, et al (2003, p. 96), the strength of exploratory studies lie in its flexibility and adaptability to find out “what is happening; to seek new insights; to ask questions and to assess phenomena in a new light”. This study is also exploratory as the aims of the study were also to provide insight into public sector supply chain system in order to determine how an
effective supply chain performance management system could improve service delivery provided by local government. The findings of the exploratory study would enable the researcher to make recommendations for the implementation of effective supply chain performance management that may ensure improved service delivery by local government.

In qualitative research, a set of non-statistical inquiry techniques and processes are used to gather data and the research offers his/her interpretation about an event, phenomena or circumstance (McNabb, 2002, p. 89). Qualitative research “allows for more diversity in responses as well as the capacity to adapt to new developments or issues during the research process itself” (Unknown 2, 2008, para. 2).

A qualitative approach was taken as it allows for more diversity in responses as well as the capacity to adapt to new developments or issues during the research. Qualitative data are “characterised by their richness and fullness”, based on the prospect to explore a topic in as real a manner as possible (Saunders et al, 2003, p. 378). However, it is recognised that a qualitative approach is more subjective in nature and involves examining and reflecting on the perceptions in order to provide an understanding of social and human activities (McNabb, 2002, p. 89). In order to capture the richness and fullness associated with the data, data was collected through semi-structured in-depth interviews, using an interview guide. Semi-structured in-depth interviews allow for flexibility and revealing experience. The complex data that was collected was classified and categorised so that it could be analysed in a meaningful way.

Wood & Kerr (2010, p. 203) make the assertion that “exploratory descriptive designs, by nature, have a low level of validation and most rely heavily on estimates of reliability”. The section on reliability and validity deals with how these challenges were overcome in this study.

5.5 PARTICIPANTS

The focus of this study was on category A - metropolitan municipalities. The metropolitan municipalities included in the study were: (1) Ekurhuleni metropolitan municipality, (2) eThekwini metropolitan municipality, (3) City of Johannesburg metropolitan municipality, and the (4) City of Cape Town metropolitan municipality.
Table 5.1: List of metropolitan municipalities

<table>
<thead>
<tr>
<th>PROVINCES</th>
<th>METROPOLITAN CITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>Nelson Mandela Bay Metropolitan Municipality</td>
</tr>
<tr>
<td></td>
<td>Buffalo City Metropolitan Municipality</td>
</tr>
<tr>
<td>Western Cape</td>
<td>City of Cape Town Metropolitan Municipality</td>
</tr>
<tr>
<td>Gauteng</td>
<td>Ekurhuleni Metropolitan Municipality</td>
</tr>
<tr>
<td></td>
<td>City of Johannesburg Metropolitan Municipality</td>
</tr>
<tr>
<td></td>
<td>City of Tshwane Metropolitan Municipality</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>eThekwini Metropolitan Municipality</td>
</tr>
<tr>
<td>Free State</td>
<td>Mangaung Metropolitan Municipality</td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction

This research study focused on four out of the eight metropolitan cities in South Africa only. The four municipalities that were included in this study are in Johannesburg, Durban and Cape Town – cities that are widely accepted as economic hubs of the country. By their nature, metropolitan cities have more resources than do district and local municipalities. The current study could form the basis or foundation for the development of a research survey – a quantitative instrument to be used in a further study to include all 283 municipalities in South Africa.

Participants that took part in the study are listed in Table 5.2.
### Table 5.2: List of participants

<table>
<thead>
<tr>
<th>METROPOLITAN MUNICIPALITY</th>
<th>DESIGNATION OF PARTICIPANT</th>
<th>DATE OF INTERVIEW</th>
<th>TIME OF INTERVIEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ekurhuleni Metropolitan Municipality</td>
<td>Director: Projects Management Office</td>
<td>06 July 2012</td>
<td>11h00-11h45</td>
</tr>
<tr>
<td></td>
<td>Director: Expenditure and Payments</td>
<td>15 March 2012</td>
<td>15h00-16h45</td>
</tr>
<tr>
<td></td>
<td>Senior Accountant: Tender Administration Manager</td>
<td>08 June 2012</td>
<td>09h00-10h00</td>
</tr>
<tr>
<td>City of Cape Town Metropolitan Municipality</td>
<td>Manager: Demand and Risk Management</td>
<td>29 June 2012</td>
<td>10h00-12h00</td>
</tr>
<tr>
<td>City of Johannesburg Metropolitan municipality</td>
<td>Assistant Director: Administration and Procurement</td>
<td>22 July 2012</td>
<td>08h30-10h30</td>
</tr>
<tr>
<td>eThekwini Metropolitan Municipality</td>
<td>Deputy Head: Supply Chain Operations</td>
<td>06 December 2011</td>
<td>13h00-14h30</td>
</tr>
<tr>
<td></td>
<td>Senior Manager: Performance and Risk Management</td>
<td>07 December 2012</td>
<td>09h00-11h00</td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction

Only seven participants from four metropolitan municipalities were interviewed. Other managers in the participating metropolitan municipalities were not interviewed as they were not available to participate in this study, due work commitments.

### 5.6 RESEARCH INSTRUMENTS

#### 5.6.1 Interview Guide

An interview guide was designed to collect the data. The interview guide allowed for a flexible and revealing experience as it “is a list of topics and aspects of these topics that have a bearing on the given theme” (Welman et al., 2005, p. 166). The initial interview guide for this study was pilot tested and then refined and used during the collection of the data.

Semi-structured, in-depth interviews were conducted to collect the data, and the same interview guide was utilised in each. Structured questions were formulated beforehand, but the participants were allowed to tackle any other issues that came up during the process of the interview. Face-to-face and telephonic interviews were conducted. The interview guide was sent
to the participants prior to interviews taking place so that participants were prepared for the interviews.

A digital voice recorder was used to record the interviews, and field notes were also taken. Welman et al. (2005, p. 11) “describe field notes as detailed notes made by hand, tape recordings and observations, and as being compiled during qualitative interviewing”.

5.6.2 Literature Review

A considerable amount of literature was read and reviewed, and the secondary data helped shape the direction of this study. The interview guide was constructed after reviewing the literature so as “to cover the unknown content represented in the literature” (Wood and Kerr, 2010, p. 205).

5.6.3 Pilot Study

A pilot study was conducted with the eThekwini metropolitan municipality to gain insight into what was important for this study. A pilot study involves “interviewing knowledgeable people from within and/or outside the organisation” (McNabb, 2002, p. 85). The initial interview guide was tested at the eThekwini metropolitan municipality. The deputy manager of supply chain operations and the senior manager of performance and risk management participated in the pilot study. The pilot study revealed the importance of systems in the acquisition process and the contracts and performance management processes. Both managers affirmed that an effective SCM department is a cornerstone of sustainable service delivery in local government. Questions on the impact of systems were added to the acquisition and performance management sections of the interview guide. The results of the pilot study are included in this study.

5.7 RELIABILITY AND VALIDITY

“Reliability is concerned with the findings of one’s research and relates to the credibility of those findings” (Welman et al., 2005, p. 144). Credibility of research findings can be achieved by ensuring the “consistency, stability and respectability of a data collection instrument” (Wood & Kerr, 2010, p. 209). A good research instrument yields consistent results “if repeated over time on the same person or if used by two different investigators” (Wood & Kerr, 2010, p. 209).

“Validity determines whether or not the research truly measures that which it was intended to measure, or it determines how truthful the research results actually are” (Golafshani, 2003, p. 3).
Two methods of validity – face validity and content validity – were used in this study to guard against the low level of validation associated with exploratory descriptive studies (as mentioned in section 3.4).

“Face validity is obtainable when little or nothing is known about the variable being measured” (Wood & Kerr, 2010, p. 203). According to Litwin (1995, p. 35), “face validity is a much more casual assessment of item appropriateness”. It is called face validity because after constructing an interview guide, the researcher validates it with other people who also feel that the questions in the interview guide are appropriate. A researcher could ask friends, family or colleagues who may or may not have knowledge on the subject matter. Neuendorf (2002, p. 115) states that a “researcher may wish to have others review the measures with no introduction to the purpose of the study, and have them indicate what they think is being measured”.

“Content validity involves comparing the content of the measuring technique to the known literature on the topic” (Wood & Kerr, 2010, p. 205). Litwin (1995, p. 35), states that “content validity is a subjective measure of how appropriate the items seem to a set of reviewers who have knowledge of the subject matter”. For the purpose ensuring a credible interview guide, prior to conducting the interviews, a pilot study which entails “administering the instrument to a limited number of subjects from the same population as that for which the eventual project is intended” (Welman et al., 2005, p. 148) was undertaken. Two experts in the field were used as a sounding board to help identify any flaws as well as any unclear and/or ambiguous questions. The two experts used were managers in the SCM Department from the eThekwini metropolitan municipality.

The consistency of the data collected from the different municipalities is indicative of its accuracy. Existing research was also consulted for the sake of comparing the results of the primary data, thereby ensuring the latter’s validity and reliability.

5.8 ANALYSIS

Essentially, the analysis and interpretation of qualitative data entails organising raw data in an orderly manner (McNabb, 2002, p. 282). “In a qualitative research design, data analysis is aimed at describing and contextualising events and phenomena through the use of qualitative logic in order to interpret, understand, explain and/or predict other events and phenomena in future” (Cloete, 2007, p. 514). The raw data collected was contextualised using the “framework analysis” method. The five stages prescribed by the framework analysis are data familiarisation; identifying a thematic framework; classification; charting; and mapping and interpretation
Classification is done by “identifying themes in the qualitative data and categorising the respondents by theme to make the analysis more rigorous” (Cloete, 2007, p. 516). The Preferential Procurement Policy Framework Act provided a basis for the selection of a theoretical framework that could be coded and classified. The theoretical framework informed the interview guide and how the data was classified. The focus of the interviews was on local government SCM systems and BBBEE. According to Cloete (2007, p. 516), “classifying data prior to conducting the interviews helps drive on-going data collection and compels the researcher to tie the research questions directly to the data”.

Data familiarisation focuses on reading and transcribing of the field notes and tape recordings compiled during the interviews (Cloete, 2007, p. 515). Conceptual notes or memos were made to tie the different pieces of data together thus ensuring a broader, deeper and higher conceptual framework. This process allowed for better interpretation and conversion of raw data into meaningful information.

Identifying a thematic framework is developed from emerging issues in the data familiarisation stage (Cloete, 2007, p. 526). The findings from the data were linked to existing generalisations for improved insight in the literature review.

Charting involves using the “generalised headings from the thematic framework to create charts that can be easily read across the whole dataset” (Cloete, 2007, p. 517). A chart for the responses was created for each SCM system and BBBEE.

Mapping and interpretation “involves a search for patterns of constant similarity or even differences in events causes, consequences, results outcomes and impacts to interpret what has been achieved in the analysis” (Cloete, 2007, p. 517). The nature of the pattern that emerged relating to the implementation of the SCM systems helped answer the research question.

In conclusion, objectivity is critical during the analysis stage. Welman et al. (2005, p. 201) caution that the disadvantage of semi-structured interviews is that the researcher is directly involved in the interviews and as such is in control of the participants, and may therefore display bias. Saunders et al. (2003, p. 139) emphasise the importance of the researcher maintaining objectivity during the analysis stage and ensuring that the collected data has not been misrepresented. A lack of objectivity at this stage would clearly distort conclusions as well as any course of action that appears to stem from the research work.
5.9 RESULTS

The findings of this study are dealt with in the findings and discussion chapter. The findings are presented in a manner that is concise and succinct. The findings answer the research question as to the role of supply chain performance management in ensuring improved service delivery in local government.

5.10 DISCUSSION OF ETHICAL ISSUES

“Most ethical issues in research fall into one of the following four categories: protection from harm, informed consent, right to privacy, and honesty with professional colleagues” (Leedy & Ormrod, 2005, p. 101). The participants were told that they could excuse themselves from answering certain questions if they felt that the answer could possibly bring harm to their respective municipalities.

Confidentiality was maintained at all times and sensitive information is not going to be published or revealed to a third party.

5.11 ASSUMPTIONS AND LIMITATIONS

Underlying assumptions were made as follows:

- that one of the reasons for the protests is to do with service delivery (or the lack thereof) by municipalities;
- that some of the reasons for poor service delivery in local government stem from inadequate implementation of supply chain performance management;
- that ineffective supply chain management processes result in poor service delivery; and
- that all the metropolitan cities included in the research study would agree to take part in the study.

Limitations:

- This research study focused on four out of the eight metropolitan cities in South Africa only. The four municipalities that were investigated are in Johannesburg, Durban and Cape Town, cities that are widely accepted as economic hubs of the country. Therefore the findings are not representative of all the other, smaller municipalities. By their nature, metropolitan cities have more resources than do district and local municipalities. The current study could form the basis or foundation for the development of a research
survey – a quantitative instrument to be used in a further study to include all 283 municipalities in South Africa.

- Face-to-face interviews were conducted with seven of the managers of the participant cities. Unfortunately two of the managers were not available for personal interviews as they were extremely busy. The two managers who responded in writing to the questions are responsible for contracts management and performance management, and they work alone in their offices.

5.12 CONCLUSION

This chapter outlined the research methodology of the empirical study. The descriptive and exploratory nature of this study was discussed. A qualitative approach was adopted in order to capture the diverse responses and perceptions of the participants. Literature was reviewed in order to establish the current thinking by academics and local government practitioners. An initial interview guide was used to conduct the pilot study at one of the participating municipalities, as the interview guide needed to include questions that were unambiguous. Face validity and content validity were used in order to ensure validity. The consistency of the data collected from the participating municipalities was indicative of the reliability of the data. Data was analysed by categorisation, data familiarisation, identifying a thematic framework, charting and mapping and interpretation.

This research study focused on four out of the eight metropolitan cities in South Africa only. The four municipalities that were investigated are in Johannesburg, Durban and Cape Town, cities that are widely accepted as economic hubs of the country. Therefore the findings are not representative of all the other, smaller municipalities.

This concludes chapter 5. The next chapter, chapter 6, deals with the discussion and analysis of the empirical data.
CHAPTER 6: RESEARCH FINDINGS AND DISCUSSION

6.1 INTRODUCTION

The literature review conducted and presented in the preceding chapters explored the nature of local government in South Africa; it described SCM at local government level and defined the role of performance management in improving service delivery.

This chapter presents the findings of interviews conducted with staff of the municipalities. The interviews were conducted in line with the two questions of this research study, namely:

1. What potential role can supply chain performance management play in local government?
2. Can supply chain performance management improve service delivery at local government level?

In order to answer the research questions, empirical research was conducted within four (4) of South Africa’s metropolitan municipalities. Prior to this, a pilot study was undertaken at one of the participating municipalities in order to test the interview guide for validity. Validity is tested using subject matter experts as a sounding board to check for the credibility of the research tool. Validity is discussed in more detail in section 5.7 of this research paper. The results of the pilot study are included in the study.

In this chapter, the research findings are presented, discussed and analysed.

6.2 PARTICIPANTS

Table 6.1 lists the study’s participants. The pilot study was undertaken at the eThekwini Municipality.
Table 6.1: List of participants

<table>
<thead>
<tr>
<th>METROPOLITAN MUNICIPALITY</th>
<th>DESIGNATION OF PARTICIPANT</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Ekurhuleni</td>
<td>Director: Expenditure and Payments</td>
</tr>
<tr>
<td></td>
<td>Director: Project Management Office</td>
</tr>
<tr>
<td></td>
<td>Senior Accountant: Tender Administrator</td>
</tr>
<tr>
<td>eThekwini Municipality</td>
<td>Deputy Manager: Supply Chain Operations</td>
</tr>
<tr>
<td></td>
<td>Senior Manager: Performance and Risk Management</td>
</tr>
<tr>
<td>City of Cape Town</td>
<td>Manager: Demand and Risk Management</td>
</tr>
<tr>
<td>City of Johannesburg</td>
<td>Assistant Director: Administration and Procurement Services</td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction

6.3 DATA ANALYSIS

The interviews were recorded using a digital voice recorder and then transcribed by the researcher. The transcripts were edited by the researcher, who also checked them against the voice recordings for accuracy.

The data was analysed using content analysis, a way of systematically decoding and categorising data so that inferences can be made. Any responses clearly linked to the objectives of the research questions were kept and considered, while irrelevant information was discarded. The useful data was then categorised and unitised.

The findings were structured according to the areas of interrogation as contained in the interview guide. The interview guide sought to obtain clarity on the supply chain management model discussed in section 3.4 of the literature review. The main focus of this study, which relates to the supply chain management model, is on the management of demand, acquisition, supply chain performance; and preferential procurement policy objectives. The section on BBBEE was included as the HDI points allocated are now based on the seven pillars of the BBBEE Act, as discussed in section 3.6.1 of the literature review.
6.4 DISCUSSION OF FINDINGS

Some of the managers that participated in this study requested that they remain anonymous and that their municipalities not be linked directly with their responses. For this reason, all the municipalities are referred to simply as City A, City B, City C, and City D.

6.4.1 Structure of the SCM Department

SCM departments are structured differently in each city. The different structures are discussed as follows:

- **City A**

The SCM unit has a supply chain manager and two deputy managers. One deputy manager is responsible for policy and support (database, compliance, statistics, safe-keeping of contracts documents, and bid administration), while the other deputy manager is responsible for supply chain operations (procurement, contracts, logistics, warehousing, and disposal). The Supply Chain Operations implements the policy regulations. There is also a performance and risk management department within the SCM Department.

- **City B**

In City B, the SCM Department falls under the director of SCM and is divided into five units, namely: service provider management; demand and risk management; tenders and administration; procurement; and inventory management.

- **City C**

The SCM Department falls under the finance directorate. It is divided into the following three units: committees and contracts; procurement and administration; and sourcing and facilities. The committees and contracts unit is responsible for coordinating the activities of the three bid committees. It is also responsible for the facilitation and establishment of contracts. The procurement and administration unit is responsible for planning, demand management, risk management, compliance, and service provider management. The sourcing and facilities unit handles quotations and tenders.
City D

SCM in City D falls under the finance and expenditure department. The central procurement unit is divided into three sections. The three sections are responsible for (1) quotations under R30,000.00; (2) mini-tenders between R30,000.00 and R200,000.00; and (3) tenders above R200,000.00.

6.4.2 Demand Management Process

As indicated in the literature review (see section 3.4.1), the demand management process is derived from the Integrated Development Plan (IDP) document. The IDP articulates the long-term priorities agreed to by a municipality and its community. A budget is drawn according to needs identified during the IDP process. Each department has its own IDP, which is aligned to its budget processes. The IDP and budgeting processes determine the projects that a municipality will undertake as part of its service delivery.

The findings of this study revealed that all four participating metropolitan municipalities insist that planning is the responsibility of the line departments. Currently, the user department sends a request with specifications and evaluation criteria to SCM. This practice is contrary to the provisions of section 2.1.1 of the Policy Strategy to guide uniformity in procurement reforms processes in Government, which advocate the use of cross-functional teams to undertake demand management activities (National Treasury, 2003:21).

City C’s SCM department has a fully-fledged demand management section comprising two teams, namely the planning and execution teams. The planning team undertakes the following five activities: (1) analysing needs; (2) consolidating needs; (3) identifying the best sourcing strategy for any given requirement; (4) conducting market/industry analyses; and (5) implementing the best strategies. The execution team executes the sourcing strategy selected by the planning team and selects the appropriate team to finalise the specifications as well as the evaluation criteria if the chosen sourcing strategy chosen is that of going out on tender. Demand management in City C is critical as the sourcing strategy is linked to the Integrated Acquisition Plan (IAP). The IAP seeks to ensure that the need is fulfilled at the correct place, time, price, quality and quantity. While City C is confident that its demand management unit is fully-fledged, Cities A and B admitted that their demand management units are almost non-existent, being run as one-man shows.

In City A, it was reported that demand management activities such as interrogating the market are not carried out as there is no one to perform such activities. The block-sum budget is a
process that can however be rectified if there is a dedicated unit managing demand management. The block-sum would be analysed, reasonable projects within the block-sum identified, and the market investigation would be conducted in a thorough manner. If all this were done, City A would go out into market for quotations better informed and the result would be more credible responses from the market. An example of block-sum would be the line department requesting SCM to go out on tender to repair drain damage. The demand management unit would analyse the “drain damage” need. A two-stage tender process would then be initiated in order to first source proposals and secondly obtain prices on the best proposal. The manager acknowledged that this kind of interaction requires buy-in from the line departments.

In City B, line departments submit a signed ‘bid initiation form’ with specifications for SCM to initiate the appropriate SCM process. The initiation forms are signed at director level. Demand requirements are assigned to the relevant SCM official, and the demand of the respective team is graphed and then assessed to find peaks and valleys. The relevant official then enters into ‘negotiation’ with the line departments in order to move the peaks into the valleys.

In City B, the Tender Tracking System (TTS) is used and this records all tenders as well as their progress and status through the supply chain process. The TTS also tracks what is referred to as repetitive tenders, each of which must be replaced with a new contract when it expires. Examples of repetitive tenders would be stationery and computer contracts. Line departments are provided with lists of these tenders in order for them to confirm that the need still exists, and also to remind them of the expiry dates of the contracts.

In conclusion, all the managers interviewed agreed that demand management is a core activity of SCM because if it is not done properly upfront it has a negative ripple effect, marring the outcome. One manager indicated that the problems caused by inadequate planning show up during the tendering process, as quotes are often way off the estimated mark and therefore costs escalate above the awarded amount during the implementation phase. It is absolutely imperative to plan effectively given that the legislated minimum turnaround time is 19 weeks from the time a bid initiation with full specification is ready to delivery. This assertion is in line with the duty to plan for procurement as discussed in section 3.4.1 of the literature review. It is also supported by the Public Administration Leadership and Management Academy (PALAMA), which acknowledges that “badly compiled specifications will impact negatively on the evaluation and adjudication processes” (Public Administration Leadership and Management Academy (PALAMA), 2012, para. 2).
6.4.3 Acquisition Management

Acquisition management is the process of acquiring goods and services from various suppliers. This process begins with a tender advertisement and ends with a contract close-out.

All the municipalities interviewed said they apply the three procurement processes that dictate the overall process to be followed in acquiring goods and services. These procurement processes are provided for in the Municipal Finance Management Act (MFMA) as discussed in section 3.4.2 of the literature review. Table 6.2 tabulates the three procurement processes.

Table 6.2: Procurement processes

<table>
<thead>
<tr>
<th>1. PETTY CASH</th>
<th>2. QUOTATION</th>
<th>3. TENDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases up to R500</td>
<td>Purchases between R500 and R5,000.00 – verbal quotation, but must be in writing by the time the order is placed.</td>
<td>Purchases above R200, 000.00 to an unlimited value.</td>
</tr>
<tr>
<td></td>
<td>R5,000.00 to R30,000.00 – 3 written quotes.</td>
<td>Managed by the following three bid committees: bid specification committee, bid evaluation committee, and bid adjudication committee.</td>
</tr>
<tr>
<td></td>
<td>R30,000.00 to R200,000.00 – advertise on the noticeboard for a period of 7 days.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction

6.4.3.1 Quotations

As can be seen in Table 6.2, requests for quotations for goods/services less that R30,000.00 can be obtained verbally and then submitted in writing. Those above R30,000.00 but less than R200,000.00 are advertised on the noticeboard for a period of seven (7) days.

- Quotation Management System

Under the Quotation Management System (QMS), service providers each have a unique number with which to access the system and submit their quotations. These unique numbers prevent collusion between service providers as service providers are unable to access information on
other service providers. Buyers also have a unique number derived from their employee numbers which they must use to access the system for the purpose of loading data.

City A implemented the QMS, a move aimed at improving proficiencies within the quotation system. The manager explained that the QMS eliminates manual processes and thereby greatly reduces the chances for officials to manipulate the acquisition system for the benefit of their preferred bidders. Another spin-off of the QMS is that staff has more time to focus on strategic issues. The QMS sends, receives, evaluates and adjudicates request for quotations (RFQs) automatically using the 80/20 principle which is applicable to purchases below R200,000.00.

City A’s regional centres unit runs 40 customer care centres called Sizakala Centres. The focus of these centres is to give customers access to municipal services and to help those service providers that would otherwise be unable to access the system.

According to the manager, the long-term plan is to implement e-procurement across City A so as to further exploit opportunities presented by technology. The manager also said that e-procurement would be a response to the policy requirements that tenders be advertised on the noticeboard as well as on the website. One of the Auditor-General’s findings against City A was that tenders are not advertised on the website as required by legislation. Section 3.4.2 of the literature review lists the various advertising platforms as stipulated in the MFMA 56 of 2003.

6.4.3.2 Tenders above R200K are governed by the three bid committees

The interviews revealed that the tendering process utilised in all the cities that participated in this study is uniform and adheres to the processes prescribed in the MFMA. As discussed in section 3.2.2 of the literature review, tenders above R200,000.00 are governed by the three bid committees. The Bid Specification Committee (BSC) is a standing committee comprising of staff from different departments within a municipality. In City C, however, members of the BSC are accredited to ensure that they have the necessary skills to enable them to add value to the process during the deliberation phase.

The primary role of a BSC is to assess the specification from the line department to ensure that it is transparent, that it is not branded to suit one particular service provider, and that there is a market for such a specification. Essentially, this committee wants to ensure inclusivity and encourage competition. The BSC finalises the specification, the terms of reference, and the evaluation criteria. Once approved, the specification is then sent to the relevant office that will put together a tender document. The tender is then advertised in the newspaper for the stipulated period of time alluded to in section 3.4.2 of the literature review. Approval can be sought from
the city manager to advertise for a shorter period of time than that stipulated if the requirement is urgent.

Bids are opened in public. Details of bidders are read out, and, whenever practical and possible, prices are read out in public. Bids are stamped and audited and then sent to the evaluation team, who inform the project managers that the tenders have been stamped and audited. SCM then compiles a schedule with all the details of the bidders. Bidders that meet all the submission criteria stipulated in the tender document proceed to the evaluation stage. Bidders who do not meet the criteria are disqualified. Bids close on the specific day and time communicated in the tender document.

Once this process is complete, the project manager then arranges an appointment with the adjudication team for adjudication of the tenders. The adjudication process of evaluation must be in line with SCM polices and processes. Section 3.4.2 of the literature review indicates that the Bid Evaluation Committee (BEC) evaluates tenders received and makes recommendations to the bid adjudication committee. The line department that requested the good/service does a preliminary assessment of tenders and submits a preliminary report to the BEC. Bidders are evaluated on a pre-determined criteria developed by the Bid Specification Committee (BSC) consultants. These consultants are used in an advisory capacity to assist in the evaluation process. In some municipalities the BEC meets on a weekly basis, while in others it meets monthly. The committee evaluates on principle – equity, local content, and fair distribution. BEE scores are in line with the latest PPPFA regulations.

The most suitable company is recommended to the Bid Adjudication Committee (BAC) for approval. The BAC makes the final award based on the recommendations made by the BEC. This committee can do any one of the following: (1) endorse the decision; (2) refer the matter back to the BEC for reconsideration; or (3) completely overturn the decision and appoint a different bidder. If a bidder other than the one recommended by the bid evaluation committee is awarded the tender, the reasons will have to be reported (as stipulated in legislation) to the Auditor-General and to the Provincial and National Treasuries as discussed in section 3.4.2 of the literature review. From the interviews, it was found that this is perceived as a hindrance, and as a result the BAC hardly ever award tenders to a bidder other than the one recommended. A manager at City C stated that this meant that the “ground work was done meticulously”, although not necessarily correctly.

In line with the requirements of the Municipal Finance Management Act, any business above R10-million (R10M) has to be approved by the city manager.
6.4.3.3 Service provider selection process

Service provider registration takes on various forms at various stages of the supply chain process. When service providers register – and this applies to all the municipalities that participated in this study – the following are assessed: their tax compliance, their legitimacy and, in certain instances, their ability to perform. Documents required for a service provider to be registered on the database are listed in section 3.4.3 of the literature review.

Service providers that tender for advertised business are evaluated based on the 80/20 principle for business below R1M and the 90/10 principle for business above R1M. Line departments pre-determine the technical requirements applicable to technical tenders. A minimum score is set for technical requirements and only those service providers that meet that threshold move on to the next phase where price and preferential points are considered. Among the things municipalities look for are: methodology, processes, organisation, staffing, and qualifications. Section 3.6.1.1 in the literature review illustrates the formulae used for the 80/20 and 90/10 principles.

When awarding a contract, the tender office issues a letter of award to the successful bidder. In the award letter, the bidder is given a list of documents to be submitted within a certain number of days. The documents required are as follows: tax clearance certificate; proof of an up-to-date municipal account; guarantees (if necessary); and insurance documents. Handover of the site is done by the project manager once the service provider has submitted all the documents stipulated in the preceding discussion. For capital projects (e.g. construction, civil, roads) there is a civil works manager as well as a lead consultant to oversee the project. On-site material needs to be monitored closely by the project manager. All the participating municipalities in this study adhere to the requirements of the Municipal Finance Management Act for service provider selection.

6.4.3.4 Challenges in the acquisition management process

There are numerous challenges that bedevil the acquisition management process as experienced by all the municipalities that participated in this study. These challenges are categorised and listed in Table 6.3.
Table 6.3: List of challenges in the acquisition management process

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate specification</td>
<td>Ambiguous and/or inadequate specifications. It is not unusual to find that the specification was ambiguous and incongruent with the pricing schedule.</td>
</tr>
<tr>
<td>Insufficient internal controls</td>
<td>Awarding tenders to companies whose directors are in the employ of the state.</td>
</tr>
<tr>
<td>Unfair or irregular practices</td>
<td>Suspicion that SCM officials divulge confidential information on prices to certain service providers. Questionable objectivity of BEC members and tampering with supplier submissions.</td>
</tr>
<tr>
<td>Problematic document submission</td>
<td>Bidders submit invalid tax clearance certificates and/or incomplete documents. Late submission of bids.</td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction

Each of the challenges listed in Table 6.3 are dealt with in more detail.

- **Inadequate Specifications**

All the cities participating in the study complained about the quality of the specifications they receive from the technical departments. According to the managers, it is not unusual to receive a ‘one-liner’ specification for a complicated technical requirement. SCM will then return the specification to the technical department, requesting more information, because there has to be a complete and comprehensive specification when approaching the market. The sending out of tenders with ambiguous specifications results in suppliers submitting incongruent price schedules. The issue of precise specifications is dealt with in section 3.4.2 of the literature review.

- **Insufficient Internal Controls**

One of the participating municipalities in this study shared insightful information on the importance of having effective internal controls in place. According to the city mayor, this city “arguably more than any other metropolitan city in South Africa, takes pro-active action to identify any criminal activity and deals with it to the full extent of the law” (City Of Cape Town, 2012, para. 1). This statement was made at the time this city launched a forensic department to tackle fraud and corruption that can negatively affect service delivery. A forensic
department seeks to evaluate and re-evaluate systems and control measures to ensure that gaps and weaknesses are eradicated.

The findings of this study revealed three issues relating to internal controls. These are: (1) misrepresentation, (2) cover- quoting, and (3) awarding tenders to companies connected in some way to people in the employ of the state.

It was found that the most common crime by prospective service providers was the misrepresenting of their HDI status to secure a tender or contract. “This conduct erodes the fair and equitable processes put in place by the SCM department” (City of Cape Town manager, 2012). The city manager of one of the participating cities believes that by acting swiftly, the city saved a potential loss of approximately R800K. Attempts to defraud the city can negatively affect service delivery.

In City B, a service provider was fined R30K for defrauding the city. The offending service provider, who owns four close corporations, submitted three different quotations to install fibre cabling in one of the municipal offices. The practice of cover quoting is “a fraudulent attempt to undermine competitive tendering system by a supplier, acting in collusion with a departmental official involved in procurement, whereby multiple quotes are submitted by a single entity or the single entity facilitates the submission of all the required quotes as if they were independent quotes and, manipulates which bid is successful” (Volker, n.d.). This service provider was charged for fraud.

This situation is not unique to City B. One of the findings against City A was that it has been awarding tenders to city employees or people in the employ of the state. In both Cities A and B, control measures include screening the identity numbers of tenderers against that city’s payroll database and requesting access to the same database the Treasury uses to verify if someone is in the employ of the state.

Section 4 (2c) of the Municipal Systems Act 32 of 2000 stipulates that “a staff member of a municipality may not be engaged in any business, trade or profession other than the work of the municipality”. Section 5 of the same Act compels the “staff member of a municipality who or whose spouse, partner, business associate or close family member, acquired or stands to acquire any direct benefit from a contract concluded with the municipality, to disclose in writing full particulars of the benefit to the council” (Republic of South Africa. 2000a. s. 4(2c)).

The findings revealed that the participant of City A acknowledged that some tender documents are “fairly difficult to understand and some people may experience difficulty comprehending
their detailed significance”. There may be some bidders who try their best but fail to fully understand the documentation, and thus may sign declarations in good faith – but not have completed them properly – as they are anxious to get their offers in.

The findings reveal that City B has been proactive in terms of engaging the Auditor-General’s office to assist it with certain governance issues. Even though the AG only announced his findings in July 2012, City B knew as early as January that there would be a finding against the city. Control measures were put in place at that time to deal with the challenges and weaknesses identified by the AG. This kind of foresight and energy was not found in other participating municipalities in this study. In the other cities it was revealed that the internal auditing department conducts scheduled annual audits on supply chain management procedures.

- **Unfair Irregular Practice**

  The findings reveal that there are municipal officials who will do ‘favours’ for the companies of people they know. One city manager indicated that the normal process for supplier registration in the database takes between 7 to 10 days. Some suppliers however are occasionally registered within three days. This inequitable practice disadvantages those suppliers who have to wait for up to two weeks to be registered.

  The managers interviewed indicated that they are of the opinion that some SCM officials and bid evaluation committee members divulge confidential information such as prices to certain service providers. The Quotation Management System initiated by City A and discussed in section 6.4.3.1 will help eliminate the impact of human manipulation of the system, as suppliers complete their applications on-line and SCM officials only have access to the information after the tender closing date.

  Further, the participants were of the opinion that the objectivity of the bid evaluation committee members is sometimes questionable as they sometimes agree to matters that should be questioned and challenged, and sometimes actually work towards finding a way of by-passing the supply chain processes. Therefore, the calibre of the individuals appointed to the bid evaluation committee needs to be vetted more rigorously. According to the participant of City C, every employee who sits on this committee should first be accredited and vetted.

  It was found at City C, that when tender schedules need to be compiled, documents often ‘mysteriously’ disappear from the pile of bidder submissions. This is the first challenge. The second challenge is that a bidder who submits incomplete documentation will be disqualified. In response to these challenges, City C is exploring the possibility of instigating compliance
testing of bid requirements at the point where bids are opened in public. City C suggested that the proposed compliance document be completed in the presence of all the bidders and be notified immediately if not all the required documents are submitted. Another possible solution suggested by City C, would be to date-stamp every page in the document to eliminate pages being ‘lost’ in the selection process.

As dealt with in Section 2.6.4, Section 118 (b) of the MFMA prohibits anyone from “amending or tampering with any tenders, quotations, contracts or bids after their submission”, the unfair irregular practice is a challenge in the acquisition management process.

- **Nature of Documents and Submission of Documents**

All the cities participating in this study indicated that tender documents are unnecessarily complicated. A participant from City D suggested that municipalities need to respond to this challenge as provided for in section 217 of the Constitution, which prescribes that an organ of the state must purchase goods and services in accordance with a system that is “fair, equitable, transparent, competitive and cost effective”. Economic development units in the cities need to assist emerging suppliers in completing the relevant documents.

The findings revealed that bidders often submit invalid tax clearance certificates and incomplete documents, resulting in them being disqualified from the tender process. Late submission of bids is another major concern as legislation stipulates that late tenders cannot be accepted. Bidders are also not allowed to submit additional documents after the closing date. Sometimes, though consultants do not keep proof that they sent addendums to all the bidders who were at the site meeting. However, it was found that suppliers are sometimes disqualified for failing to include certain information, but if they were not informed by the consultants to include the additional information, then the municipality is at fault. This is a problem that needs rectifying.

### 6.4.4 Contracts Management

#### 6.4.4.1 Service provider management and development

The role of the service provider management and development department is that of building and monitoring the relationship with the service provider and providing technical and/or financial assistance when required. All the participating municipalities have units dedicated to service provider management and development. Cities A and C provided the following examples of service provider management and development issues.
• City A

In City A, service provider management is minimal due to staff constraints. The customer and service provider relations department is small, but the intention is to grow it. Surveys are being conducted by the customer and service provider relations department to gather the perceptions of the city’s citizens and respond accordingly. This department is also mandated to identify areas of improvement in various sectors and develop strategies to manage the relationship between the city and its service providers.

City A recently initiated an annual service provider summit and enhancement breakfast where the top 100 service providers were invited to discuss issues that affect them negatively and also any areas where service providers need to be more proactive. At one of these summits, a service provider complained that the city was buying out of contracts. However, when the matter was investigated, the buying department claimed ignorance. Collusion between service providers is another complaint that is sometimes raised by service providers. Collusion cases are regarded as big cases and are passed on to the ombudsman for further investigation.

• City C

In this city a service provider management performance guideline was developed to assist internal users in terms of identifying critical aspects to monitor. Meetings with service providers at every stage of the contract management process are recorded. This information is then fed back into the supply chain and into a database where service provider performance is recorded. The manager interviewed suggested that a central repository would help the city verify whether or not prospective service providers are blacklisted before awarding tenders to them.

6.4.4.2 Common challenges when dealing with service providers

All the participants stated that late delivery by service providers is a major problem they face when dealing with service providers. It is believed that late payment to service providers is a major cause for late deliveries. Figure 6.1 demonstrates the relationship between late delivery and the factors influencing it. Each component in Figure 6.1 is explained in more detail. Another major challenge that was identified is that sole service providers are frequently bullies, particularly when they have a monopoly that allows them to dictate prices.
Section 38(1) of the Public Finance Management Act (PFMA) stipulates that “accounting officers must settle all contractual obligations within the prescribed or agreed period”. To give effect to s(38) of the Public Finance Management Act, s(8.2.3) of the Treasury Regulations (as discussed in section 3.6.3 of the literature review) specifies that “all payments due to creditors must be settled within 30 days from receipt of an invoice” (National Treasury, 2011, p. 1). The participants revealed that there are numerous reasons why service providers receive late payment. All participants felt that while the cities are mainly at fault for the late payments, service providers are not entirely blameless either. The reasons for paying service providers late are discussed hereunder.

In the normal course of events, invoices for services rendered are submitted to the relevant project manager, who is responsible for signing-off those invoices and submitting them to the finance department for payment. It was revealed that in some instances, project managers are the ones responsible for late payments, because they can be tardy in terms of submitting invoices after they have signed off on a project. Sometimes the project manager still needs to complete due diligence on the completed project before authorising payment. This reason for late submission of invoices was considered “valid” by the managers. Project managers usually take a long time to approve all their completed projects and submit final invoices for payment, because they carry a heavy work load.
All the participants indicated that some small, micro and medium enterprises (SMMEs) do not have appropriate accounting systems in place, which results in them submitting incorrect invoices that cannot be classified as tax invoices. A valid tax invoice is one that has the VAT numbers of both the service provider and the municipality. A service provider that submits an incorrect invoice must first rectify the invoice before payment can be made.

Another major challenge identified, is that service providers sometimes submit invoices to the wrong offices that are not responsible for payment. Those invoices must then be re-routed to the relevant office, which is a time-consuming exercise and results in late payment.

According to the participants, regardless of the reasons, late payments upset the cash-flow of service providers. Projects are often not completed timeously because of cash-flow problems on the part of the service provider. Late payment of service providers affects the entire value chain because they are unable to fulfil their obligations to their own suppliers. This acknowledgement by the participants is reiterated in the National Treasury Instruction Note Number 34, (National Treasury, 2011, s(3.7), “the undesirable practice of paying service providers late has reached disturbing levels as it is severely affecting the cash flow positions and sustainability of businesses, especially SMME’s”.

- **Under-quoting**

Under-quoting was found to be a challenge, particularly with SMMEs, who tend to under-quote, hoping that they will be able to obtain the necessary goods cheaply ‘somewhere’. This tendency results in late or non-delivery when service providers realise that the price they quoted is not sustainable.

- **Resource Constraints**

It was found that SMMEs sometimes lack the requisite experience for the projects they take on. In such cases the participating municipalities have to step in and offer the technical and/or financial expertise required. This results in extended timelines. In some instances, service providers lose critical staff members after the award of the tender. This too influences the delivery period as they must then recruit experienced people which is not a simple task.

Some of the participating municipalities have found ways of dealing with the identified challenges, while others are still looking for ways on how the challenges could be overcome. Mechanisms for dealing with service provider non-conformance are discussed in the succeeding section.
6.4.4.3 Mechanisms to deal with the challenges Municipalities face when managing service provider relationships

The participants in this study suggested various ways of dealing with the challenges identified in the preceding section. The suggested solutions are discussed in the next section.

- **Under-quoting**

Besides the estimate made by a municipality for a tender, cities benchmark the price, interrogate the price of the service provider, conduct research on the price, and ask the service provider to analyse the price. Service providers with unrealistic prices are thrown out of the race if the bid adjudication committee agrees with the bid evaluation committee’s recommendations. If a service provider does not perform according to contract terms and conditions, the line department lodges a complaint to SCM regarding the non-performance. SCM mediates and intervenes to have the service provider perform according to the contract terms and conditions. The city may also opt to buy from another service provider and the current contracted service provider is then required to pay the appropriate penalty. If the non-performance is not resolved, SCM assists the line department with the process of cancelling the contract/order.

- **Technical/Financial Assistance**

  **City C**

It was found that in City C there are specific situations where a conscious decision can be made to award a technical project to an emerging SMME, even though it has inadequate technical skills and financial muscle to undertake the project. In such a case, a mentor is assigned to that service provider for technical assistance and in order to oversee the project from start to finish. Financial assistance comes from the city’s Apex funding and is sometimes non-refundable. The manager explained that the Apex fund is designated to assist SMME’s.

- **City A**

It was found that City A signed a ‘Memorandum of Understanding’ with banks such as Regent and Absa to form a partnership with the aim of aiding service providers by capacitating them financially and giving them access to the mentorship programmes provided by these financial institutions.

All the participants indicated that their Cities have an economic development unit that assists with sourcing technical and financial assistance for service providers in distress. Cessions are signed for the supply of materials for big capital projects like road construction (tar is
expensive). In such situations, suppliers might be reluctant to supply materials that run into millions of rands without having the backing from a big corporation. The municipality then pays the service provider’s suppliers directly to ensure the sustainability and continuity of the project. The cession agreement must be attached to the claim form when requesting payment.

The foregoing discussion revealed that the late payment of service providers has a snowball effect on the timing of deliveries. The findings also revealed that municipalities have a duty to assist emerging SMMEs both technically and financially. This concludes the section on contract management. The next section deals with performance management.

### 6.4.5 Performance Management

As indicated in section 3.4.4 of this study, performance management is a monitoring process that undertakes a retrospective analysis to determine whether or not proper processes were followed and the desired objectives were achieved. The two most important aspects of performance management in the public sector are:

- internal processes; and
- contracts management (Republic of South Africa, 2003).

This section looks at performance management mainly from a contracts management perspective.

#### 6.4.5.1 Is there a performance management system in place?

In the Municipal Finance Management Act, performance management is a widely encompassing concept that only refers to performance management at municipal level. All the participants indicated that they have a performance management unit (PMU) within their SCM unit. Each is commensurate to the resources available within that municipality. It was found that the performance management unit is a ‘one-man show. The performance management unit at municipal level reports directly to the municipal manager and assesses all aspects of performance across the entire municipality, such as individual performance, the Service Delivery Budget Implementation Plan, and SCM. The performance management unit within the supply chain management department reports to the supply chain management head and prepares an annual report which is fed to the performance management unit.

In all the participating municipalities supply chain management has worked hand-in-hand with the performance management unit to develop a policy for performance management of service
providers. The aim is to assess or evaluate the service providers to determine whether or not they are adhering to their contract agreements.

The performance management policy in City A’s SCM unit was adopted in 2009, specifically for Section 5 contracts (above R10M). This municipality has adopted a phased approach to its assessment of service providers due to capacity constraints with regard to staff and systems. The areas to be monitored are first identified and in conjunction with the service providers, the municipality then agrees on key performance areas. SCM depends on line management to provide feedback on service provider performance and project progress. Line departments work closely with the service providers on their projects, and are therefore better positioned to understand and report on the required deliverables.

It was found that performance management implementation in City A has not gone according to plan due to their planned system not yet being fully established. The proposed system should have enabled line departments to rate service providers and submit reports for recording on the system. Performance reports generated by the SCM unit are based on information submitted by line departments. Currently the spread sheet used to record contract information shows many outstanding reports from the different line departments. The line departments claim that the manual reporting method currently used is cumbersome. It was found that the relevant information is available, but the consolidation of that information is problematic.

The participating municipalities in this study agreed that the performance of service providers should be monitored against the stipulated conditions of the contract. All contracts have a non-performance clause linked to a penalty clause. All contracts also have standard conditions of contracts (joint venture contract conditions or general contract conditions) linked to them. The standard conditions of contracts specify the actions to be taken when non-performance on the part of the contractor occurs.

The findings revealed that project managers submit relevant information gathered during the monitoring phase to the Supply Chain Management Department on a monthly basis. This information is used during the evaluation process of any similar projects. Every time a service provider is tipped to be awarded a tender, that service provider must be checked against the database and against the Treasury database to ensure that the service provider is not blacklisted.

In City C, the compliance department monitors internal processes. If there are any non-conformances, the compliance officer alerts the relevant department of the non-conformance and he develops a timeline for addressing and rectifying the non-conformance.
In City D, payments for projects are made using the payment certificate generated by the project manager. Project payments then go to the contract section for auditing because the payments highlight the budget for the project, any previous payments made, and any retention payment. After the audit, the employee with the delegated authority to approve payment signs off to confirm that payment is due and can be made. Once signed, the finance department captures the information into the payment system, which checks escalations, discounts (if applicable) and rates. Three people (*i.e.* the contract manager, executive director or director) are required to sign for the approval of the final payment. When signing the payment documents, the project manager is declaring that:

- goods have been received or services have been rendered;
- the goods/services comply with the specifications;
- the price is correct as per the contract;
- the invoice was not previously paid; and
- the goods/services were procured in terms of City D’s supply chain policies.

### 6.4.5.2 Performance measurements – how are service providers measured?

When it comes to their service providers, the participating municipalities acknowledged that they all monitor and measure the following performance aspects: (1) delivery time; (2) cost implications; (3) quality; (4) site conditions; (5) health and safety; and (6) compliance with specifications. These measures are in line with the discussion in section 4.5 of the literature review.

It was found that in all the participating municipalities, the measuring of service provider performance varies from contract to contract. In the case of the purchasing of materials or moveable assets, the quality of the product is specified as well as the minimum delivery period. In the case of construction projects, milestones are set for quality in keeping with the project’s timeline. City A stressed that delivery within the specified timeframes is very important to them.

It was found that in City B, the two facets looked at in terms of monitoring and measuring contracts performance are: (1) delivery of the product according to contract; and (2) contract price adjustments, which take place within the SCM department for ‘unit price’ types of contract. If, however, there is a price adjustment to a construction contract, the line department must submit a report through the SCM department for approval by the qualified authority. It was found that City B is the only city whose contracts management process appears to be in line with the contract management guidelines and framework published by the National Treasury.
The contract management framework and guidelines are discussed in section 3.6.3 of the literature review.

It was revealed by one participating municipality that when looking at the key performance measurements, it is important to also look at internal processes. An example that was provided by City A was that of low-cost houses that had to be rebuilt because of poor workmanship. Invoices for those houses were approved and signed by a municipality staff member. Approval of an invoice means that due diligence has been carried out and the work approved. Both the service provider and the staff member that signed the invoice should be held responsible for their respective roles in this matter. It was also revealed that sometimes staff members are bribed to sign off on shoddy or incomplete work. This means that shoddy or incomplete work is paid for and results in extra expenditure incurred to rectify the problems.

Another finding revealed that if the municipality does not provide adequate site conditions in order for the service provider to perform the task timeously, the municipality is not held accountable. Another example is that if a delay has financial implications for the service provider, the municipality pays the service provider for the down-time.

City A provided an example of a service provider contracted to supply mobile toilets to an informal settlement. A few months into the contract, the service provider removed the toilets because after five months he had not received payment from the city. Payment ought to have been made within 14 days of the service provider submitting an invoice, as provided for in legislation. The municipality then had to organise another service provider to supply the toilets. The city wanted to impose penalties on the original service provider for non-conformance, so an investigation was undertaken. The outcome of the investigation revealed that the service provider had sent invoices and complained about non-payment to the relevant line department, to no avail. Ultimately this contractor was exonerated from his contractual obligations as understandably he no longer wanted to work with the city.

One of the participating municipalities, City A, reported that currently it has no mechanism to deal with council staff who do not carry out due diligence prior to approving projects for payment. The manager interviewed reported that there is a great deal of resistance internally to disciplining council staff who approve incomplete or shabbily executed projects. The Auditor-General cited the city’s unwillingness to deal with its poor performance as one of the major challenges to it improving its audit results (Smart Procurement, 2012b). In the other participating municipalities, if incomplete or shoddy work is signed off, the responsible official is charged internally using the internal mechanisms in place in order to deal with managers who
sign off on such work. A designated body within these cities deals with offenders and is chaired by a councillor who reports to the executive mayor.

In all the cities that participated in this study project managers and sometimes consultants are responsible for ensuring that the work of service providers is carried out satisfactorily. SCM officials cannot be at all places when and where delivery takes place, it is vital that the SCM process is embraced by all line officials. It was found from the interviews that line managers tend to take shortcuts, ignoring supply chain processes. The project manager must submit the correct bill of quantities, a letter from the department on project progress, and a cheque application accompanied by an acceptable invoice.

It was found from the interviews that in all the cities it is critical that an invoice be correct, as the payment system has an in-built checking system for approximately 90% of the contents of the invoice and this system eliminates any duplications. The in-built checking system is important as it alerts the individual responsible for making payments about the status of each order. The payment system blocks payments on a contract/order when the approved budget has been exceeded. The finance department personnel only check for compliance and that escalations have been worked out correctly.

### 6.4.5.3 Challenges facing performance management

Some of the challenges facing performance management as identified through the interviews are in line with the challenges identified in section 4.6 of the literature review section. The challenges identified through the interviews are as follows:

1. The lack of systems is a challenge because the contract scheduling used to track contracts is prepared on an Excel spreadsheet. An automated contract scheduling would provide real-time information on specifications and the duration of the contract, amongst other things.
2. Line departments do not always provide the necessary information to compile a report due to a lack of the systems that would enable them to record contract progress.
3. The section responsible for performance management within the SCM department is not adequately resourced to undertake all the tasks required. The performance management section needs additional personnel.
4. Lack of capacity remains a challenge in all the municipalities. It is reported that engineers are overworked, with administrative work that is over and above their designated duties. Contract management administration should be a Supply Chain Management Department responsibility. Errors occur, such as over-payment,
unperformed inspections, and reliance on consultants’ results on completion certificates (meaning consultants get away with signing off on work they have not actually completed).

5. SCM does not always receive cooperation from service providers because project managers complain that the existing questionnaire is too long. SCM wants to extract as much information as possible while project managers feel that the process is too time-consuming.

### 6.4.5.4 Dealing with service provider non-performance

In all the cities that participated in this study it was found that, if the line department is unhappy with the service provider, a site meeting will be held to review the progress being made. Investigation into any labour related issues raised by the community is conducted fortnightly and/or monthly, depending on the duration of the contract. Minutes of any meetings are recorded. The final report on non-conformance (i.e. poor workmanship) has to be co-signed by the service provider and the lead investigating team member. In the event that the service provider refuses to sign, the line department must attach all the minutes from the site meetings as evidence that the service provider was aware of the problems during the execution of the contract.

Site meetings and assessments are important for managing the performance of contracts below R10M as there is no formal performance management in place for such contracts. It was reported in City A that some contracts have been cancelled as a result of non-conformance during the 2010/2011 financial year. There are two payment runs a month for SMMEs. Normally problems are picked up soon after the project is supposed to have started using the project plan. Progress reports must be provided monthly to ensure the project is still on schedule.

### 6.4.5.5 Reporting

All the participant municipalities in this study endeavour to report on projects and service provider performance in line with the discussion of the performance management section in section 4.5. The reason for reporting is to provide feedback so that the relevant staff may take appropriate action. Table 4.3 on accountability timeframes shows that reporting should be carried out quarterly. All the participating municipalities’ annual SCM performance management reports capture information on the following:

- operations (volume of orders, stock and non-stock orders, etc.);
・ stores (stock levels and costs, receipts and issues for the year, redundant stock, \textit{etc.});
・ tenders (number of tenders, bid specifications, what was in the agenda, letters of award and rejection issued, \textit{etc.});
・ number of registered service providers (how many service providers were registered in the city database); and
・ asset disposals for the year.

In conclusion, performance management is an important aspect of SCM. The success of service delivery depends entirely on how service providers perform their contractual obligations. Performance management helps ensure that the constitutional aims of fairness, transparency, cost efficiency and effectiveness are met. City employees should take responsibility for the reports they issue. Monitoring should begin at the inception of the contract so that abnormalities are detected early and corrective actions can be taken while there is still time to rectify the situation with minimal fallout.

\textbf{6.4.6 Broad-Based Black Economic Empowerment (BBBEE)}

The Preferential Procurement Policy Framework Act (PPPFA) was amended in November 2011 to match BBBEE with the PPPFA. The points system remains the same, it is just the scoring mechanism that changes.

It was found that City A has no BEE targets in place. There is no initiative as yet in place to address this deficiency. According to the manager, City A spends a substantial amount of money annually so a strategist would have to analyse the sectors and industries with which the city interacts in order to formulate targets. The participant felt that setting BEE targets is doable in 5 to 10 years and that the targets should be approached with a national perspective in mind.

The private sector, on the other hand, does have BEE targets because they can have set asides for selected commodities. Set asides are not allowed in local government.

\textbf{6.4.7 General Views on Supply Chain Management in Local Government}

Finally, the participating municipalities were asked to provide their perspective on what Supply Chain Management means to them, on the common challenges they face, and on how best to overcome these challenges.
6.4.7.1 Impact of supply chain management on service delivery

One of the managers interviewed expressed his view that “Supply Chain Management is the cornerstone of the municipality that should make everything fit together perfectly.” It came out strongly from all the participants that SCM has moved from being a paper-pushing department to one that seeks to add value to business processes. However, it was felt that SCM has to find new ways of acquiring goods and services in a cost-effective and efficient way that meets tender specifications and demand. SCM needs to achieve savings; find alternative goods and service providers; and move away from the traditional functional approach to a more integrated approach. SCM plays an integral role in local government as it interacts with service providers and end-users. The definition of SCM in section 3.2 of the literature review supports these views.

Another participant indicated that SCM can help improve service delivery by responding speedily to the demands of the community. SCM can also help improve service delivery by implementing a proper demand management system. An effective SCM process should enhance the quality of the end product, provide a cost-effective service, and ensure that the end-user department gets value for money. The systems of SCM discussed in section 3.4 of the literature review aim to achieve the opinion expressed by the participant.

It was found from the empirical study that silo budgeting remains a major challenge facing SCM and effective service delivery in municipalities. An integrated approach is needed for the successful roll-out of infrastructure projects. For example, the departments of housing, engineering, water and sanitation, and storm water need to collaborate with one another. At City A, the different departments have started planning together for the execution of one of the big infrastructure projects. One of the challenges with big infrastructural projects is that the market is limited to only a few service providers and there is therefore potential for collusion.

A sentiment that emerged strongly from all the managers participating in the study is that current SCM processes are long and tedious, resulting in hampered service delivery. The average time it takes to complete the evaluation process from advertisement until award is very lengthy, taking anything from 90 days to 6 months. The tender documents are not very user-friendly, resulting in a large number of bids being rejected because of errors. Section 33 of the MFMA deters municipalities from entering into contracts longer than three (3) years (as there is so much red tape involved) and this is another challenge to be overcome. Line management’s apathy or choice to disregard SCM processes when it suits them complicates things further. The slow recruitment process also has a ripple effect on service delivery.
6.5 CONCLUSION

This chapter outlined the findings of the study conducted in the four (4) metropolitan cities. All the cities that took part in the study adhere to the SCM systems prescribed in the PPPFA and PFMA and their respective regulations. The aspects of SCM under review in this study are: demand management, acquisition management, service provider management, and performance management.

While there are many challenges being faced by SCM, the city managers who participated in the study believe that their cities are headed in the right direction in terms of positioning SCM as a value-adding department that can positively influence service delivery. Interventions like the Quality Management System and category management are in place to cut out non-value-adding activities so that SCM staff can concentrate on strategic initiatives. The overriding desire is for SCM to be effective and efficient. The performance management policy – although not yet implemented as initially planned – seeks to ensure that “what gets measured, gets done” (Anonymous).

It can be argued that the lack of integrated systems and stream-lined processes hinder the successful delivery of services to the public. The lack of an adequately staffed demand management section has a negative impact on contract management and performance management. However, it was found that the will is there, in the participating municipalities, to ensure that SCM contributes to the improved service delivery.

This concludes the findings and analysis chapter. The next and concluding chapter offers the recommendations of the study, the limitations of the study and areas for future research.
CHAPTER 7: SUMMARY, RECOMMENDATIONS AND CONCLUSION

7.1 INTRODUCTION

The primary aim of this research study was to answer the following questions

1. What potential role can supply chain performance management play in local government?
2. Can supply chain performance management improve service delivery at local government level?

Challenges relating to demand management, acquisition management, contract management and performance management were identified during the data collection process. Challenges raised by all the managers interviewed were categorised and grouped together according to the applicable supply chain process. While some challenges are specific to a certain process, other challenges cut across the entire SCM spectrum.

This chapter suggests possible recommendations for the implementation of effective supply chain performance management that could improve service delivery by local government.

Various common challenges were identified from the empirical study and possible recommendations how these challenges can be overcome are made. The recommendations should be read in line with the limitations of the study.
7.2 PROBLEMS IDENTIFIED

Table 7.1 provides a list of common challenges identified from the empirical research.

Table 7.1: List of identified common challenges

<table>
<thead>
<tr>
<th>Supply Chain Process</th>
<th>Common Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demand Management</strong></td>
<td>• Lack of integrated planning</td>
</tr>
<tr>
<td></td>
<td>• Lack of capacity to investigate the market thoroughly</td>
</tr>
<tr>
<td></td>
<td>• Inadequate specifications/Poorly drafted specifications</td>
</tr>
<tr>
<td><strong>Acquisition Management</strong></td>
<td>• Weak internal controls</td>
</tr>
<tr>
<td></td>
<td>• Unfair and irregular practices</td>
</tr>
<tr>
<td></td>
<td>• Late submission of tenders and submission of incomplete documents</td>
</tr>
<tr>
<td></td>
<td>• Ambiguous and inadequate specifications</td>
</tr>
<tr>
<td></td>
<td>• Awarding of tenders to companies whose directors are in the employment of the state</td>
</tr>
<tr>
<td></td>
<td>• Cover-quoting</td>
</tr>
<tr>
<td><strong>Contracts Management</strong></td>
<td>• Late deliveries</td>
</tr>
<tr>
<td></td>
<td>• Under-quoting</td>
</tr>
<tr>
<td></td>
<td>• Incompetent service providers</td>
</tr>
<tr>
<td></td>
<td>• Lack of skills and capacity</td>
</tr>
<tr>
<td></td>
<td>• Weak internal controls</td>
</tr>
<tr>
<td><strong>Performance Management System</strong></td>
<td>• Lack of systems</td>
</tr>
<tr>
<td></td>
<td>• Lack of capacity and skills shortage</td>
</tr>
<tr>
<td></td>
<td>• Unresponsive/rigid supply chain system</td>
</tr>
<tr>
<td><strong>PPPFA regulations and BBBEE</strong></td>
<td>• Lack of knowledge concerning latest regulations by both SCM personnel and service providers</td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction
The challenges shown in Table 7.1 were identified during the data collection phase of this study. All the municipalities participating in this study referred to these challenges during their interviews. Possible solutions to these challenges are suggested in section 7.3 of this chapter.

7.3 RECOMMENDATIONS

7.3.1 Demand Management

The challenges identified in the demand management processes are as follows: (1) lack of integrated planning; (2) lack of capacity to investigate the market thoroughly; and (3) inadequate or poorly drafted specifications. All these challenges could be addressed by implementing cross-functional sourcing teams (CFSTs) to undertake demand management activities. CFSTs comprise of “commodity experts and representatives from various user departments and work together within the strategic sourcing framework to achieve the desired outcome” (Smart Procurement, 2012a). Cross Functional Sourcing Teams draw expertise and input from different departments, thereby breaking the silo mentality that the city managers bemoaned. With a CFST in place, planning for projects is inclusive from the onset and is more integrated. All the departments are then working towards one strategic organisational goal. Figure 7.1 shows the departments that form part of a typical CFST and the roles of the CFST.

Figure 7.1: Composition of Cross Functional Sourcing Teams (CFSTs)

![Composition of Cross Functional Sourcing Teams (CFSTs)](image)

Source: Smart Procurement (2012a)
The set of skills and expertise available to a municipality through a CFST would make investigating the nature and behaviour of the market achievable. The outcome could be information on whether or not requirements can be met by the market. Having this information at their disposal could result in municipalities making better informed procurement decisions.

Section 2.5.1.1 of the literature review discusses interventions that can assist in achieving integrated planning. Critical tasks are identified through the Integrated Development Plan (IDP). Resources can then be channelled so as to complete the identified tasks. The twofold action of identifying critical tasks and channelling resources towards them is linked to the IDP, the municipal financial plan and performance management so that KPIs are monitored and measured. Appendix D is an example of how the IDP and the budget are converted into a service delivery budget implementation plan that can then be monitored and measured. The performance management cycle detailed in Appendix D culminates in an annual report.

Inadequate specifications could be a thing of the past if CFSTs were used to obtain an overall understanding of the requirement and current business demands. The combined efforts of different experts to understand the commodity or service required, the total costs associated with the service or commodity, the business demand, and any strategic cost drivers should result in well drafted specifications.

The lack of capacity is an issue that cuts across all SCM phases and will be dealt with separately in section 7.3.5.

7.3.2 Acquisition Management

7.3.2.1 Weak internal controls

Awarding tenders to companies whose directors are in the employ of the state, cover-quoting, and misrepresentation were identified as three fraudulent activities that pose a problem for all the cities that participated in this study. Such actions are misdemeanours that lead to a municipality having an audit finding against it. A study conducted by LexisNexis where 6000 suppliers vetted between March 2012 and July 2012, revealed the following:

- 40% of the details provided by the suppliers did not match the registered details on the Companies and Intellectual Property Commission’s (CIPC) database;
- 24% had members who were also directors of other active suppliers; and
- 10% had a conflict of interest by having an employee be a director of a registered vendor (Smart Procurement, 2012c).
It is therefore helpful if municipalities implement (1) proactive fraud and corruption control measures to circumvent fraudulent activities, and (2) effective mechanisms to deal with offenders. Municipalities could look into investing in risk management tools like the LexisNexis ProcureCheck which they can use to vet prospective suppliers prior to awarding a tender. Municipalities should also consider obtaining access to the same database that the National Treasury uses to vet suppliers. Furthermore, offenders must be dealt with decisively, using the existing provisions of the law. Senior officials need to show the will to deal with fraud and corruption in order to send a strong message to the public and its own employees.

7.3.2.2 Unfair irregular practices

There is growing concern that staff members are interfering with the acquisition process in order to influence the outcome so as to favour their preferred suppliers. There is suspicion that some municipal employees divulge confidential information to suppliers, thereby giving the suppliers an unfair advantage. There is also suspicion that some BEC members collude with certain suppliers, resulting in those BEC members not being objective in their deliberations. It is recommended that staff members who have been found guilty of such behaviour be disciplined in line with provisions of the law.

7.3.3 Contracts Management

All the participants interviewed indicated that late delivery by service providers is a cause for concern. It was found that the actions of both the participating municipalities and their service providers result in late deliveries. The three main causes behind late deliveries, as revealed in the interviews, are as follows: (1) late payment by the cities; (2) under-quoting by service providers; and (3) resource constraints on the part of the service providers.

7.3.3.1 Late payment of service providers by the cities

It has already been discussed in section 6.4.4.2 that the practice of paying service providers later than the stipulated 30 days upsets those service providers’ cash-flow and results in tardy completion of projects. In terms of s (4.2) of the National Treasury Instruction Note 34, cities must put “manual or electronic systems (processes and procedures) in place to enable tracking of each invoice received from service providers” (National Treasury, 2011:s4.2). This statement should form the basis for the first of two recommendations on how to deal with the challenge of late payment to service providers. In section 3.4.2 of the literature review, the five pillars of procurement were discussed; the second recommendation is based on one of these five pillars (equity), which advocates for the “advancement of the development of SMME’s and HDI’s”.
It is always prudent to track the progress of any activities undertaken in order to ensure that you meet the stipulated deadlines. The system of date-stamping invoices upon receipt is already in place in some of the municipalities that participated in the study, but it needs to be more widely disseminated. The project manager or the personnel responsible for receiving stores must currently date-stamp all invoices on the date of receipt. The Finance Department ought to also date-stamp an invoice on the day it is received from the project manager or stores receiving personnel. The invoice ought to be stamped again on the day payment is made.

It is suggested that project and finance managers prepare monthly reports on invoices received, therein providing an invoice description, the date of receipt, and the date of authorisation. The turn-around time for invoice authorisation should be defined in line with the legislative requirement for payments to be made within 30 days of receipt of invoice. Reasons for late authorisation or non-authorisation should be stated clearly. The turn-around time would then be used as a basis for measuring process efficiency. Table 7.2 depicts the high-level items that would possibly need to be approved by both the project management unit as well as the finance department. This is a typical tracking system and its findings would have to be monitored closely if any improvements are to be achieved.

Table 7.2: An example of the contents of the suggested report for invoice authorisation

<table>
<thead>
<tr>
<th>Description of invoice</th>
<th>Date of invoice receipt</th>
<th>Date of invoice authorisation</th>
<th>Is authorisation (payment) within the turnaround time?</th>
<th>Reason for late authorisation/non-authorisation (payment/non-payment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of service rendered or goods supplied</td>
<td>Used as a basis for measuring turn-around time</td>
<td>Used as a basis for measuring turn-around time</td>
<td>Quick reference to see if the information on this row requires further information</td>
<td>This information is important as it reveal challenges. The relevant departments would use this information to formulate appropriate remedial action to the identified challenges.</td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction

The reasons for non-authorisation or late authorisation of payment are pivotal as they indicate the areas that require attention. The reasons for late payment or authorisation (such as incorrect invoices submitted, invoices being submitted to incorrect offices, and shoddy or incomplete work) could be directed to the economic development unit for remedial action. Monitoring should continue so as to establish if the remedial action implemented is yielding the intended results. Economic development units have the responsibility of fulfilling the service provider
development mandate. The contract management and performance monitoring units would have to record the occurrence in the service provider’s file for future reference.

Project managers and finance personnel should be expected as part of their job requirements to make payment on invoices within 30 days. Paying invoices within 30 days is a task that should meet with penalties if not met. The penalty should thus serve as a motivation to be proactive in terms of resolving issues.

7.3.3.2 Under-quoting by service providers

It was stated in section 6.4.4.2 that the practice of under-quoting results in late deliveries. One of the ways to deal with the challenge of under-quoting would be to apply strategic sourcing methods when planning for procurement. The strategic sourcing method of investigating the market thoroughly before going out to market for goods and services would provide critical information on prices, service providers, as well as other market forces. This is the kind of information that can be used to make informed decisions when awarding contracts. The value-for-money principle of attaining the “best available outcome when all relevant costs and benefits over the procurement cycle are considered” should be a guiding force in awarding tenders (National Treasury, 2007, p. 4).

7.3.3.3 Resource constraints

Service providers that let municipalities down after tender award due to critical personnel leaving their organisations or unforeseen cash-flow problems are a serious risk to service delivery. It is for this reason that municipalities need to seriously consider making risk management part of their business planning and contracting. It is also for this reason that municipalities need to invest time and money into risk management tools. Looking only at superficial risk factors before tender award is no longer an option. Risk assessment into the long-term sustainability of service providers’ business needs to be strengthened and prioritised. The objective is to build quality and capacity into risk management. This recommendation is in line with the discussion in section 3.5 of the literature review.

Late deliveries cost participating municipalities a great deal of time and money. Internal controls need to be strengthened in terms of monitoring late delivery trends and then addressing them. Risk management should be built into the sourcing process so as to detect risks timeously. Section 3.5 of the literature review discussed the importance of managing contractual risk. Risks should be identified, and contingency plans developed to manage service provider failure. As part of managing risk, contract terms relating to termination, warranties and dispute resolution
mechanisms must be understood by the contract managers who will need to monitor and enforce the contractual terms.

The National Treasury Contracts Management Framework (CMF) is arguably one of the most defined and comprehensive frameworks in the country. The CMF provides guidelines on structuring, especially concerning strategic and high-value contracts with performance measurements that should be monitored. It is important that contracts management units are well resourced with people who clearly understand their roles and responsibilities to implement the Contract Management Framework and Contracts Management Guidelines. People need to be skilled at their jobs and the best people made champions to share their knowledge with other municipalities. Internal controls can be strengthened by assigning contract owners who track progress on contracts against agreed contract terms. The measures should enable effective implementation of the Contract Management Framework.

7.3.4 Performance Management

Performance measurement in the case of performance management refers to performance monitoring and reporting on internal Supply Chain Management processes. In all the municipalities the units responsible for this function are under-resourced, having just one or two staff members. Project managers do not complete their reports on contracts, thereby hampering the performance management process. Project managers complain that the reporting function is tedious as the paperwork is too cumbersome and they are already over-worked.

The function of performance management needs to be prioritised and properly resourced. Automating the process of reporting on contracts with a user-friendly tool should assist project managers in fulfilling the important task of reporting. It would also help with allocation of responsibilities if project managers submitted a monthly overview of their contracts as well as a more comprehensive quarterly report. All aspects of the supply chain process should be monitored. It is essential that project managers be held accountable to timeously submit reports that contain correct information.

The discussion in section 4.5.3 of the literature review suggests using the project outcome or some other benchmark to measure process effectiveness. In view of that gap, it is recommended that SCM processes be measured for reliability, flexibility and responsiveness. All responding municipality managers acknowledged that the current supply chain processes are not responsive to customer needs. This acknowledgement was based on observation, as no formal measurements had been done. If a formal process of measuring and reporting could be applied, it would open the way for remedial action to be considered if required. It is also important that
reports be escalated to the highest level of authority, such as the National Treasury. The National Treasury is responsible for implementing and reviewing Supply Chain Management policy.

7.3.5 Skills Shortage and Lack of Capacity

There is a skills shortage in key supply chain processes in all the municipalities that participated in this study. Key departments (such as demand management, contracts management, and performance management) are mostly under-staffed. It is not unusual to find that there is only one person responsible for risk and performance management. It was found that project managers monitoring and measuring project progress are overworked. Key posts are often left vacant for long periods of time - a situation that creates backlogs in the system. It was also found that people are appointed to positions for which they are not adequately trained and skilled, or suitably qualified to perform.

The Chartered Institute of Purchasing and Supply (CIPS) has created the information-rich CIPS Database of Procurement Professionals. This database essentially seeks to make available to potential employers information on supply chain professionals. Furthermore, the CIPS uses the computer-based CIPS competency evaluation process to scrutinise and “identify the most suitable candidates” (Smart Procurement, 2012d). These tools could be used to respond to the challenge of ceasing to appoint people to positions they are not qualified to occupy. It is important that people with the correct combination of skills, training and experience are appointed to certain jobs so as to ensure that they deliver the expected results.

Municipal management should also prioritise shortening the recruiting process as concerns have been raised that it takes too long to fill in vacancies. A skills audit could be conducted regularly to ensure that personnel are always up-to-date in terms of skills and training requirements. Furthermore, it is critical that management realise the importance of adequately training and preparing key departments. The roles and deliverables of each department should be well defined so that the correct number of personnel with the suitable skills, qualifications and experience are employed.

The National Treasury has established a Supply Chain Management office that is responsible for providing assistance to municipalities and other government institutions. The SCM office is also tasked with formulating and advising on SCM policy, overseeing the implementation of and monitoring compliance to the SCM policy (National Treasury, 2005, p. 34). Interventions such as these are important and are meant to assist with capacity building. PALAMA is another
division of the Government whose primary objective is to provide training to government institutions so as to improve service delivery.

**7.3.6 PPPFA Regulations and BBBEE**

The PPPFA Regulations of November 2011 provide for the integration of BBBEE into the scoring model. According to these regulations, service providers must have their BEE status verified by the South African National Accreditation System (SANAS) accredited verification agency. When quoting for business, service providers will then submit the certificate bearing their BBBEE status. The participating city managers expressed concern that many service providers are not fully informed of the new requirements as some service providers do not know that they can still submit quotations if they do not have a verification certificate. The cities’ economic development units need to inform service providers that they can still submit quotations without a verification certificate. However, if they do not submit the verification certificate, they will miss out on the BEE points applicable to that specific tender.

The suggested possible recommendations should be read with the limitations discussed in the next section. However, the implementation of the recommendations suggested in this section could result in a shift from the transactional approach to one that is integrated, as is shown in Figure 7.2.

**Figure 7.2: Current state of procurement vs desired future state of procurement**

![Figure 7.2](image-url)

*Source: Smart Procurement (2012a)*
In the future, there should be an integrated approach where all municipal departments work closely together and share information. Future supply chain personnel should be well skilled and adequately experienced so as to achieve world-class standards. Contracts management processes could be automated so that project managers can cope with compiling their all-important reports. SCM departments need to reach the place where they understand they cannot do without performance reviews, and in this way the principles that promote good governance should ultimately be upheld.

### 7.4 LIMITATIONS TO THE STUDY AND AREAS FOR FUTURE RESEARCH

The limitations of this study are that:

- This research study focused on four out of the eight metropolitan cities in South Africa only. The four municipalities that were investigated are in Johannesburg, Durban and Cape Town, cities that are widely accepted as economic hubs of the country. Therefore the findings are not representative of all the other, smaller municipalities. By their nature, metropolitan cities have more resources than do district and local municipalities. The current study could form the basis or foundation for the development of a research survey – a quantitative instrument to be used in a further study to include all 283 municipalities in South Africa.

- Face-to-face interviews were conducted with seven of the managers of the participant cities. Unfortunately two of the managers were not available for personal interviews as they were extremely busy. The two managers who responded in writing to the questions are responsible for contracts management and performance management, and they work alone in their offices.

### 7.5 CONTRIBUTION OF THE RESEARCH STUDY

After 18 years of democracy, the South African Government is hard pressed to quantify what it has done to improve the lives of the country’s ordinary people. Local government is the sphere of government responsible for delivering the services that would improve the lives of these ordinary citizens. The service delivery protests, estimated at 113 for the first quarter of 2012, suggest there is an intense dissatisfaction with the current pace and quality of service delivery (MunicipalIQ, 2012c, p. 1). According to Smart Procurement (2012e, p. 1), municipalities deliver services to the citizens through the contracts they enter into with service providers; it therefore follows that service delivery is a burning issue in South Africa considering that more
than 70% of municipalities were disqualified on poor supply chain and contract management practices by the Auditor-General”.

The findings and recommendations of this study will add to the body of research on local government in South Africa with regard to the impact of effective supply chain performance management on service delivery by local government. Both local and international best practice experiences are drawn upon to determine how effective SCM processes can improve service delivery by local government.

7.6 CONCLUSION

The aim of this study was to answer the following questions:

| 1. What potential role can supply chain performance management play in local government? |
| 2. Can supply chain performance management improve service delivery at local government level? |

In order to answer these questions, an extensive literature review was undertaken that sought to explore and describe the following three key areas: (1) the role and nature of local government in society; (2) elements of public sector SCM; and (3) performance management. The literature review revealed that local government is a constitutional establishment mandated to deliver services to communities. Service delivery to communities is done by way of the contracts entered into by municipalities.

A legislative framework is in place to govern how municipalities contract with external service providers. Given that municipalities use public money to procure the goods and services used for public consumption, it is vital that they measure, monitor and report on the contracts and processes followed. The literature review focused on building a strong theoretical base for understanding the legislation that guides municipalities. The characteristics of an ‘ideal’ municipality are also discussed in Chapter 2 of this research paper. If municipalities complied with each and every piece of legislation, they would all conform to the ideals of a developmental municipality and would thus be ‘perfect’ municipalities. Since we do not however live in a perfect world, the research findings indicate that there is much more work that still needs to be done in order to consolidate the gains attained thus far.

Primary data was collected using in-depth interviews with seven managers from four metropolitan municipalities. The interviews indicated that SCM is a ‘cornerstone’ of
municipalities as it either enhances or hampers service delivery. While there is commitment and will amongst the managers interviewed to achieve the goals of SCM, it was acknowledged that challenges exist and creative solutions are required. The responses contained in the empirical data were analysed and interpreted against the backdrop of the theoretical base formed in the preceding literature review chapters.

The findings of the study show that lack of capacity and shortage of skills in key supply chain areas remains a major concern. This concern was echoed in the Auditor-General’s 2012 report that 70% of all audited municipalities had incompetent officials. Lack of integration amongst municipal departments often leads to the departments having to regain ground that has been lost due to poor planning and communication between the departments concerning their respective projects. The willingness to take action against poor performance and other misdemeanours was found to be lacking, a sentiment echoed in the Auditor-General’s 2012 report. Internal controls were found to be weak in most instances and again the AG’s report confirmed this finding.

Demand management was identified by all the managers as a core function, since poor planning during this phase affects the quality of returned bids as well as the evaluation and adjudication thereof. Poor contracts management and performance monitoring do in turn result in inadequate information being fed into the demand management process.

Municipalities need to employ suitably qualified and experienced people to implement the requirements of the existing extensive and robust supply chain legislation. Individuals with the necessary will and commitment are needed to carry out their duties, without acting out of fear or favouritism. Existing partnerships with tertiary institutions and professional bodies like the CIPS provided through the supply chain management academies like the Commerce Edge could be utilised to the maximum by municipalities. Training should focus on developing general managerial, financial management, and supply chain management skills.

An integrated approach is required when carrying out the activities of all the supply chain processes. The IDP formulation, budgeting and reporting process are meant to be integrated into a seamless process. Strategic sourcing principles of using cross-functional teams and looking at the total cost of ownership should be embraced by municipalities as they already form part of the existing SCM framework. These strategic sourcing principles encourage integration, thereby breaking down departmental silo mentalities. Implementing these principles could improve the responsiveness of the supply chain process by improving the quality of the end product and reducing the turnaround time of the procurement process.
Internal controls need to be strengthened in all areas of SCM to prevent fraud and corruption. It is critical to work risk management into all aspects of SCM in order to safeguard the interests of the municipalities. The key is to hold personnel accountable for their actions at all times.

As an old English proverb rightly puts it: “Where there is a will, there is a way.”
LIST OF REFERENCES


City of Cape Town Manager. 2012


APPENDIX A - INTERVIEW GUIDE

Municipality: ________________________________________________

Capacity: ________________________________________________

Date of interview: __________________________________________

1. **INTRODUCTION**
The purpose of the study will be explained and confidentiality discussed. It will be explained that notes will be taken during the interview. Permission to use a tape recorder will be requested.

2. **STRUCTURE OF THE SUPPLY CHAIN MANAGEMENT DEPARTMENT**
   - Under which directorate does the supply chain management department fall?
   - How is the supply chain management department structured?

3. **SUPPLY CHAIN MANAGEMENT SYSTEMS**
   3.1 **Demand management**
   - Can you describe the demand management process?
   - Who is involved in the demand management process?
   - How critical is the demand management process in the supply chain process?

   3.2 **Acquisition management**
   - How does the tender process work?
   - Are there any challenges during the tendering process? If yes, how are they overcome?
   - Can you explain how the three bid committees work?
   - Can you explain the supplier selection process?

   3.3 **Logistics management**
   - Is inventory management a critical aspect for your department?
   - How do you manage your suppliers?
• What are the common challenges you face when dealing with suppliers?
• Are there adequate mechanisms in place to deal with supplier non-conformance?
• Have suppliers raised concerns about your department? If so, what are the common complaints and how are they addressed?

3.4 Performance management
• Is there a performance management system in place?
• Can you explain this system?
• How is performance measured? Which aspects of performance are critical to you?
• How are the results of performance management dealt with?
• How is supplier performance measured?
• Can you describe the contract management system in place?
• Is this contract management system in line with the contract management guidelines and framework?
• If savings are made, are these audited? If so, how?
• Do you view performance management as an important aspect of supply chain?

4. BROAD BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)
• What is your procurement policy in terms of BBBEE?
• Have you switched to the BBBEE Codes yet when evaluating tenders?
• What are the major differences between using the codes of good practice (BBBEE) and 80/20 90/10 (PPPFA) when evaluating tenders?
• Does your municipality have BBBEE targets in place?
• Do these targets form part of the department’s and individual employee performance score card or KPI?

5. GENERAL
• What are the major supply chain problems you face, especially in infrastructure development projects?
• What do you think is the impact of supply chain management in improving service delivery?
• In what part of the supply chain do you feel improvement is possible?

Thank you for your time.
APPENDIX B: MAP SHOWING THE GEOGRAPHICAL LOCATION OF THE METROPOLITAN CITIES IN SOUTH AFRICA

APPENDIX C – SECTION 1 AND 6 OF PAJA

PAJAjudicialreview

Checklist for Supply Chain Management Practitioners

How do our actions measure against the **Promotion of Administrative Justice Act**?

If there is a Judicial Review of an administrative action or decision,
What will the Review look at?

Based on Section 6 of the Act (see next page),
these are some of the types of questions that could be asked:

* Was the person **authorised** to take that action (make that decision, etc)?
* Did that person have a **proper delegated authority** to take that action?
* Is the person reasonably **suspected** of being **biased**?
* Did the person comply with every **prescribed procedure and condition**?
* Was the action **procedurally fair**?
* Was the action influenced by an **error of law**?
* Was the action taken for an **authorised reason**?
* Was the action taken for an **ulterior reason or motive**?
* Did the person take into account **irrelevant** considerations?
* Did the person fail to take into account **relevant** considerations?
* Was the action influenced by unauthorised or unwarranted **dictates** [influence] of another person or body?
* Was the action taken in **bad faith** [*mala fides; in other words, not in good faith*]?
* Was the action taken **arbitrarily** or **capriciously**?
  [In other words, based on personal feelings / wishes or randomly or not according to the rules; for unpredictable reasons]
* Did the action **contravene** any law or empowering authorisation?
* Was the action **rationally** connected to the purpose for which it was taken, in line with the purpose of the empowering provision, **based on the available information** in front of the administrator, and for the reasons given by the administrator?  
  [Was the action/decision reasonable, **connected to the evidence**, not emotional or prejudiced; for explanations that are understandable in terms of plain reasoning; and **logical**?]
* Was this a **failure** to take a decision that should have been taken?
* Would a **reasonable person** have exercised the authority / function in such a way?
* Was the action **unconstitutional** or **unlawful**?
* Did the person have a **duty** to make a decision?
* Should the decision have been made **within a prescribed time**?
  (In other words, was there an **unreasonable delay**?)
1. Definitions.—In this Act, unless the context indicates otherwise—

“administrative action” means any decision taken, or any failure to take a decision, by—

(a) an organ of state, when—
   (i) exercising a power in terms of the Constitution or a provincial constitution; or
   (ii) exercising a public power or performing a public function in terms of any legislation; or

(b) a natural or juristic person, other than an organ of state, when exercising a public power or performing a public function in terms of an empowering provision, ...

“administrator” means an organ of state or any natural or juristic person taking administrative action;

“decision” means any decision of an administrative nature made, proposed to be made, or required to be made, as the case may be, under an empowering provision, including a decision relating to—

(a) making, suspending, revoking or refusing to make an order, award or determination;
(b) giving, suspending, revoking or refusing to give a certificate, direction, approval, consent or permission;
(c) issuing, suspending, revoking or refusing to issue a licence, authority or other instrument;
(d) imposing a condition or restriction;
(e) making a declaration, demand or requirement;
(f) retaining, or refusing to deliver up, an article; or
(g) doing or refusing to do any other act or thing of an administrative nature, and a reference to a failure to take a decision must be construed accordingly;

6. Judicial review of administrative action.—(1) Any person may institute proceedings in a court or a tribunal for the judicial review of an administrative action.

(2) A court or tribunal has the power to judicially review an administrative action if—

(a) the administrator who took it—
   (i) was not authorised to do so by the empowering provision;
   (ii) acted under a delegation of power which was not authorised by the empowering provision; or
   (iii) was biased or reasonably suspected of bias;

(b) a mandatory and material procedure or condition prescribed by an empowering provision was not complied with;

(c) the action was procedurally unfair;

(d) the action was materially influenced by an error of law;

(e) the action was taken—
   (i) for a reason not authorised by the empowering provision;
   (ii) for an ulterior purpose or motive;
   (iii) because irrelevant considerations were taken into account or relevant considerations were not considered;
   (iv) because of the unauthorised or unwarranted dictates of another person or body;
   (v) in bad faith; or
   (vi) arbitrarily or capriciously;

(f) the action itself—
   (i) contravenes a law or is not authorised by the empowering provision;
   (ii) is not rationally connected to—
      (aa) the purpose for which it was taken;
(bb) the purpose of the empowering provision;
(cc) the information before the administrator; or
(dd) the reasons given for it by the administrator;

(g) the action concerned consists of a failure to take a decision;
(h) the exercise of the power or the performance of the function authorised by the empowering provision, in pursuance of which the administrative action was purportedly taken, is so unreasonable that no reasonable person could have so exercised the power or performed the function; or

(i) the action is otherwise unconstitutional or unlawful.

(3) If any person relies on the ground of review referred to in subsection (2) (g), he or she may in respect of a failure to take a decision, where—

(a) (i) an administrator has a duty to take a decision;
(ii) there is no law that prescribes a period within which the administrator is required to take that decision; and
(iii) the administrator has failed to take that decision,
institute proceedings in a court or tribunal for judicial review of the failure to take the decision on the ground that there has been unreasonable delay in taking the decision; or

(b) (i) an administrator has a duty to take a decision;
(ii) a law prescribes a period within which the administrator is required to take that decision; and
(iii) the administrator has failed to take that decision before the expiration of that period,
institute proceedings in a court or tribunal for judicial review of the failure to take the decision within that period on the ground that the administrator has a duty to take the decision notwithstanding the expiration of that period.

…..
APPENDIX D: DETAILED EXAMPLE OF THE IDP, BUDGET, PERFORMANCE MANAGEMENT AND REPORTING PROCESSES

A typical performance management cycle in local government is the one where the IDP fulfils the planning stage of performance management, while performance management (PM) fulfils the implementation management, monitoring and evaluation of the IDP. The IDP and budgets phases are converted to a Service Delivery Budget Implementation Plan (SDBIP) which defines how the strategies, objectives and business processes of the municipality will be implemented. The SDBIP also allocates responsibilities to departments that will deliver the projects identified in the IDP and budget.

**Interrelations between the IDP and PM at Threewaterskloof Municipality**

APPENDIX E – ETHICAL CLEARANCE LETTER

The ethical clearance letter is on the next page.
17 April 2013

Ms N Bizana 962063120
School of Management, IT & Governance
Pietermaritzburg Campus

Dear Ms Bizana

PROTOCOL REFERENCE NUMBER: HSS/1239/011M
NEW PROJECT TITLE: Improving Service Delivery by Local Government: A case for Improved Supply Chain Performance Management

APPROVAL AND CHANGE OF DISSERTATION TITLE
I wish to confirm that ethical clearance has been granted full approval for the above mentioned project:

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach/Methods must be reviewed and approved through an amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number. PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years

Best wishes for the successful completion of your research protocol.

Yours faithfully

[Signature]

Professor Steven Collings (Chair)
Humanities & Social Sciences Research Ethics Committee

cc Supervisor: Dr Micheline Naude
cc. Academic Leader: Professor KK Govender
cc. School Admin: Ms Deborah Cunynghame

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Humanities & Social Sc Research Ethics Committee
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Founding Campuses: Edgewood Howard College Medical School Pietermaritzburg Westville