MATERIALS ADMINISTRATION
IN
SOUTH AFRICAN MUNICIPALITIES

by

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THESIS

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All world religions teach the same one basic truth. They all blaze the same one trail. They all reveal the same one reality. This reality is that without joining the consciousness with NAM or the WORD which lies hidden in the human body, one can neither succeed in dispelling the darkness of ignorance nor in attaining the Lord, nor in ending the cycle of birth and rebirth.

PARAMSANT HUZUR MAHARAJ CHARAN SINGH JI
(Spiritual Discourses 1970 : 33)

DEDICATION

THE UNIVERSAL DIVINE MOTHER

and

MY SATGURU, GUIDE AND MENTOR

PARAMSANT HUZUR MAHARAJ CHARAN SINGH JI

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SYNOPSIS

MATERIALS ADMINSITRATION IN SOUTH AFRICAN MUNICIPALITIES

by

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DEGREE : D PHIL (PUBLIC ADMINISTRATION)

In this thesis a study is undertaken of materials administration at South African municipalities.

Municipal authorities in South Africa are an integrated part of the unitary system of government, subordinate to provincial and central authorities. Their primary function is to regulate the conduct of the communities they serve and to provide both general and community services as efficiently and effectively as possible. Municipal councils as representatives of citizens must serve the interests of the citizenry by improving their quality of life. In recent times municipal authorities are being faced with the challenge of providing more and improved municipal services. The provision of these services cannot be implemented merely by increasing the rates and taxes of the citizenry. The alternative lies in the optimum utilisation of public funds by

ensuring that material resources used by municipal authorities are procured as efficiently and effectively as possible to attain an acceptable quality of life for the municipal community.

In view of the aforementioned, this study essentially investigates the status of materials administration within South African municipalities. The research was necessitated by the fact that as much as thirty percent of the municipal budget is spent on materials administration which is an activity concerned with the continued provision of material resources to municipal user-departments. A further stimulus to the study is the fact that very little written analysis has been undertaken of materials administration as a field of activity within municipal financial administration.

As public institutions, municipal authorities must strive for maximum efficiency and effectiveness in public administration theory and practice and particularly in the field of materials administration. In this regard, all the functions must be performed in terms of the dictates of the generic administrative processes of policy-making, organising, financing, staffing, determining work procedures and exercising control. The municipal functionaries must also painstakingly adhere to the normative guidelines of public administration, namely, deference to political supremacy, maintenance of public accountability, efficiency and effectiveness, requirements of administrative law and the promotion of ethical standards.

Municipal administration as a specialised field of public administration comprises of several component fields, such as, financing and staffing. The activity of materials administration falls within the ambit of municipal financial administration. Consequently, the budget plays a vital role in initiating and developing the materials administration function.

Materials administration comprises of the generic administrative, functional and auxiliary processes. The generic administrative processes are the enabling activities which give direction and scope to the functional and auxiliary processes. The functional processes enumerated in the thesis comprises of the purchasing and inventory functions. The auxiliary processes are the neutral functions, such as, electronic data processing, collecting and interpreting statistics and research which are essential to expedite the execution of the generic administrative and functional processes.

The survey undertaken at South African municipalities and particularly in the major municipalities of Cape Town, Durban, Johannesburg, Port Elizabeth and Pretoria is viewed from a theoretical and operational perspective as follows :

- materials administration and municipal administration;
- municipal budget and materials administration;
- administrative aspects of the purchasing function : theoretical perspectives;
- administration of the purchasing function at South African municipalities : operational perspectives;

- administrative aspects of the inventory function : theoretical perspectives; and
- administration of the inventory function at South African municipalities : operational perspectives.

Materials administration at the municipalities studied, is primarily viewed in regard to the purchasing and inventory functions. The relationship between the municipal budget and materials administration is also highlighted. The economical use of scarce financial resources in the acquisition of goods and services as well as in the custody, maintenance and control of stores and equipment is stressed.

In the light of the aforementioned, the following recommendations are made :

(i) that municipal councils and high-ranking municipal officials give due regard to the importance of materials administration within the municipal context;

(ii) introduction of a zero-base budgeting system;

(iii) the review of the purchasing and inventory functions in respect of the following aspects :

- legislative measures;
- policy directives;
- organising;
- financing;
- staffing;
- determining work procedures; and

- exercising control.

(iv) introduction of a municipal exchange programme;

(v) establishment of a consortium for co-operative municipal purchasing; and

(vi) ensuring a programme of co-operation and understanding within the municipal environment.

CHAPTER ONE

1 STUDY PLAN

The study plan hereunder sets out the approach, method of study, and terminology used in this thesis.

1.1 Approach

When people live together as a group in a particular locality, there must be persons and institutions to administer and govern the affairs of public interest. Within South Africa this is achieved by a unitary government system with central provincial and municipal tiers of authority. Obviously, all affairs should be handled on the level at which they are most relevant. Of particular relevance to this thesis is the municipal level. The functions of municipal authorities, however, cannot be seen in association from the other levels of authority, namely, the central and provincial tiers of government. All three tiers are pro-actively involved in a particular municipal area. The diversity of functions of municipal authorities are prescribed in the "general" municipal authorities ordinances of the four provinces. Within the limits of the power delegated to them and within the constraints of parliamentary acts and provincial ordinances, municipal authorities decide on the manner and the extent to which they will undertake the functions delegated to them. Within this context South African municipalities must develop, maintain and improve their environment so that it is conducive to constructive social interaction and cultural development. Moreover, they must strive to harmonise relationships amongst ra-

cial, ethnic, religious and economic groups, and to generate a healthy economic climate and in general to promote the material and spiritual welfare of the citizenry.

Since municipal authorities contribute to the national goal of community welfare and since public administration is an activity, is concerned with the promotion of human welfare and interests, it follows, therefore, that municipal authorities should also execute their activities within the context of public administration.

Municipal administration is a specialised field of public administration, comprising of several sub-fields of activity. Municipal financial administration is one such field and within itself are several component activities. Materials administration falls within the ambiet of municipal financial administration. Materials administration is one of the primary supporting activities which contributes to the achievement of the municipal goals. It consists of three specific fields of activities, that is, the generic administrative, the functional and auxiliary activities. All these activities must be executed and co-ordinated to achieve the goals of materials administration, which is to :

- provide a service;
- ensure that all user-departments within the municipality obtain a steady flow of goods and services;
- maintain a record of all purchases, receipts, issues and disposals of all stores and equipment within the municipality; and

- ensure that the aforementioned goals are executed efficiently and effectively in the interests of the municipality and its citizenry.

The procurement of supplies and services for the municipal departments hinges on the availablity of funds. Therefore, the municipal budget plays a vital role in the acquisition of goods and services and in their maintenance and control.

The functional field of materials administration is identified as :

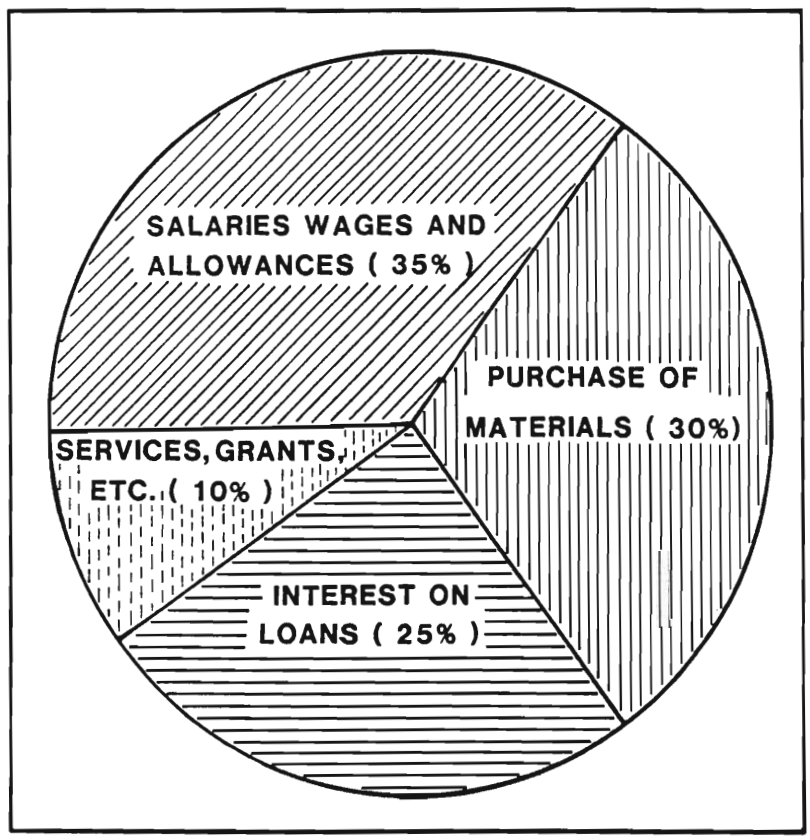
(i) the purchasing function; and
(ii) the inventory function.

At this juncture, it is important to highlight the fact that expenditure on materials administration makes up about thirty per cent of the budget of a municipal authority and is only second to personnel. The detail expenditure is as follows and is clearly illustrated in the pie chart - see Figure 1 (Cloete 1989 : 139 adapted) :

30 per cent on the purchase of materials and equipment;
35 per cent on salaries, wages and allowances;
25 per cent on interest on loans; and
10 per cent on services, grants to universities and charitable institutions, domestic matters and contributions to reserve and replacement accounts.

FIGURE 1

PIE-CHART REFLECTING MUNICIPAL EXPENDITURE



It is evident from Figure 1, that materials administration which provides goods and services to the user-departments is a vital and necessary activity within municipal administration.

Very little written analysis on the theoretical and practical aspects of materials administration has to be undertaken. Consequently, this research has been undertaken to provide valuable insight into the entire field of materials administration within the South African context. It is against this background that the survey on materials administration at South African municipalities was undertaken.

The following areas form the basis of the study :

(a) Materials administraiton and municipal administration highlighting, inter alia :

- public administration;
- municipal administration;
- municipal financial administration;
- materials administration;
- role of representative organisations and officials; and
- normative factors of public administration.

(b) municipal budget and materials administration stressing :

- objectives of budgeting;
- types of budgeting systems;
- nature and scope of municipal budgeting; and
- materials administration and the budget.

(c) administrative aspects of the purchasing function : theoretical perspectives;

(d) administration of the purchasing function at South African municipalities : operational perspectives.

(e) administrative aspects of the inventory function : theoretical perspectives; and

(f) administration of the inventory function at South African municipalities : operational perspectives.

The six chapters, apart from introduction and conclusion, set out the following areas of the study :

- chapters two and three provide the theoretical aspects of public administration, municipal administration, municipal financial administration and materials administration;
- chapters four and six provide theoretical perspectives on the administrative aspects of the purchasing and inventory functions; and
- chapters five and seven explain the operational aspects of the purchasing and inventory functions within an administrative frame of reference.

1.2 Chapter Two

It is accepted that municipal administration is one of the specialised branches of public administration. It is emphasised that the specialised branches of public administrarion reflect large measures of similarity because all administrative processes comprise fundamentally of the six main groups, namely, policy-making, organising, financing, staffing, determining work procedures and exercising control. Municipal financial administration is a sub-field of municipal administration and materials administration in turn is component activity of municipal financial administration. These specialised fields use the six generic administrative processes of public administration in achieving their functional objectives. These activities contribute to the goal of municipal community welfare.

This chapter focuses on the relationship amongst public administration, municipal administration, municipal financial administration and materials administration. The emphasis is on municipal financial administration as this area encompasses materials administration. The role of representative organisations, committees and officials are highlighted together with some of the normative factors relevant to this field.

In order to obtain a fruitful discussion the initial part of the chapter centres on the following aspects :

- reasons for the existence of municipalities; and
- functions of municipalities.

1.3 Chapter Three

The primary function of municipal authorities is to regulate the conduct of inhabitants in their specific area of jurisdiction and to provide both general community services, such as roads, transport and health and basic municipal services such as sewerage, electricity and water in an efficient and effective manner and at the lowest possible cost to the ratepayer.

The achievement of municipal goals therefore depends inter alia on the procurement and utilisation of funds. Since the major part of the funds are derived from the ratepayer, it therefore is necessary that a rational system of budgeting is developed and executed. Furthermore, the activities constituting materials administration cannot be performed without funds. The municipal budget provides money for the initiation of the materials ad-

ministration function. In light of the above, this chapter gives prominence to :

- objectives of the budget;
- types of budgeting systems;
- nature and scope of municipal budgeting; and
- the relationship between the municipal budget;
- materials administration.

1.4 Chapter Four

Municipal council comprises of councillors who represent the citizens of a municipality. It is therefore, incumbent on the council to provide for the material needs of its citizens, so as to ensure the greatest degree of community welfare.

In order to perform their functions efficiently and effectively it is necessary for the municipal authorities to acquire a vast array of goods and services. The manner of purchase or acquisition of such commodities is an important responsibility of the council and entails the outlay of vast sums of public funds.

In South Africa the average municipal authority spends as much as thirty per cent of its budget on the purchase of goods and services. The purchasing function is thus an important component activity of materials administration and entails the various responsibilities inherent in providing the material needs and services of the various user-departments within the municipality.

In this chapter a theoretical perspective is provided on the enabling administrative aspects of the municipal purchasing function. These aspects include :

- policy-making;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

In order to obtain a complete picture of public purchasing in the South African context, the initial part of the chapter centres on:

- public purchasing versus private (industrial) purchasing; and
- nature and scope of public purchasing at central nd provincial levels of government.

1.5 Chapter Five

In chapter four the theoretical aspects of the municipal purchasing function was stressed as a council activity which contributes to the attainment of municipal goals.

In this chapter the practical aspects of the purchasing function at South African municipalities is viewed with an administrative frame of reference. Particular attention is focussed on the following:

- legislative measures and policy directives;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

1.6 Chapter Six

The inventory function is one of the primary activities of materials administration and is concerned with, inter alia, receiving, issuing, custody, care and deletion of all stores and equipment within the municipal sector. It provides a continuous flow of goods and services to user-departments within the municipality. Since substantial sums of public funds are invested in the inventory function it is therefore necessary for this activity to be performed within an institutionalised frame of reference.

Accordingly, this chapter discusses the administrative aspects of the inventory function at municipalities within a theoretical framework focusing on the following activities:

- policy-making;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

In order to understand the inventory function in the South African public sector, the first part of the chapter provides a brief expose on this activity at the central and provincial tiers of government.

1.7 Chapter Seven

The inventory function at South African municipalities is considered important as it provides common items for use by various user-departments, as well as maintaining a record of all stores and equipment within the municipality.

In this chapter the operational aspects of the inventory function at South African municipalities is described within the context of the following administrative processes :

- legislative measures and policy directives;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

2 METHOD OF STUDY

As indicated in the bibliography, a number of books, journals, periodicals, thesis, reports and official documents that have a bearing on municipal administration and particularly materials administration were consulted to complete this thesis.

Acts, ordinances, by-laws, financial regulations and other relevant official documentation were studied and these served as the primary sources of information.

Visits were made to major South African municipalities, namely, Cape Town, Durban, Johannesburg, Port Elizabeth and Pretoria. Structured interviews were held with numerous high-ranking officials in the various municipal authorities. Moreover, much time was spent on observations and in discussions with officials at the operational levels.

In order to comprehend the subject from a national perspective questionnaires were sent to municipal authorities within the country, see annexure 1. However, this document was used mainly to collect information in an area where there is a dearth of literature. Thus it served as a supplementary source of information only.

2.1 Limitations of the Study

There is little doubt that there will always be limitations in a research undertaking of this magnitude. Some primary concerns in this regard are :

- the questionnaires which were intended to gather information consisted of twenty-eight pages and one hundred and seventeen open and closed types of questions relating to the purchasing and inventory functions. A questionnaire which is extensive, despite its best intentions, is often poorly received by respondents.

- about half the questionnaires received were poorly completed, with vital gaps in information.

- questions relating to the following aspects were not adequately answered:

  * personnel qualifications;
  * financial data on annual purchases and inventory expenditure;
  * classificaiton of goods and services on which funds are expended;
  * auditing practices and reports (which werre considered confidential); and
  * ways to improve quality of service in the purchasing and inventory functions;

- the major established municipalities of Cape Town, Durban, Johannesburg, Port Elizabeth and Pretoria provided the best inputs in most areas of the questionnaire.

- a <u>nil</u> response was received from Black municipal authorities;

- only two prominent Indian municipal authorities in Natal, namely, Verulam and Isipingo responded;

- white municipal authorities gave a more satisfactory response to the questionnaire than the municipal authorities of other population groups.

3 TERMINOLOGY

The author has endeavoured to maintain the use of current terminology in this thesis. However, to obviate the multiplicity of meanings, either direct or implied, the clarification of the following key terms is considered necessary.

Municipal Government

The term 'municipal government' is generally used to refer to a decentralised representative institution with powers that have been devolved upon it and delegated to it by the central or regional authority and for which it is responsible to exercise within a demarcated geographical area in the state (Vosloo, Kotze & Jeppe 1974 : 10). Hence, 'municipal government' refers to the governing of defined parts of a country such as inter alia, towns and cities. For purposes of uniformity, the terms 'local' and 'municipal' are used interchangeably in this thesis.

Municipal Authorities

The term 'municipal authorities' are statutory bodies which are constituent parts of local government and are responsible for the determination and execution of local public programmes (Speed undated : 1). These bodies derive their authority from a higher source, [such as a central or regional (provincial) authority] and are bound by the terms and conditions by which they are created (Speed undated : 1). To prevent any misunderstanding and ensure uniformity, the terms 'municipal authorities' and 'local authorities' have been used interchangeably.

Municipality

A 'municipality' is a defined geographical area which has a governing body created and vested with authority and power and is a term often used to cover cities, boroughs, towns and villages (Colliers Encyclopedia Vol. 16 1973 : 703).

Provincial

The term 'provincial' means pertaining to a province, constituting a province; 'pertaining to or characteristic of provinces' (Hayward & Sparkes 1982 : 916). In South Africa, there are four provinces, namely, Cape Province, Natal, Orange Free State and Transvaal.

Provincial Authorities

In South Africa 'provincial authorities' are governing bodies vested with specific powers and are responsible for the government and administration of a province. Since 1 July 1986, the Administrator-in-Executive Committee of a province can amend, repeal, or substitute the provisions of an ordinance previously passed by the provincial council (since abolished) only after it has been approved by a standing committee of Parliament. It therefore, follows that the Administrator-in-Executive Committee has limited legislative powers (Cloete 1991 : 19). These institutions form the second tier of government, and are subject to the control of the central government.

Community Welfare; General Welfare; Improved Quality of Life; and Public Interest

These aforementioned aspects relate to the goal of public administration, which is aptly and concisely portrayed and explained in the following extract by Hanekom & Bain (1991 : 46):

> "From the overarching goals pursued by the legislator, it becomes evident that the underlying foundation in all public services is the promotion of the general welfare, action in the public interest and the accommodation of the public will, with a view to ensure that a public service is morally acceptable and will eventually contribute towards satisfying the expectations of the public and the legislator by changing environmental conditions to promote the quality of life".

Store

The word 'store' relates to the physical act of storing or safe-keeping of items.

Stores

The term 'stores' is used to describe items which are purchased, received, stored and issued to user-departments. The word also refers to the organisational unit which executes the aforementioned functions.

Materials Administration

Materials administraiton is described as a specific field of endeavour, which comprises of the generic administrative, the auxiliary and the functional activities of purchasing and inventory functions, which are performed by the purchasing offices and stores (inventory) sections at the various South African municipalities studied.

Administrative Processes

The administrative processes are the enabling generic processes which provide direction and scope to the functional (line) activities. These processes are as follows :

- policy-making;
- organising;

- financing;
- staffing;
- determining work procedures; and
- exercising control.

For the purpose of this thesis the words processes, functions and activities are used interchangeably in this regard.

Inventory Function

The inventory function is the activity concerned with receiving, storing, issuing, deleting and monitoring records of all stores and equipment. This activiity is often referred to as the stores function or stores administration. The inventory function is executed by the stores sections at the various South African municipalities studied. For purposes of uniformity and to avoid confusion, the terms 'inventory section' is used when referring to the organisational unit charged with this activity.

Purchasing Office

The Purchasing Office is the organisaitonal unit responsible for the buying and co-ordination of all the purchase requests for stores and equipment within the municipalities.

User-Departments/Requisitioning Departments

These are municipal departments providing both functional and support services within the municipality and which require or use a particular commodity or service.

CHAPTER TWO

MATERIALS ADMINISTRATION AND MUNICIPAL ADMINISTRATION

1 INTRODUCTION

Public administration is a capacious term used to explain the nature of activities executed by public institutions to attain public goals resulting in an improved quality of life for the community as a whole.

Public administration as an activity comprises of several specialised sub-fields, such as :

- international administration;.
- central or national administration;
- regional or provincial administration; and
- local or municipal administration.

It is emphasised that municipal administration is one of the specialised branches of public administration and will consequently reflect large measures of similarities. Hence, the generic administrative processes, the functional and auxiliary activities which apply to public administration will also apply to municipal administration.

In the same light, municipal administration in turn could be divided into specific sub-fields such as :

- financial administration;
- personnel administration; and

- health administration.

Municipal financial administration as a specific field of activity may also be categorised into specialised functions for example, materials administration.

In meeting the objectives and goals of these activities the execution of the generic administrative processes, the functional and auxiliary activities must also be undertaken with due regard to the normative factors of public administration.

This chapter primarily focuses on the relationship amongst municipal administration, municipal financial administration, materials administration and the normative factors. In order to obtain a complete picture the initial part of the chapter shall focus on :

- reasons for the existence of municipalities;
- functions of municipalities; and
- public administration.

2 REASONS FOR THE EXISTENCE OF MUNICIPALITIES

Municipalities are found at the third tier of government in a unitary state, such as South Africa.

According to Meyer (1978 : 10) the term "municipal government" is used to refer to a decentralised local governing unit within a unitary system of the country and is subordinate to the central and provincial authorities and is vested with the prescribed

powers to develop, control and regulate the geographical, social and economic environment of defined local areas.

Cloete (1989 : 50) in turn highlights the following basic characteristics of a municipal authority :

- as a public institution it is subject to control by provincial and central government and operates under the control of appointed or elected local council or committees;

- as a corporate, legal body it can sue and be sued in a court of law;

- as a democratic body it gives expression to values at the municipal level; and

- as a legislative body it is vested with specific powers to pass by-laws (regulations) subject to the approval of both central and provincial legislatures.

In the light of the aforementioned characteristics, it is evident that the municipal government in South Africa acts within a specific and prescribed environment and is subject to laws, rules and regulations passed by its own municipal council, the provincial executive committee and the central government. Furthermore, within its specific jurisdiction it formulates objectives to attain a certain state of affairs to satisfy its local community.

Totemeyer (1988 : 2) emphasises that the viability of a democratic municipal authority is subject to, inter alia, the following aspects :

- size of the population in a specific area;
- a non-apathetic electorate which is in touch with the reality of its demands;
- legitimate leaders who may be elected to represent the community;
- acceptable democratic processes which enable the identification and election of legitimate leaders;
- clearly demarcated areas of jurisdiction;
- determination of services and facilities to be provided; and
- availability of sufficient financial resources to be able to initiate, develop and attain municipal goals.

Central governments are generally far removed from the people at large and consequently will find it difficult to cater for the diverse needs of numerous local communities (Hanekom 1988 : 17). The municipal authority, therefore is in an unique position to be in touch with the views of its local community in determining its needs, values and its ability to pay for services rendered (Hanekom 1988 : 17).

Cloete (1989 : 51-52) identifies the following reasons for the existence of a municipal authority:

- historically the small municipal authorities were to a large extent the forerunners to the development of the modern state and were incorporated into the large state without much change to its scope of functions:

- expediency and utility play a major role in providing for the needs of the people in a local environment which is both peculiar and unique in physical and social features;
- municipal authorities by providing for representation by the local population can best understand and cater for the needs and interests of its electorate; and
- municipal authorities provides the training ground for local representatives to improve their abilities and skills and thereby develop leaders who may subsequently serve at provincial and central tiers of government.

The citizens living within a municipal area may follow a wide range of different occupations, but as inhabitants of the town or city they have common communal needs and are equally affected by street lighting, refuse removal and parks and gardens (Speed 1971 : 14). It is these mutual interests that provides the basis and need for municipalities. Drake and Walker (1977 : 4) forcefully argue in this regard as follows :

> "People identify most strongly and coherently with issues that are immediate to them or within their experience - essentially matters that directly affect their home and community or which intervene in their work environment".

According to Hill (1974 : 22) the municipal authority is, more than any other public institution, concerned about the local citizen :

> "No other body does. Parliament and Government are remote from everyday life and in many spheres the citizen is governed by impersonal ad hoc bodies where lay members are nominated not elected".

The need for municipalities is emphasised by the impact that municipal authorities have on the life of the local community.

It is sensitive to the local peculiarities and problems and is sympathetic to and understanding of the people's needs.

In meeting these needs, the municipal authority is responsible for rendering specific functions.

3 FUNCTIONS OF MUNICIPALITIES

History reveals that municipalities developed from simple tribal and nomadic communities. In South Africa the initial development of municipalities can be traced to the Dutch and British influence in the country thirty years after the arrival of Jan van Riebeeck in 1652 (Green 1957 : 1).

The nature and scope of the functions of municipalities tend to differ from country to country. This is due especially to the fact that each municipality is distinct and unique in respect of geographic and socio-cultural influences. Botes (1976 : 96) implies this distinctiveness when he identifies the fundamental characteristics of a town as follows :

- a unit of government within a demarcated area with elected representatives with specific authority including financing and regulatory powers;
- an economic unit involved in the production process of providing goods and services for public consumption;
- an instrument for human interaction;
- a base for a social community bringing people together in some place;

- serves as a fountain of knowledge and the educator of people;
- acts as the basis for the birth, growth and development of modern civilisation and the culture of man.

In the foregoing sense a municipality may be seen as a political sub-division of the state within which a municipal corporation has been established to provide for the government and administration of a specific population concentrated in a demarcated area (Encyclopaedia Brittanica Vol. 15 1979 : 30).

Speed (1971 : 2) emphasises the importance of municipalities when he states that it :

> "serves its citizens from the cradle to the grave because its services extend from the provision of pre- and post-natal clinics to the provision of cemeteries".

The actions of municipal authorities are goal orientated and in striving to attain the greatest degree of the "good life" for the community they serve, are concerned with, inter alia, (Fourie 1973 : 400) :

- solving a myriad of problems;
- creating development opportunities; and
- adapting and modernising the practice of municipal administration.

In response to the needs of its populace, the municipal government renders specific functions which can broadly be classified as follows (Cowden 1969 : 36) :

(i) Administrative : includes financial, technical and general administration of all civic matters.

(ii) Cultural : pertains to the development and maintenance of art galleries, museums, orchestras, libraries and theatres.

(iii) Health : concerned with environmental and personal health services and entails the elimination of slums, refuse removal, street cleaning, and the provision of sewerage services and housing.

(iv) Protective : includes fire-fighting services, traffic control, street lighting and civil defence.

(v) Recreational : entails the provision of parks and gardens, sport grounds, zoos and swimming pools.

(vi) Utilities : pertains to the provision of abattoirs, markets, electricity services, gas works, public transport and water supply.

(vii) Works : includes the construction of roads and bridges and the maintenance of storm water drainage, building inspection services, town planning, urban renewal and airports.

Vosloo (1978 : 176) emphasises the need for public authorities to review and adjust to the changing times brought about by a myraid of influences as follows :

> "Die wereld vandag is besig om teen 'n verbysterende tempo te verander as gevolg van die fenomenale tegnologiese ontwikkeling, ekonomiese vooruitgang, bevolkingsgroei en verstedeliking, as ook nuwe opvattings, behoeftes en stygende verwagtings. As gevolg van hierdie transofrmasieproses word die aanpassingsvermoe van

> administratiewe kulture toenemend onder spanning geplaas. Indien die openbare instellings nie met hierdie transformasie tred kan hou nie, sal die moderne samelewing gaandeweg uitgelewer word aan toenemende konflik, vervreemding, sosiale verval, geweldpleging, vrees en uiteindelik disintegrasie".

Municipal authorities as the third tier of government must continue to remain responsive to the needs of the people it espouses to serve. Its functions, of necessity, must not only be aimed at political and economic welfare but at spiritual and cultural upliftment as well.

The functions provided by a municipality must be undertaken in a rational manner, with co-ordinated effort to reach specific predetermined goals (Hanekom & Thornhill 1986 : 6).

In the public sector, the activity of public administration entails the application of specific processes to attain public goals to ensure an acceptable degree of community welfare.

4 DESCRIPTION OF PUBLIC ADMINISTRATION

Since public administration has developed through time, undoubtedly history has a bearing on its present meaning and relevance.

Gladden (1972 : 4) bears testimony to the aforementioned when he writes :

> "Definitive types of public administration emerged in parallel with the development of the State, whose beginning can be discerned in the small urban units as early as the sixth millennium BC at Jericho in Palestine, where there is evidence of settled communities at least two thousand years earlier. Throughout history, in many parts of the world, the State's development has been varied and its supporting administrative machinery interestingly complex".

Coetzee (1986 : 30) views Public Administration (with a capital P and A) as an academic discipline of recent origin in contrast to public administration (with a small 'p' and 'a') as an applied activity which developed along with society and is as old as man himself.

Richardson & Baldwin (1976 : 11) express the view that public administration existed before the term 'public administration' came into use. Archeological records reveal that public administration as a states craft was practised in ancient civilisations of Sumeria (now Iraq) Egypt and China.

In ancient times public administration as an activity concerned itself with providing the fundamental needs of man in society. These were basically law and order in society and record-keeping of affairs of the State (Richardson & Baldwin 1976 : 12).
In the late 20th century, public administration has taken on new dimensions. It has moved from the simple to the complex and entails numerous activities which regulate society and culminate in the achievement of an improved quality of life for the citizen.

Although there are numerous definitions of public administration, Cloete's definition amplified by Hanekom & Thornhill (1983 : 76) is considered appropriate :

> "Public administration is a comprehensive and peculiar field of activity, consisting of numerous activities, processes or functions performed by public officials working in public institutions, and aimed at producing goods and rendering services for the benefit of the community. These activities or functions can be classified into three groups :

- the generic administrative activities or functions of policy-making, financing, organising, staffing, the determination of work procedure and the devising of methods of control;

- the functional activities peculiar to specific services such as education, nursing, public works, or defence;

- the auxiliary functions such as decision-making, data processing, planning, programming and communication, which are necessary to simplify or expedite the execution of the generic administrative functions and the functional activities".

Coetzee (1988 : 20-21) having considered numerous definitions of public administration comes to the conclusion that public administration distinctly refers to a specific type or kind of administration peculiar to the public sector and concerned with the implementation of public policies which find expression in laws, rules and regulations made by legislative bodies at various tiers of government and that it comprises of distinctive processes or functions, namely, the generic administrative process, the functional process and the auxiliary process, necessary to achieve an improved quality of life for the citizen.

5 MUNICIPAL ADMINISTRATION

Most western democratic states provide for public institutions at the central, provincial and municipal tiers of government (Cloete 1986 : 4). Gladden (1972 : 8) emphasises the impact of public institutions at the international level as follows:

> "With the development since the nineteenth century of a network of governmental and other public agencies in the international field, all normal types of public institutions - central, regional, provincial, local - have appeared there, usually representing, or linked with, the several national governments".

The aforementioned types of public institutions has resulted in specialised branches of public administration being developed (Cloete 1986 : 4-5). In this light, public administration, could be distinguished into the following specific categories or spheres of activities :

- international administration;
- central or national administration;
- provincial or regional administration; and
- municipal or local administration.

These specialised branches of public administration utilise the generic administrative processes of policy-making, organising, financing, staffing, determining work procedures and exercising control to attain public goals. These processes are performed within an institutionalised frame of reference which provides the parameters for goal orientated activity in the public sector. Furthermore, all the branches of public administration will reflect a large degree of similarity in the method, execution and achievement of their respective functional goals. For purposes of this thesis the activity of municipal administration executed at the third tier of government shall be discussed.

From the aforementioned discussion on levels of government and specialised branches of public administration, it is apparent that the terms "local" and municipal are often used synonymously (Cloete 1989 : 47).

In order to understand municipal administration, it is necessary first to reflect on the term "municipal".
According to Simpson (1966 : 144) the word 'municipalis' which means belonging to a 'municipium' which in turn means a borough, free town or municipal town.

Dimock, Dimock & Fox (1983 : 61) explain that the term 'municipium' was a label given to Roman cities with special privileges or powers.

A municipality in English and American law is any subordinate public authority that is created and vested with authority and power and is a term which covers cities, villages, towns and boroughs and will also include counties and special district (Colliers Encyclopedia, Vol. 16 1973 : 703).

It is clear from the above explanations that 'municipal' pertains to a town or city having a governing authority.

Municipal administration, as indicated earlier is a peculiar type of public administration found at the municipal or local level of government.
Adlem highlights the municipal component of public administration when he emphasises its integral characteristic as follows :

> "By die bestudering van Munisipale Administrasie is dit wenslik om Munisipale Administrasie as 'n spesialiteitsarea van Publieke Administrasie te beskou" (Adlem & Du Pisani 1982 : 86).

According to Adlem, municipal administration is influenced by factors within the local environment which ultimately provides for the execution and expression of municipal administration as an activity (Adlem & Du Pisani 1982 : 101).

These factors affect municipal administration in three specific environments as follows (Adlem & Du Pisani 1982: 101) :

(i) External municipal environment : which is affected by such factors as, inter alia, constitutional, statutory, economical, social, historical, cultural, and spatial factors;

(ii) Local political processes : this is concerned with the authoritative allocation of values which are expressed through the political process, by means of municipal elections. The political process is influenced by, inter alia, voters, pressure and interest groups, political parties, news media, and sporting bodies. These groups endeavour to provide inputs for municipal government policy and for furthering the welfare and interests of the local or municipal community.

(iii) Internal municipal environment : this is the machinery and the heart of the municipal government. It comprises of municipal councillors and officials who work subject to specific rules and regulations, which provide the basic infrastructure within which they operate.

Within the context of municipal environment and the processes applicable, municipal administration is aptly and concisely summarised by Stewart (1971: 71) as follows :

> "The philosophy of general management in local government rests on the view that the local authority is the primary organ of government within the area for which it is responsible. Within the area that it administers, individuals, families and organisations have developed a pattern of life. That pattern has been deeply influenced by the environment - both the natural physical environment and the social, economic, political and technical environment, and has itself moulded that environment. In a very real sense the general management of local authority is the management of that environment, for the individual, groups and organisations that live within that environment".

In order to understand what constitutes municipal administration, it is necessary to provide an overview of its nature and scope.

5.1 Nature and Scope of Municipal Administration

Municipal administration implies the efficient and effective rendering of goods and services by the municipal council for the welfare and benefit of the citizens within its jurisdiction.

It, therefore, follows that the municipal council, within its institutionalised framework directs its activity towards the achievement of goals. In this respect the generic administrative, the functional and the auxiliary processes are executed. These activities are described hereunder :

5.1.1 Generic Administrative Processes : are the enabling activities which give direction and scope to the functional and auxiliary functions of municipal administration and constitute the following (Cloete 1986 : 4):

(a) Policy-making

This process is primarily concerned with the identification of needs and setting of goals to satisfy community needs. Policy is the outcome of the process of policy-making and entails the statement of intention and the process by which the municipal council and its officials shall strive to attain the intended goal (Cloete 1978 : 13).

(b) Organising

The organising process entails the creation and establishment of the organisational unit or structure and includes, inter alia, aspects such as division of work, delegation of authority, co-ordination and the determining of communication channels (Cloete 1986 : 79). These activities bring together personnel to attain specific pre-determined objectives (Cloete 1986 : 78).

(c) Financing

The process of financing in municipal administration comprises of numerous activities; the primary function entails the preparation of annual budgets of income and expenditure (Cloete 1989 : 127), secondary activities include, inter alia :

- maintaining funds in appropriate accounts;
- ensuring a record of all financial

transactions; and

- spending of funds in accordance with approved directives of the municipal council (Cloete 1989 : 63-68).

(d) Staffing

The staffing function entails the provision and utilisation of personnel and embraces such activities as, inter alia : creation of posts, recruitment, selection, placement, remuneration, promotion, training and evaluation.

(e) Determining Work Procedures

The determining of work procedures are essential to enable and direct functionaries to perform their work in an orderly manner so as to attain specific institutional objectives. Procedure analysis tools, such as PERT and work study are used to improve procedures to obviate the wastage of time, effort, material and financial resources (Cloete 1981 : 70-73).

(f) Exercising Control

This is the last, but, not the least important of the generic administrative processes. Control assures evaluation and appraisal of the results to ascertain whether all the activities have been performed in accordance with specific procedures and within legislative and institutional guidelines (Fayol 1973 : 103). If anticipated

goals are not being achieved, then control determines the corrective action necessary to remedy the situation (Dimock, Dimock & Fox 1983 : 228).

5.1.2 Functional Activities

The execution of the functional activities of municipalities are the responsibility of the municipal councils and officials. Some of the functional activities rendered by municipalities may be broadly categorised as follows (Cloete 1989 : 113).

(a) Protection Services comprising :

- health services;
- traffic regulations;
- fire-fighting; and
- prevention of air pollution.

(b) Community Services including :

- construction and maintenance of streets and side-walks;
- night soil and refuse removal; and
- establishment, lay-out and maintenance of parks and sports grounds.

(c) Commercial Services comprising :

- passenger transport;
- electricity and water supply; and
- abattoir and fresh market services.

5.1.3 Auxiliary Activities

These are the 'help' or 'aid' techniques and tools used to provide the necessary support services to municipalities so that they may render improved and efficient services. Within this group are included, inter alia, the following types of activities (Cloete 1986 : 2) :

- electronic data processing;
- public opinion surveys;
- collecting and analysing statistics; and
- research.

The aforementioned activities are all necessary to achieve the goals of a municipality. The efficient and effective rendering of goods and services, for the satisfaction of community welfare, is the primary goal of municipality authorities.

The generic administrative activities comprising of policy-making, organising, financing, staffing, determining work procedures and exercising control are the enabling activities. That is, it provides direction for the achievement of functional activities. For example, a policy is necessary to attain such functional activities as, inter alia, health services, library services and sewage services. One of the basic policies of the goal of library services may be to provide a language programme to improve the literacy rate of the citizens. Such a programme obviously would

require the application of the other generic administrative processes, to be able to achieve the programme goal.

It is not possible to apply or utilize just one of the processes. The fundamental characteristic of the administrative processes is that they are inter-related, interdependent and mutually inclusive. The achievement of any municipal objectives require the application of all the generic administrative processes.

Within this context the importance of the auxiliary activities can be considered. Again, using the example of the literacy improvement programme, implementation and analysis of an opinion survey may be considered to be an auxiliary activity. The opinion survey is a 'tool' or 'aid' to provide the municipal official with additional information to determine the status of the programme. It provides a feedback which may result in the conformity, amendment or termination of the programme. Other types of auxiliary activities include, inter alia, electronic data processing, planning, and decision-making.

The municipal functionaries responsible for executing these activities must possess the necessary qualifications, skills and attitudes to be able to attain the objectives set by the municipal council.

In order to attain the goal of municipal administration, specialised component activities such as, inter alia, municipal financial administration, municipal personnel administration and municipal health administration must be undertaken. Each of these fields require that the generic administrative processes should be adapted to its unique environment.

Since all municipal goals have financial implications, it is necessary to highlight the importance of municipal financial administration within the context of municipal administration.

6 MUNICIPAL FINANCIAL ADMINISTRATION

Municipal financial administration is one of the primary sub-fields of municipal administration. The execution of the activity of financial administration is necessary to achieve the functional and auxiliary goals of municipal administration. Without finance, it is not possible for the municipal government to render the necessary goods and services for the proper government and administration of the municipality. All government activity warrants the use of funds. Gildenhuys (1989 :190) aptly emphasises the importance of finances as follows :

> "Die beskikbaarheid van finansies en gesonde finansiele administrasie is die kernbestandeel van enige plaaslike owerheid se funksionele aktiwiteite en bepaal in 'n groot mate die welslae waarmee sodanige aktiwiteite uitgevoer kan word."

Hanekom & Thornhill (1986 : 62) assert that financial administration is an integrated component of public administration and that the principles applicable to public administration will also be equally relevant to financial administration. In the same vein municipal financial administration may be considered to be a subfield of municipal administration.

Within the context of the generic view of administration, municipal financial administration must take place within an institutionalised framework aimed at attaining a specific goal (Botes 1973 : 13-19). In attempting to achieve this goal it would be necessary to determine the nature of the activities of municipal financial administration. According to Watson (1983 : 21), these are the :

(i) generic administrative processes comprising :

- policy-making;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

(ii) functional processes namely :

- procurement of money;
- custody of money; and
- expenditure of money.

(iii) auxiliary processes such as :

- book-keeping;
- budgeting; and
- auditing.

Watson (1983 : 21) states that each of the six categories of generic administrative processes has to be applied to the functional and auxiliary processes of municipal financial administration.

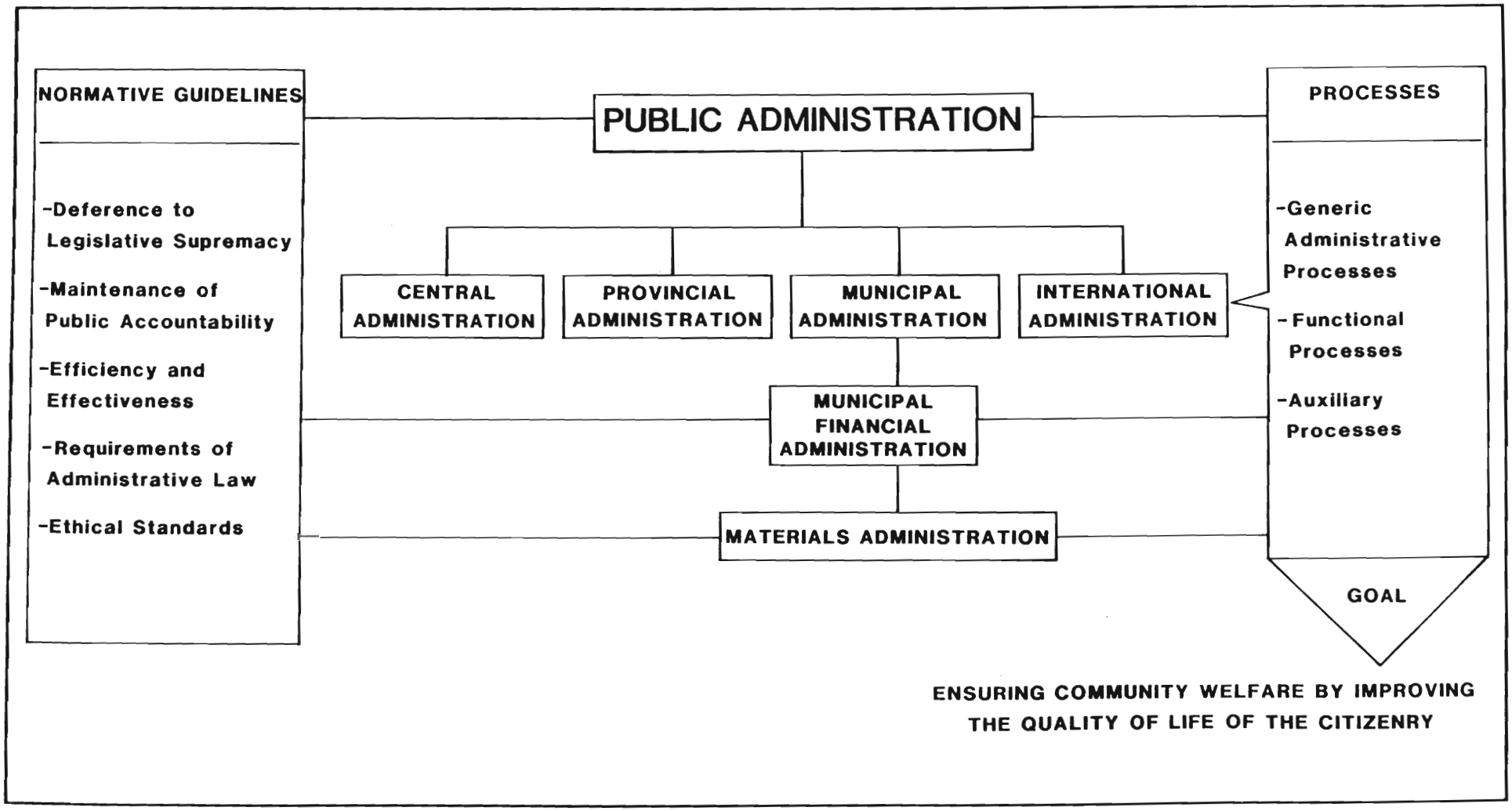
The goal of municipal financial administration is to ensure the effective and efficient utilisation of financial resources to attain a certain degree of community welfare for the citizens.

In the manner that municipal administration is considered to be a specialised activity of the comprehensive field of public administration and municipal financial administration as a specialised field of activity of municipal administration, in the same sense, materials administration is considered to be an integrated component of municipal financial administration. This aforementioned viewpoint is illustrated in Figure 2.

As is evident from Figure 2, all these specialised activities, utilise the generic administrative processes, to achieve their functional goals, with the use of auxiliary activities. All these activities ultimately culminate in the primary goal of public administration, which is the improved quality of life of the community.

FIGURE 2

LOCUS OF MATERIALS ADMINISTRATION WITHIN MUNICIPAL ADMINISTRATION



A substantial part of municipal financial administration is materials administration, which entails the primary functional aspects of purchasing and inventory activities that provide goods and services to the municipal user-departments for the execution of both the functional and support activities of the municipality.

The budget is fundamental not only to municipal financial administration but to materials administration as well. Without funds the materials administration activity cannot be undertaken.

In the following discussion the impact of materials administration within the municipal environment shall be highlighted.

7 MATERIALS ADMINISTRATION

Materials administration comprises of the generic administrative, functional and the auxiliary processes. The functional processes comprises of the purchasing and inventory functions.

Morrison (1967 : 1-2) stresses the importance of the functional aspects when he writes :

> "Stores and purchasing are largely inter-dependent and any inefficiency or lack of co-operation on either side is soon reflected in the other. To cope with the whole supply problem in modern conditions, a complete 'dovetailing' of these two functions is essential".

Ritterskamp, Forrest & Ahrens (1968 : 118) highlight the situation in the private sector by stressing that the purchase and control of materials including general inventory, planning and control is the specific responsibility of the purchasing department.

Westing, Fine & Zenz (1976 : 4) stress the impact of materials administration as follows:

> "Materials, supplies and equipment are the very lifeblood of any functioning industrial concern, governmental agency, or commercial operation. No organisation can operate without them. The efficiency of any business is contingent upon having them available...".

From the aforementioned views it is clear that the primary functional activities, constituting materials administration are as follows :

- the purchasing function; and
- the inventory function.

It is also pertinent to note that these activities cannot be executed without finance. In short, purchases cannot be made until funds are made available. Consequently, budgeting is an important function which provides the initiative for the other activities to take place.

Ritterskamp et al (1968 : 9) emphasises the significance of the budgeting function when they state that :

> "Through a centralised purchasing department it can be made a standard practice to require each purchase request to be charged against a departmental appropriation prior to

placing an order. Such a system, properly followed should provide better budgetary and financial control".

Hence, the purchasing and the inventory functions are the primary functional activities constituting materials administration. This view is supported in practice as a similar position exists in the numerous municipalities in which this study was undertaken.

7.1 Activities Constituting Materials Administration

Materials administration within municipalities is a peculiar and distinct field of activity comprising of numerous processes executed by municipal functionaries. These processes can be classified into three groups :

(i) the generic administrative processes comprising of :
- policy-making;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

(ii) the functional processes are as follows :
- purchasing function; and
- inventory function.

(iii) the auxiliary processes consisting of, inter alia :
- electronic data processing;

- collecting and analysing statistics; and
- research.

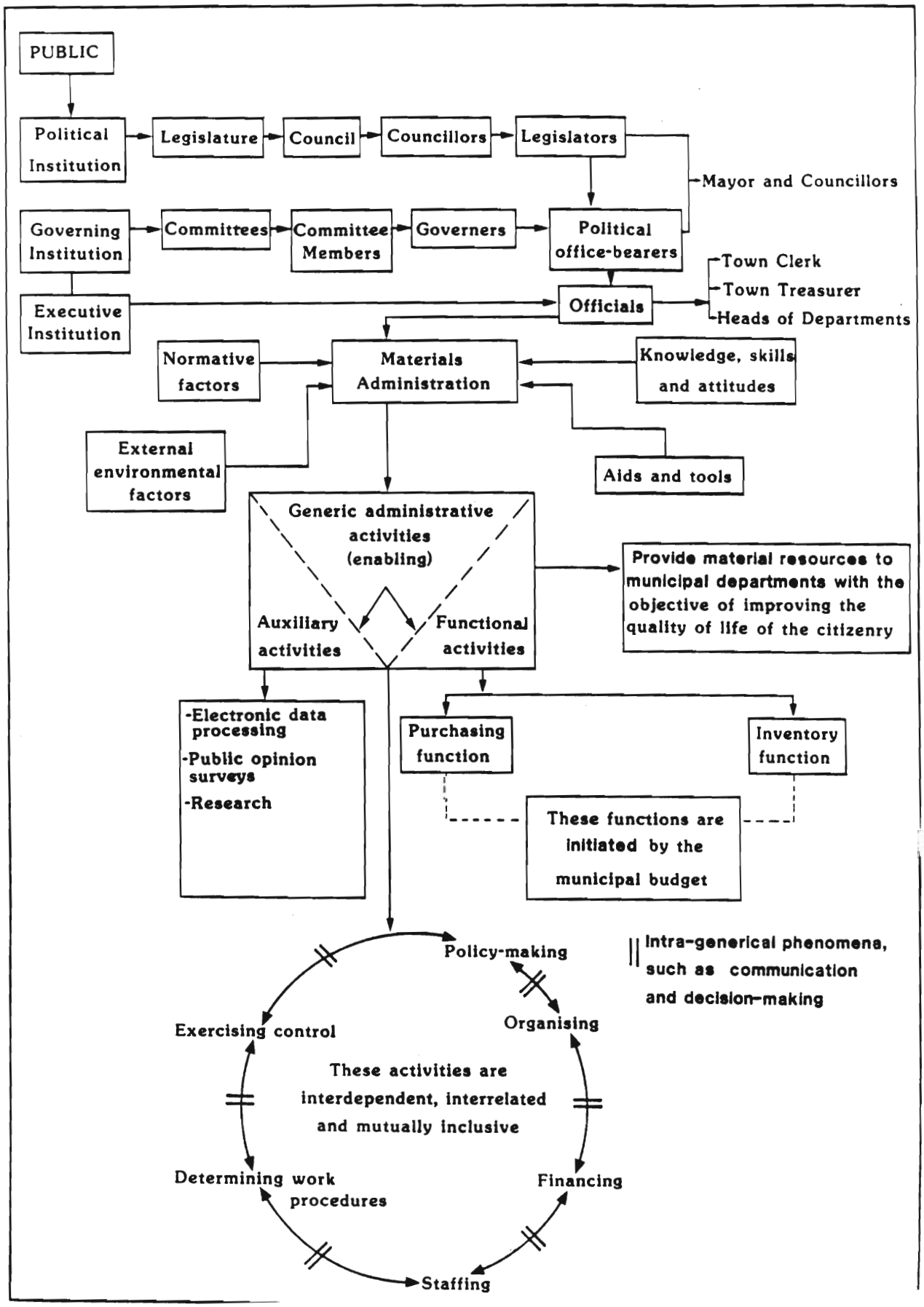
Figure 3 reflects the aforementioned processes.

It should be noted that the functional and auxiliary activities can only be undertaken simultaneously with or after the administrative activities. The functional activities, as stated constitute two primary component activities, namely, purchasing and inventory functions. The auxiliary activities are essential for the effective and expeditious execution of both the generic administrative activities and the functional activities. For example, in the purchasing function, it may be necessary to collect and analyse information from various supplies on a commodity that the municipality wishes to purchase; it may institute an opinion survey amongst user-departments on the type of items which should be purchased for stock or for purposes of standardisation.

Intrinsically interwoven into materials administration is the human element which determines to a large extent the success or failure of this activity. Although the two primary functional activities are inter-related, these still require divergent skills, attitudes knowledge and behaviour of personnel responsible for its execution. For example, the purchasing officer must understand the prevailing market conditions, both in the wholesale and retail market, whilst the storeman or store-keeper must be aware of the "fast-line" items in order to ensure adequate stock levels at all times. Moreover, functionaries must take cognisance of the intra-generic phenomena, such as planning,

FIGURE 3

STRUCTURES AND ACTIVITIES
CONSTITUTING MATERIALS ADMINISTRATION



communication and decision-making which are fundamental to the proper execution of these activities. Furthermore, the performance of these functions require the observance of the normative guidelines of public administration.

The use of technological aids, such as, computers in materials administration is in fact now a reality. Computerisation of all budgeting, purchasing and inventory data facilitates the speedy storage, retrieval and analysis of information. This process greatly assists the officials in executing the activities constituting materials administration. For example, in the Port Elizabeth Municipality all stock have been computerised and when a certain level of stock is reached, the computer is programmed to immediately reflect re-order quantities. This provides vital data to the storeman and the purchasing officer who must act promptly to remedy the situation. This also serves as a control mechanism.

The goal of materials administration is to contribute to the primary goal of community welfare at the municipal level of government. The sub-goals of materials administration aims at providing a service to departments and could be classified as follows :

(i) executing and promoting the purchasing function to ensure continuity of activities, such as provision of sanitation and electricity services.

(ii) the inventory function entails, receiving, issuing and recording of all goods and services purchased by the municipality as they represent a financial value. A major part of the municipality budget is invested in stock items of an expensive nature. This represents a capital investment and hence the necessity to maintain proper record and control.

The activity of materials administration takes place in a financial milieu. Its locus within the municipality is peculiar to two specific sectors. A sector of suppliers outside the municipality and a sector of user-departments within the municipality. On these two frontiers the functionaries charged with materials administration are required to serve to ensure the achievement of objectives and goals of the materials administration section as well as that of the municipality.

8 LEGISLATIVE MEASURES AND POLICY DIRECTIVES

In South Africa, municipalities are the third tier of government. These institutions act primarily to provide goods and services and generally deal with local affairs within their specific jurisdiction (Craythorne 1980 : 13).

Municipalities in South Africa are subject to numerous by-laws (passed by the municipal council), existing provincial ordinances, and acts passed by Parliament. In the South African system the municipal tier of government is subject to the provincial and central tiers of government.

Municipalities also have the authority to legislate in order to be able to administer matters peculiar to their area of jurisdiction. In terms of legislative measures, the municipal council is the highest authority responsible for government and administration of the municipality. The town clerk is the chief administrative and executive officer responsible for the continued, daily activities of the municipality. In turn the town clerk delegates specific administrative and functional activities to senior municipal functionaries, such as heads of departments, for example, city engineer, city treasurer and the city medical officer of health. This generally applies to all municipalities studied.

The materials administration section falls under the city treasurer's department in all the major municipalities such as Cape Town, Durban, Johannesburg, Port Elizabeth and Pretoria.

The legislative basis for the creation of the materials administration section is vested in provincial ordinances. In the four provinces, these ordinances are as follows :

- Cape Town : Municipal Ordinance 20 of 1974;
- Natal : Local Authorities Ordinance 25 of 1974;
- Orange Free State : Local Government Ordinance 8 of 1962; and
- Transvaal : Local Government Ordinance 17 of 1939.

The Black local authorities fall under the jurisdiction of the Black Local Authorities Act 102 of 1982.

The above ordinances of the provinces deal specifically with municipal councils for Indians, Coloureds and Whites, whilst the Black Local Authority Act, 1982 provides for Black municipalities.

A review of specific sections of these ordinances and acts reveal aspects pertinent to materials administration which will be highlighted in the chapters which follow.

From the aforementioned, it is evident that materials administration as an activity has a legislative basis. Municipalities are expected to abide by the measures stated therein. Within this broad framework specific details on the manner in which materials administration is to be performed is left to individual municipal councils. In this regard, rules and regulations are formulated and approved by councils to attain the object of materials administration.

9 ROLE OF REPRESENTATIVE ORGANS AND OFFICIALS

Representative organs namely, the municipal council and municipal committees together with the municipal officials such as, the town clerk, town treasurer and heads of departments play a prominent role in municipal government and administration.

Cloete (1978 : 124) stresses that the governing functions of a municipal council entails the division of work among :

- the council;

- its committees; and
- its members.

Since materials administration is an integrated part of municipal financial administration, the role of representative bodies and officials shall be highlighted within this context.

9.1 Municipal Council

Roux (1975 : 116) states that South African municipal authorities reflect individual and growth differences in almost every aspect, size of population, area of jurisdiction, constitution, nature of duties and powers. In a sense this categorisation is given relevance in the Remuneration of Town Clerks Act 115 of 1984, which provides for the grading of municipalities.

Since municipal authorities represent the third tier in a three tier unitary structure, they operate within the provisions of acts of parliament and provincial ordinances and municipal by-laws (Cloete 1989 : 80). For example, in Natal, the Local Authorities Ordinance 25 of 1974, prescribes, inter alia, powers, functions and sources of revenue for municipal authorities (Cloete 1989 : 127). Parliamentary legislation affects certain municipal activities in so far as such activities are of national relevance (Cloete 1989 : 114). In this regard provisions of, inter alia, the following acts are of relevance (Cloete 1989 : 115-121) :

- Water Act 54 of 1956;
- Electricity Act 40 of 1958;
- Health Act 63 of 1977;
- Atmospheric Pollution Prevention Act 45 of 1965;
- Housing Act 4 of 1966; and
- Physical Planning Act 88 of 1967.

The municipal council is the highest body which is responsible for the realisation of municipal goals (Sharpe 1975 : 29). It provides the bedrock for systematic government and administration of municipal affairs (Cloete 1978 : 3). The functions of the municipal councils may be divided into two groups (Cloete 1978 : 123) :

- government functions which entails the determining of needs of the citizens and measures to satisfy their needs by providing communical goods and services; and

- administrative functions which link the governing function of the council and its committees to the administrative functions performed by officials within the municipal authority.

The following explanation by Cloete (1978 : 4) highlights these two types of functions:

> "...municipal government and administration are two clusters - two separate categories of functions which must be performed to create and to maintain cities, towns, and villages which are physically and socially such satisfactory urban communities that the quality of life will be the best possible attainable with the available resources".

It acts as a public authority which is concerned with the regulation of civic and related matters by promulgation of by-laws in such areas as, inter alia, public health, fire prevention, traffic control, building control, town planning and public recreation (Meyer 1978 : 820). The by-laws have relevance and application only within the municipal area concerned (Sing 1983 : 30). Municipal councils cannot do anything which is not specifically or by implication delegated to them in terms of legislations of higher authorities, such as the provincial and central government (Craythorne 1979 : 10). Any part of a municipal by-law or regulation which is contradictory to an act of parliament or a provincial ordinance, is considered ultra vires, having no valid force and effect (Cloete 1989 : 51). Furthermore, every by-law or regulation passed by the municipal council must be approved by the provincial administration after which it is published in the official Gazette of the respective province before it can be implemented (Cloete 1989 : 84).

9.2 Municipal Committees

In South Africa two types of municipal committee systems are in use (Cloete 1989 : 94-111). Firstly, there is the multiple committee used primarily in Natal and the Cape Province (Cloete 1989 : 94-95). Secondly, the single or the management committee system used in the Transvaal, Orange Free State as well as by Black local authorities (Cloete 1989 : 101-107). This does not necessarily mean that these provinces are restricted to a particular system, for example major municipalities such as Durban (in Natal) and Cape Town (in the Cape Province), use the management committee system.

Without going into details, it is suffice to say that each system has its own advantages and disadvantages (Cloete 1989 : 89-111). Of significance, is the fact that the system used by the municipal council has relevance for municipal financial administration in general and materials administration in particular.

In this regard the multiple committee system divides work into specific categories such as, finance, general purpose, health and amenities. These activities are delegated to these committees by the municipal council and are performed by councillors (Craythorne 1990 : 156). Cloete (1989 : 98) differentiates between vertical and horizontal committees. The vertical committees are concerned with specific functional activities such as public parks and recreation, transport, traffic control and health. The horizontal committees are involved with co-ordinating functions in the area of finances, materials, personnel and policy (Cloete 1989 : 98).

With reference to the multiple committee system, the finance committee plays a vital role in municipal financial administration and in the field of materials administration.

For example, in Natal, the establishment of a finance committee is mandatory. In terms of Section 87 of the Natal Local Authorities Ordinance, 25 of 1974 :

> "(1) The council shall -
>
> (i) appoint itself a finance committee, or
>
> (ii) in lieu of so appointing itself, appoint a financial committee from amongst its members".

Cowden (1969 : 322) emphasises the value of the finance committee under a multiple committee system as follows :

> "(A) finance committee serves a useful purpose of focusing attention on financial matters. Even where the appointment of a finance committee is not obligatory, it has always been the practice to appoint one in order that the finances of the local authority can be seen as a whole and the proper advice given to the council on the effect of expenditure on the level of taxation..."

The following are some of the functions performed by a finance committee (Cowden 1969 : 322-323) :

(a) the regulation and control of finances of the municipal authority and to advise the council on all financial matters.

In the above regard Marshall (1969 : 243) emphasises that:

> "... there is need for continuous oversight of the finances and financial machinery : examining the financial position of the council, comparing financial performances... devising and supervising the financial administration, including the financial records and the arrangements for the receipt and payment of monies".

(b) to formulate financial regulations and procedures for the guidance of the council, its committees and officials;

(c) to prepare and submit to the municipal council the annual estimates of income and expenditure;

(d) to consider and report to council on all proposals concerning income and expenditure, capital finance, the valuation and rating of all property within the municipal authority and the insurance against fire and other risks;

(e) the supervision of the finance department; and

(f) to prepare and publish abstracts of annual accounts and reports on council finances for the information of the council and the public.

As an alternate to the multiple committee system, the Marais Commission (1955) recommended the introduction of the management committee system in the Transvaal (Cloete 1989 : 107). This system was extended to the Orange Free State as a result of the findings of the Eksteen Commission, which investigated the Orange Free State's system of municipal government and administration (Cloete 1989 : 102).

Once the council is elected, the members must then appoint a singular management committee comprising of a selected number of councillors. The management committee is subject to the authority of the full council and primarily concerned with the following financial activities:

- to prepare the annual estimates of income and expenditure; and
- to supervise the safe-keeping and expenditure of all funds as well as the spending of budgetted funds.

Within the management committee system, financial matters are clearly stipulated in the provincial ordinances and include the following (Cowden 1969 : 324) :

(a) the preparation of estimates of revenue and expenditure; and

(b) control over the expenditure of all money's voted by the council in its approved estimates and all other moneys and funds made available to the council.

The aforementioned aspects of municipal financial administration holds true for all management (executive) committees in Durban, Cape Town, Orange Free State and Transvaal (Craythorne 1990 : 164).

From the foregoing, it is evident that committees play a vital role in municipal financial administration. Since materials administration is an integrated sphere of the activity of municipal financial administration, the following aspects are of particular concern to the finance and the management committees (Pretorius 1990 : interview) :

- nature of goods and services acquired by the user-departments for the continuity of services rendered by the municipal authority, for example,

  * capital equipment, plant and machinery;
  * mechanical, electrical and civil engineering materials;
  * maintenance equipment and components;
  * stationery;
  * automobile spares; and
  * health and medical supplies.

- value of such purchases for current financial year;

- value of purchases for inventory stock;

- value of items scrapped and deleted from stock; and

- value realised from the sale of surplus, obsolete, redundant and scrapped equipment.

Furthermore, the tender committee plays a vital role in respect of the purchase of municipal services and equipment. Specific regulations govern the purchase of goods and services within the municipality. The tender system is also used for the sale of surplus, redundant and scrap materials as well.

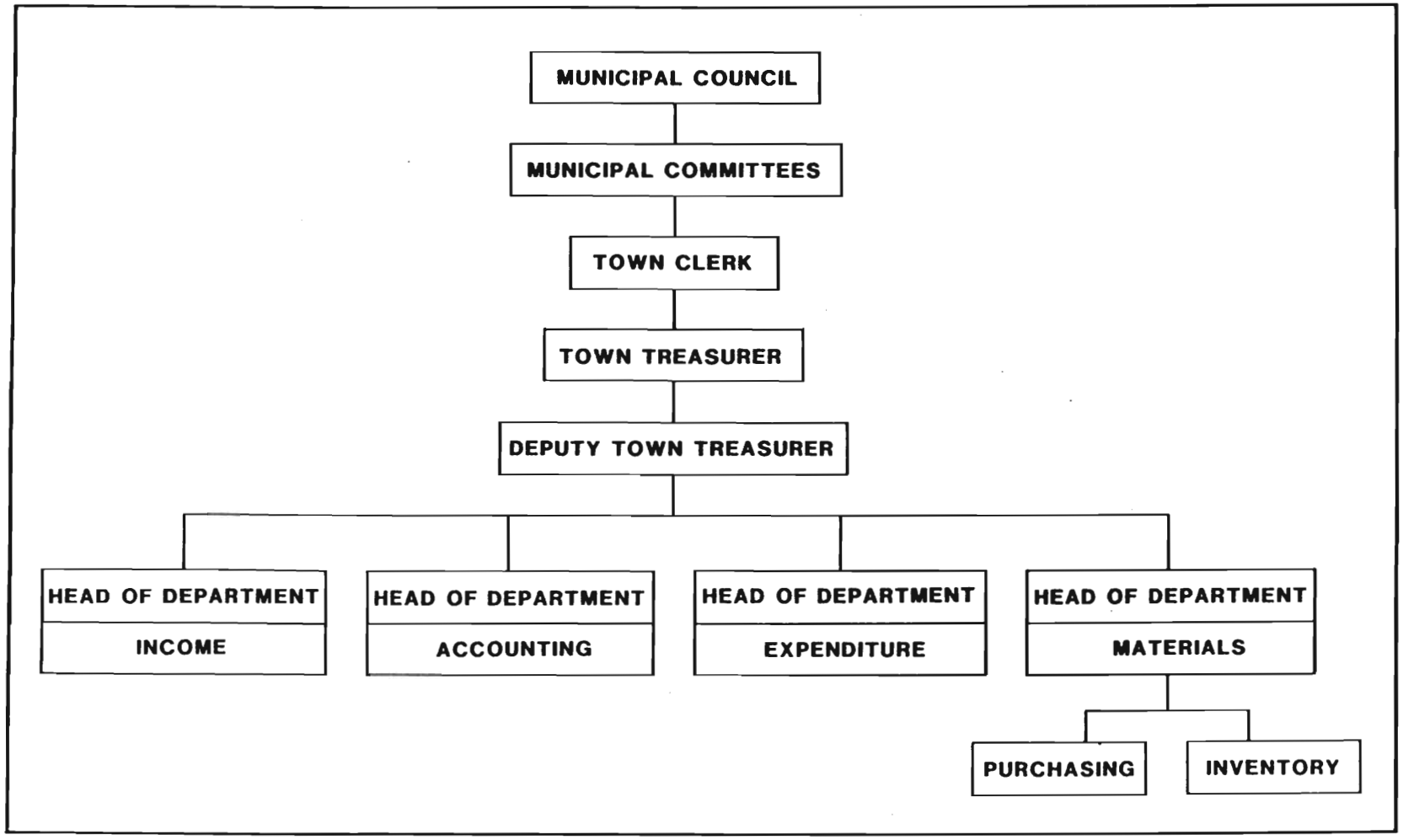
An important component of municipal financial administration is the role of the department of finance, which is charged with execution of financial policies. Moreover, the activity of materials administration falls under the department of finance and is the direct responsibility of the municipal treasurer. Figure 4 reflects the organisational structure of a municipal finance department.

The foregoing structure simplistically reflects the hierarchial nature of the municipal finance department. It is apparent that both the vertical and horizontal relationships are necessary to ensure, inter alia (Cloete 1987 : 87) :

- even distribution of work;
- co-ordination;
- equitable distribution of power and authority;
- correct lines of communication; and
- establishing control measures.

FIGURE 4

TYPICAL ORGANISATIONAL ARRANGEMENTS OF A MUNICIPAL FINANCE DEPARTMENT



Cowden (1969 : 329) stresses that the organisational structure of the finance department is an important factor in the overall efficiency of financial control.

Municipal committees, such as the finance, and management committees are staffed by municipal councillors. In providing municipal goods and services councillors must ensure the equitable distribution and prudent use of scarce financial resources with due consideration of such normative factors as, fairness, reasonableness and justice (Craythorne 1990 : 58).

9.3 Municipal Councillor

Councillors are either elected or nominated to the municipal council by the electorate within a municipal jurisdiction. Cloete (1989 : 55) is of the view that wide public participation is necessary in the government and administration of civic matters, so that the local community is truly representative of the council, which is vested with powers to deliberate and decide on their behalf.

Craythorne (1990 : 27) provides a lengthy discussion on the role of the councillor; two of the more important functions he emphasises are the representative capacity of councillors and their decision-making functions. In representing their constituencies, councillors must serve public interests and ensure that all decisions are fairly and judiciously considered and applied for the benefit of a municipality as a whole (Craythorne 1990 : 27). Councillors in serving the public interest must not seek to enrich themselves. The various provincial ordinances provide at length regarding offences and

prohibitions of councillors. Craythorne (1990 : 177) emphasise the impact of rules and regulations in regard to the conduct of councillors as follows :

> "The object of these rules and sanctions is not to inhibit the councillor in the performance of his duty but to recognise that as an elected representative he occupies a special position of trust and that the utmost probity and honesty are demanded of him; depending on the size of the municipality, the welfare of thousands of people depend on councillors performing their duties honestly and as openly as possible".

From the foregoing, it is evident that councillors as public representatives must operate within prescribed limits and in the interests of the municipality as a whole.

In the performance of their civic duties, councillors are assisted by municipal personnel.

Stahl (1976 : 16), a foremost American writer, reinforces the importance of personnel when he defines personnel administration as "the totality of concern with human resources of (an) organisation".

It is not intended here to discuss the total staffing function within the municipality, but to provide an overview of the most important role players within the context of municipal financial administration. Particular attention would thus be focussed on the functions of :

- the town clerk;
- the city treasurer; and
- the heads of department.

By virtue of his position the town clerk can be held accountable for any actions or inactions of municipal employees (Kotzé 1985 : 455).

Kotze (1985 : 455-456) appropriately explains further that:

> "... hy verantwoordelikheid moet aanvaar vir die administratiewe en funksionele bedrywighede van die verskeidenheid amptenare van die raad... alhoewel die stadsklerk as rekenpligtige beampte aan die raad verantwoording verskuldig is, alle amptenare op hul beurt aan hom verantwoording verskuldig is, daarom moet hy die verantwoordelikheid vir hul handelinge aanvaar".

9.4 The Town Clerk

The town clerk plays a dynamic role within the municipal authority. The importance of his position is highlighted by the fact that statutory provisions specifically prescribe his role and responsibilities. For example, in Natal, Section 119 of the Local Authorities Ordinance 25 of 1974, provides for the municipal council to appoint a town clerk.

The town clerk's pivotal role in municipal government and administration was emphasised by the Marais Commission as well as by the Browne Committee (Evans 1985 : 2-3). Both these bodies stressed the importance of the role of the town clerk and the need for his proper training, status and recognition (Evans 1985 : 2-3). Parliament's approval of the Remuneration of Town Clerks Act 115 of 1984, which provides for determination of remuneration and other service benefits for the chief executive officer of the municipality, further reinforces how indispensable the position of the town clerk is within the context of municipal government and administration.

(Heugh 1980 : 8) regards the town clerk as the very kingpin of the municipality and says that on the wisdom of his guidance depends the progress of the municipality.

The town clerk is both the chief executive and administrative officer of the municipal council. The following are pertinent executive functions of the town clerk which have financial implications (Cloete 1981 : 9 adapted) :

- in executing the financial decisions and directions of the finance committee and council, he provides advice and guidance to his subordinate officials, such as, the town treasurer, materials manager, town engineer, town planner and the medical officer of health, emphasising the necessary steps that have to be taken to give effect to the financial decisions and directions;

- in rendering accounts both to the finance committee and council of the outcome of the specific financial decisions and directives that were implemented and recommending corrective and remedial measures where necessary;

- in actively participating in governmental relations, communications are made vertically with provincial and central authorities as well as horizontally with other municipalities in regard to the execution of municipal financial administrative functions of the council, the finance committee and officers; and

- in communicating with interest groups and citizens about the financial implications of goods and services rendered by the municipality provides a feedback to the finance committee and council about the merits and demerits of the financial policies of the council.

Within the financial administrative context the following functions of the town clerk are considered important (Cloete 1981 : 9-11 adapted):

- views the financial proposals from the heads of departments and makes recommendations in this regard to the finance committee and council.

- investigates current and future municipal services and provides finance committee and council with financial implications and recommendations.

- co-ordinates the financial activities of municipal departments, ensuring efficiency and effectiveness in achieving departmental objectives.

- reviews periodically the existing organisational structure of all municipal departments in regard to cost-effectiveness of goods and services provided weighed against the financial resources available to the municipality.

- scrutinises the municipal staffing establishment with emphasis on the efficient and effective utilisation of available manpower within the financial resources of the

municipality.

- liaises with heads of departments and in particular the municipal treasurer in the determination of municipal financial needs and the preparation of the budget.

- regularly surveys departmental work procedures with a view to ensure cost-effectiveness in the manner work is performed and in the ultimate achievement of specific departmental objectives; and

- responsibly ensures effective financial control measures so that accountability and awareness is provided to both council and the public in the use of municipal funds.

From the above it is evident that each officer is held responsible for his specific functional task and is accountable to the town clerk. However, in the final analysis accountability for all activities of the subordinates rests with the town clerk who must answer to the municipal council.

In the financial sphere the town treasurer reports to the town clerk in respect of municipal financial administration.

9.5 Town Treasurer

The town clerk's responsibility and relationship with the town treasurer in municipal financial administration is emphasised as follows (Ennis 1967 : 115):

> "He has to exercise control of all financial transactions... He cannot of course do this directly, he has to do it through... such subordinate officials as may be necessary.

> But he is expected to exercise such supervision as is reasonably practicable and is normally assisted in this work by a Principal Finance Officer who is of senior status..."

The appointment of the municipal treasurer is set out in the ordinance of the respective provinces. Transvaal, is however the exception to the rule, as the Transvaal Local Government Ordinance, 1939 does not specifically make mention of the treasurer's appointment. For example, the Orange Free State Ordinance of 1962, reads as follows :

> "67(1) A council shall appoint... a treasurer and such other employees as it may consider necessary for the proper performance of its functions..."

Gildenhuys (1989 : 190) further substantiates the important role of the treasurer when he writes :

> "Die amp van hoof-finansiele beampte op die plaaslike owerheidsvlak, moet ten spyte van die veronderstelde rol van die hoofamptenaar in die finansiele administrasie, nie ligtelik opgeneem of onderskat word nie. Die hoof-finansiele beamptes van plaaslike owerhede het tradisioneel 'n trotse rekord en geniet as gevolg van konvensie hoe status en aansien en is besonder bewus van die professionaliteit van hulle beroep".

It therefore is obvious that the treasurer has a traditional and proven record to maintain as the chief financial officer of the municipality. He has to ensure the professional integrity of his occupation in the municipal financial sphere. In recent times municipal financial administration has become so complicated and intensive that specialised functionaries, such as accountants, cost accountants, programmers and financial economists are needed to assist the treasurer (Gildenhuys 1989 : 1901). One of the

primary functions of the treasurer is to develop an integrated financial system, and having obtained the approval of the town clerk, implements the system in the various departments and divisions, thereby providing a co-ordinated policy and procedure for financial administration (Gildenhuys 1989 : 190). Modern municipal financial administration demands that the treasurer be actually involved in the process of co-ordinating the policy of council, which is the responsibility of his department and supervising the financial activities of the various other functional departments so that account can be rendered on various facets of financial administration (Gildenhuys 1989 : 190).

Some of the other important functions of the treasurer are, inter alia (Marshall 1974 : 287-288) :

1. In a general sense, the treasurer functions both as an accountant and financial adviser to the council. He is responsible for inter alia, the :

   (a) financial administration of the municipality;
   (b) administration of his department;
   (c) training and development of finance department personnel; and
   (d) reporting annually to council on the financial structures of the municipality with recommendation for future development.

2. To provide, develop and operate a centralised accounting system for the municipality by ensuring the :

(a) supervision of all financial records;

(b) preparation of accounting manuals;

(c) preparation and submission to committees, council, and auditors the accounts relating to all council's activities;

(d) prompt supply of financial data to departments, committees and council when needed; and

(e) control of all municipal assets.

3. To develop and maintain a central audit system by :

(a) auditing all financial records of all departments;

(b) reporting to committees and council on the work of the internal audit and the state of financial records in each department; and

(c) promptly reporting to committees and council irregularities discovered during the process of audit.

4. To ensure payments by making arrangements for the :

(a) verification of all accounts for payment;

(b) payment of allowances, salaries, wages and pension; and

(c) preparation, signing and despatching of all cheques and similar documents.

5. To make all arrangements for income of council by :

(a) collecting and recovering of all moneys due to council;

(b) handling, custody, security and banking of cash;

(c) the maintaining and proper custody of stocks of all receipts, tickets and similar documents.

6. To participate in the planning and supervision of the council's annual budget in conjunction with the town clerk and heads of departments by :

(a) co-ordinating and controlling the annual estimates and participation in evaluation and appraisal exercises;
(b) submitting estimates to operating committees;
(c) forwarding summaries and reports to finance committee or management committee;
(d) reporting over-expenditure or unauthorised expenditure of the budget.

7. To administer all funds of the council subject to the town clerk, finance committee and council by :

(a) ensuring available money is suitably invested; and
(b) advising finance committee and council on raising of capital funds.

The important role the treasurer plays in municipal financial administration cannot be underplayed. He is the hub of the administrative wheel and is in fact the town clerk's right-hand man in the day to day administration and planning of the municipality's activities (ICMS : 1962 : 13). In particular the materials administration function falls under the jurisdiction of the city treasurer. Therefore, he must closely work with materials administration functionaries, such as the controller of

purchasing and stores.

9.6 Heads of Departments

Finance is required to attain the objectives of every municipal department. In this regard (Gildenhuys 1989 : 199) says :

> "By die ander departemente is finansiele administrasie toevallig en aanvullend tot die hoofdoel".

It is the onus of the municipal council, finance committee and treasury officials to ensure that the receipt, custody and spending of funds in the municipal departments take place in a proper and responsible manner (Kotze 1985 : 418-420). The important role of heads of departments in municipal financial administration is stressed by Gildenhuys (1989 : 199) as follows:

> "Die nuwe geintegreerde benadering tot bestuur en administrasie dwing departementehoofde om 'n groter rol in finansies te speel... Finansiele administrasie maak gevolglik 'n noemenswaardige deel van die taak van 'n departmentehoof uit".

The head of department must accept that he is both responsible and answerable for the finances of his department (Gildenhuys 1989 : 199). In this light, he is the accountable officer of his department's finances and is answerable to the chief executive officer (Gildenhuys 1989 : 199).

The departmental budget provides the basis for financial administration by the head of department. In this context, (Gildenhuys 1989 : 200) writes :

> "Die goedgekeurde departementele begroting is die werkprogram van die betrokke departement; daarom is dit

> logies dat die departementshoof vir die doeltreffende en effektiewe uitvoering van sy departement se begroting regstreeks verantwoordelik behoort te wees."

In this regard, the head of department must therefore ensure the purposeful and effective execution of the departmental budget for which he is responsible. Consequently, it is essential that together with the chief financial officer of his department he determines budgetary measures which would ensure adequate control over the expenditure of funds (Gildenhuys 1989 : 200).

In this context, heads of departments and other senior functionaries entrusted with financial duties, inter alia, perform the following functions (Van Straten 1985 : 423-424):

- compiling of financial reports and the preparation of the draft departmental budget;
- determining what goods and services are required for the following financial year and its financial implications;
- identifying new requirements and obtaining the permission of the committees of council, and if these are accepted, providing accordingly in the draft budget;
- ensuring that the financial rules and prescription of the treasury are strictly adhered to;
- ensuring that all departmental transactions with financial implications are thoroughly checked; and
- providing information to town clerk, treasurer, committees and council about present or new services for which provisions in the budget must be made.

Both the town clerk and treasurer play an important role in determining work procedures in municipal financial administration.

In the municipal public sector, the basis for determining work procedures generally arises from policy-making in particular from acts, provincial ordinances and financial regulations (Cloete 1986 : 178). These instruments which have the force of law, thereby regulate the conduct of public officials and sets the limits as to what they may and may not do (Cloete 1986 : 178).

One of the prominent roles of the municipal council as a policy-making body is to formulate and approve work procedures in order that the municipality achieves its goals (Cloete 1989 : 80). In this regard it must also consider the effects of the legislation passed by both central and provincial governments (Craythorne 1990 : 17-21).

In municipal financial administration, the chief executive officer and the municipal treasurer must ensure that distinct and documented procedures have been established for, inter alia :

- an accounting system: for the maintenance of a centralised accounting system and the supervision of all financial records.
- a payments system: which ensures the verification of accounts, including salaries, wages and pension, and the preparation, signing and submission of all cheques and similar face value documents.

- an auditing system: which maintains an internal audit programme in respect of all financial records of the department, and which reports all discrepancies and irregularities promptly to the committee concerned.
- a budgeting system: which ensures a systematic and uniform procedure for the preparation submission approval and control of the annual budget of the municipality.
- a revenue system: which provides for the collection and recovery of moneys due to the municipality, and effectively handles the custody, security and banking of funds.
- an investment system : which prudently administers all funds of the municipality ensuring that funds which are not immediately committed are suitably invested.
- a purchases and inventory system : which ensures that the purchasing and inventory system employed are both efficient and effective as they commit the municipality to huge sums of money, for goods and services. Of primary importance to materials administration is the budgeting system and the purchasing and inventory systems.

No procedural process must be inflexible to change. It is therefore incumbent on the council, its committees, the town clerk, the town treasurer and the heads of the departments to ensure the orderly and smooth functioning of municipal departments in order to achieve its objectives. Consequently, all procedures should be subject to review from time to time to ensure that where possible changes could be effected (Cloete 1986 : 168-170).

Once work procedures have been determined it is necessary to ascertain whether such procedures are in fact resulting in the achievement of the expected goals. In this respect the generic administrative activity of control becomes imperative.

Control ensures evaluation and appraisal of the functioning of the municipal council to ascertain whether its goals are being achieved both efficiently and effectively.

The control process within the sphere of municipal finance cannot be over-stressed. Since every activity of the municipality has financial implications, Cloete (1978 : 79-88) rightly states in this regard that personnel must work in such a manner that account can be rendered to the effect that all processes concerned have been carried out at the least cost but the highest possible achievement of objectives. Robbins (1976 : 370) further lends support to this view and in the process recommends remedial action when he states that :

> "... the process of monitoring activities to determine whether individual units and the organisation itself are obtaining and utilising their resources effectively and efficiently so as to accomplish their objectives, and where this is not being achieved, implementing corrective action".

Within the municipal financial context, control is rendered in a two-fold manner, namely, internal and external control. Internal control is exercised within the framework of the generic administrative processes as follows :

(i) municipal policy-making for financing which demarcates the field and sets out objectives e.g. financial regulations. Cowden highlights the value of financial

regulations when he states :

"... in ensuring uniformity and regularity in administration tend(s) to have a stabilising effect on the finances of a local authority" (Cowden 1969 : 334).

(ii) organisational arrangements for financing, which determines the structure of the department of finance, delegation, division work, co-ordination and communication.

(iii) the determination of specific work procedures for finances which functionaries must follow in regard to, inter alia, accounting systems, budgeting systems, auditing systems, revenue systems and purchasing and inventory systems.

(iv) the financial requirements, since the programme of work has to be set out in detail when the municipal councils are asked to approve the annual budget.

(v) the provision and utilisation of personnel is important to ensure that the goals of financial administration are being achieved.

Other forms of internal control which apply at municipalities, include inspections, cost accounting procedures, statistical returns, reporting on work activities and the minutes of the meeting of committees and the council.

The chief executive and administrative officer must accept full responsibility for municipal financial administration at the municipal level of government. He is guided by the municipal council and committees in this matter.

Gildenhuys (1989 : 204) strongly and aptly emphasises the dynamic role of the town clerk, in this regard :

> "Alle plaaslike owerhede stel hoof-administratiewe en uitvoerende beamptes aan wat terselfdertyd die hoof-rekenpligte beampte is, wat verplig is om aan die plaaslike uitvoerende gesag oor die doeltreffendheid en effektiwiteit van die plaaslike finansiele administrasie rekenskap te gee. Die hoofamptenaar op die plaaslike owerheidsvlak behoort die leiding en die inisiatief te neem met die formulering en uitvoering van finansiele belied. Dit is die taak van die hoofamptenaar om sy raad van te moedig om die finansiele administrasie effektief en doeltreffend te laat verloop".

External control of finances is affected mainly within the statutory provisions of legislation, provincial ordinance and municipal by-laws (Cowden 1969 : 332). In this regard legislation provides for, inter alia, the framing of municipal budgets, the maintenance of proper accounts, and the auditing function (Cowden 1969 : 333-334). While the general legislation, promotes a broad framework for action, there is a need for precise and clearly stated financial control which should be in a form of a code of regulations approved by the municipal council (Cowden 1969 : 334). In South Africa, the Institute of Municipal Treasurers and Accountants, provides a booklet : 'Guidelines for Standardised Financial Regulation for Local Authorities', March 1989, which sets out general guidelines of financial control in respect of, inter alia :

- estimates and borrowing;
- accounting and costing;
- control of records;

- control of payments;
- staff records and payments;
- internal control;
- internal audit;
- assets;
- investments;
- clearance;
- tenders, quotations and contracts;
- stores and materials; and
- miscellaneous aspects.

In South Africa, auditing is provided for in the provincial ordinances and the Black Local Authorities Act 102 of 1982 which provides for the auditing of the accounts of black municipalities (Cloete 1989 : 130). The auditing practices at the three tiers of authority in South Africa is now under the jurisdiction of the Office of the Auditor-General. In terms of Section 1 of the Auditor-General Act 52 of 1989, a municipal authority is included in the definition as a statutory body. Consequently, municipal authorities are subject to audit by the Auditor-General. Therefore, Section 5(2) accordingly provides as follows :

> "... the Auditor-General shall audit all the accounts of a statutory body and of all persons in the employment of such body entrusted with the receipt, custody, payment or issue of property, money, stamps, securities, equipment, stores, trust money and other assets under the control of that body".

The above Section bears specific relevance to the materials administration function as it is concerned with both the purchasing as well as the stores (inventory) function.

In Natal and the Orange Free State, public participation is called for when the public is notified in the press that the auditors reports are open for inspection and comment (Cloete 1989 : 131).

Auditing of the accounts of a municipality is an external control mechanism which is also used to enforce public accountability (Cloete 1989 : 131).
Public accountability together with the following normative factors serve as guidelines to functionaries in the execution of their tasks (Hanekom & Thornhill 1985 : 116-145):

- deference to political supremacy;
- efficiency and effectiveness;
- requirements of administrative law; and
- promotion of ethical standards.

10 NORMATIVE FACTORS

Functionaries should not only concern themselves with the execution of activities but should also strive to develop and promote an awareness of the peculiarity of the environment within which financial administration and materials administration is carried out.

This distinctiveness demands that functionaries should apart from performing their duties in accordance with the dictates of the generic administrative processes of policy-making, organising, financing, staffing, determining work procedures and exercising control; the functional processes and the auxiliary processes of public administration, in the last analysis also observe the normative factors that govern their conduct when performing their functions.

Before proceeding to explain the specific normative factors, the term 'normative' is explained.
The term 'normative' is derived from the word 'norm'.
The Shorter Oxford Dictionary (1978 : 1413) defines a 'norm' as a rule or authoritative standard.

The Concise Oxford Dictionary (1976 : 743) explains 'norm' to mean, "requirement of a standard quantity to be produced, amount of work to be done, as well as customary behaviour".

Funk and Wagnalls Standard Dictionary (1970 : 863) states that 'normative' pertains to a norm assumed to have the prescriptive value of a standard or rule of usage.

Isaak (1975 : 4) explains the terms 'normative factors' as being, 'moral', 'ethical' 'what ought to be', 'the best state of affairs' and 'standards worth striving for'.

From the above meanings, it could be accepted that 'normative' prescribes a specific standard of conduct or behaviour considered representative of a specific group. In this light, it is

expected that the actions of all public functionaries charged with the promotion of community welfare must be founded on the guiding normative factors or the normative guidelines. These guidelines provide the basis for correct and appropriate behaviour in the work environment in all public institutions. Consequently, municipal officials and in particular purchasing and inventory functionaries must conform to the specific normative guidelines when executing their duties.

10.1 Deference to Legislative Supremacy

Primarily legislative supremacy is a guideline that emanates from the political environment.

Deutch (1980 : 1) explains 'politics' and emphasises the administrative value concept as follows :

> "Politics deals with the interplay of interests - the claiming and distributing of rewards, that is, of values, things or relationships that people would like to have or to enjoy. Acting in politics and pursuing their interests, different individuals, groups, or even countries may co-operate or compete in regard to the allocation of values".

Implicit in this definition is that the actions and interactions of people result in the formation of a political system with the necessary support and authority to provide the community with spiritual and material benefits (Coetzee 1981 : 163).

Consequently, the municipal council which is responsible for the government and administration of the municipality must execute its functions within the prescribed legislation. All municipal officials must understand and carry out their functions in accordance with the relevant legislation as approved by

Parliament and the municipal council.

Parliament passes legislation which generally provides the broad parameters within which the public functionaries are expected to act (Cloete 1986 : 11). In other words, it determines the nature and extent of the activity of public institutions. The supreme authority over the affairs of the municipality is vested in the municipal council in terms of appropriate parliamentary acts and provincial ordinances. The council is responsible for determining the character and direction of the municipality by virtue of policies, rules and regulations.

Consequently, in the performance of their duties, the purchasing and inventory functionaries must always bear in mind that the council has been granted authority over their sphere of work and that it will have the final say in the matter (Cloete 1986 : 10). For this reason the officers are expected to carry out their functions in accordance with rules, regulations and guidelines set by council. Any deviations from the prescribed norms can only be executed with prior approval of council. If, for example, equipment is stolen, this matter must be reported to council and can only be written-off the inventory records once council approval is received.

Therefore, since the municipal council is vested with authority in regard to the objectives, goals and functions of the municipality, functionaries must respect its "political supremacy" status as the supreme and authoritative body of the municipality.

10.2 Maintenance of Public Accountability

It has been established that municipalities are public institutions. The State and its citizens must therefore be assured that the municipal authorities are rendering a service of an acceptable standard and quality and thereby fulfilling the purpose of their creation. These expectations demand the observance of the normative factors of public accountability. Before further elaboration it is necessary to briefly outline the meaning of 'public' and 'accountability'.

The term 'public' has many meanings. It means an 'openess' as opposed to 'personal' and 'private'.In the context of public adminstration it is a reference to people or communities who are served by state institutions.In this sense the term 'public' is usually identified as those who pay for social services and this includes the poorest of the poor who pay taxes on practically everything that is purchased. Therefore, either directly or indirectly, the public at large is financing all social services (Seetharam 1983 : 642).

'Accountability' means being able to justify what is done, how it is done and what it costs. It entails answerability for inputs, processes and outputs, in terms of money, material and manpower invested in any organised activity (Seetharam 1983 : 641).

From the aforementioned definitions, the term 'public accountability' could be explained as the necessity for all political office-bearers and public officials to be accountable or answerable to the people for their actions or inactions.

In the municipal context, the financing of the municipality's activities primarily provides the focus of accountability. This is especially true in the case of materials administration which comprises of the purchasing and inventory funtions of the municipality. As much as thirty per cent of the municipal budget is invested in the purchase of stores and equipment (Cloete 1986 : 139). As a result the functionaries such as the town clerks, town treasurers and other officers who perform this function are responsible and accountable for their actions. These officials may be called to account to the council of the municipality, as well as to the electorate at large.

10.3 Efficiency and Effectiveness

The concept of efficiency and effectiveness are central to all administrative actions directed to the achievement of the national goal of community welfare.

The needs of the community will always be greater than the resources that are available to accomplish it (Cloete 1986 : 30-310). The resources are obtained from the citizens whose ability to pay is limited (Cloete 1986 : 30-31). Consequently, the government's ability to satisfy all the wants is restricted as well (Cloete 1986 : 30-31).

Therefore, it is incumbent on all public functionaries to ensure that the available resources are used to provide goods and services that are considered to be 'priorities' (Cloete 1986 : 31).

From the aforementioned exposition, the question arises as to the manner in which such priorities could be achieved with limited resources. The answer is that, all public functionaries must execute their tasks as efficiently and effectively as possible to achieve this objective (Cloete 1986 : 32).

Robbins (1976 : 15) supports this view and explains it in the following context :

> "Economic resources, by definition are scarce, therefore, the administrator is responsible for their allocation. This requires not only that the administrators be effective - that is, in achieving the goal or goals that are established - but additionally that they be efficient - that is, in relating output to input. They must seek a given output with less input than is now being utilised, or for a given input strive for a greater output. Administrators, then, are concerned with the attainment of goals which makes them efficient".

The Shorter Oxford Dictionary (1961 : 52) lists the following meanings of 'efficiency' :

- fitness or power to accomplish;
- success in accomplishing;
- adequate power;
- effectiveness; and
- efficiency.

From the aforementioned, it could be stated that "efficiency" relates to means and ends and can be increased or decreased depending on the respective inputs and outputs (Tribe 1971 : 148).

Effectiveness is the quality of being effective. The word

'effective' has the following meanings (Shorter Oxford Dictionary 1961 : 49) :

- having the power to act upon objects;
- that is attended with result or has an effect;
- powerful in effect, efficient, effectual; and
- concerned with, or having the function of, carrying into effect, executing or accomplishing.

From the above meanings it could be inferred that 'effectiveness' is concerned with the degree to which a public institution performs its intended mission and includes qualitative impacts of the institution's programmes as well as the measurable output (Sing 1983 : 80).

Mushkant (1981 : 36) elucidates the inter-relatedness of 'efficiency and effectiveness'as follows :

> "Effectiveness... is defined in terms of accomplishment of desired objectives. Efficiency is measured in terms of the amount of resources necessary for the full or partial accomplishment of a particular goal or an objective. It is possible but not desirable to be highly efficient while achieving only a low degree of effectiveness. The ideal in practice is a high degree of both efficiency and effectiveness".

In the execution of materials administration the functionaries must carry out their tasks in an efficient and effective manner. The need for this is greater now than ever before owing to increasing cuts in municipal budget allocations by the Government.

The emphasis is even more pronounced as materials administration depends on the approved budget. The goal of materials administration is to provide the municipal clientele with the necessary goods and services without sacrificing quality and standards with the available financial resources. In the macro-perspective, this concept would relate to the execution of administrative processes and actions. For example :

- Is the policy of materials administration adequate to meet the demands of the municipality?
- Are the financial resources being used effectively?
- Are the functionaries trained to execute their duties?
- Are the present work procedures adaptable and flexible to the changing environment?
- Is there sufficient recognition of the activities constituting materials administration, that is, purchasing and the inventory functions?

At the micro-level, efficiency and effectiveness are concerned with, inter alia :

- maintaining purchasing and inventory records;
- issuing and receiving of stocks;
- auditing; and
- computer operations.

10.4 REQUIREMENTS OF ADMINISTRATIVE LAW

Baxter (1984 : 2) states that administrative law is that branch

of public law which regulates the legal relationships of public authorities, whether with private individuals and organisations or with other public authorities.

Baxter (1984 : 2) further differentiates between the general and particular aspects of administrative law as follows :

> "General administrative law may be said to comprise the general principles of law which regulates the organisation of administrative institutions and the fairness and efficiency of the administrative process, govern the validity of and liability for administrative action and inaction and govern the administrative and judicial remedies relating to such action or inaction".

Particular administrative law comprises the legislation governing the legal principles and policies developed in respect of, specific areas of administration (Baxter 1984 : 2).

From the foregoing, it could be stated that general administrative law regulates the actions of public officials to ensure that they remain within the limits of legislative measures. However, legislation only provides for the basic framework for action, while details are set out in rules and regulations provided for by the enabling acts of Parliament, provincial ordinances and municipal by-laws (Hanekom & Thornhill 1985 : 142). The public official is expected to achieve the goals and objectives of the institution by exercising his discretionary authority within the stipulated guidelines (Hanekom & Thornhill 1986 : 53).

To ensure that the public official does not exceed his authority, it is necessary for him to conform to the requirements of administrative law (Hanekom & Thornhill 1986 : 53).

Warner (1947 : 1) emphasises in this regard the need for adherence to the law, and also a need to interpret the intentions of legislature without transgressing into its area of jurisdiction.

Baxter (1984 : 3) explains that administrative law stipulates a set of common principles which are designed to promote the effective use of administrative power, to protect individuals and organisations from its misuse, to preserve a balance of fairness between public authorities and those whom they interact, and to ensure the maintenance of the public interest.

Cloete (1986 : 32-33) states that the tenets of administrative law provide a normative code of conduct for public functionaries and that :

- a public functionary should not exceed his powers under the law;
- the functionary should act only if he has the power or authority to do so;
- there should be a justifiable reason for the act or decision; and
- he should listen to the other party.,

At municipalities and particularly in the field of materials administration the officials are expected to fully understand the legal requirements of their financial responsibilities (Hanekom & Thornhill 1986 : 53).

Their functions relate to the important aspects of procuring of supplies and services as well as establishing and maintaining an

inventory record of all stores and equipment. These activities place a heavy burden of responsibility on the functionaries because of the financial implications involved in the execution of these functions.

Therefore, all functionaries should take cognisance of the requirements of administrative law in order that they comprehend and comply with its requirements.

10.5 Promotion of Ethical Standards

Funk and Wagnalls Standard Dictionary (1970 : 436) gives the following meanings of 'ethics' :

- the study and philosophy of human conduct with the emphasis on the determination of right and wrong;
- one of the normative sciences; and
- the basic principles of right action.

Hanekom views 'ethics' and the public functionary in the following light :

> "Regarding the conduct of public affairs by the public officials, it deals with whether the public's business was conducted rightly or wrongly and whether the public official's behaviour was good or bad when he executed his official duties. 'Ethics' evaluates conduct against some supposedly absolute criteria and imposes negative or positive values upon it" (Hanekom et al 1986 : 152).

From these definitions it could be stated that "ethics" pertains to the ideal conduct expected of public officials and their corresponding responsibilities to ensure that their actions uphold such values and are directed to the good of the community. Armstrong & Graham (1975 :6) believe that ethical behaviour and

professional competence cannot be separated. Both are necessary for efficient and effective execution of public activities.

Hanekom elaborates in this regard as follows :

> "Adhering to high ethical standards of behaviour, but conducting the public's business in an incompetent manner, will definitely not satisfy the public or promote the general welfare, and could prove to be just as disastrous as unethical conduct" (Hanekom et al 1986 : 153).

The necessity for adherence to ethical values and norms in the execution of the functions constituting materials administration cannot be overemphasised.

For example, the execution of the purchasing function requires ethical conduct of the purchasing officials, The code of conduct stipulated for these officials by the Institute of Purchasing of South Africa is stated as as follows (Colvin et al 1980 : 90-91):

- to promote the study, development and application of improved professional purchasing methods and practices;

- to advance and uphold the professional standing of its members;

- to encourage the upholding of the highest ethical standards by those engaged in the profession of purchasing and the other functions of supply management (inventory function);

- to collect and disseminate information of interest and benefit to its members;

- to encourage and co-operate in the institution and development of courses in purchasing and related subjects at colleges and universities;
- to promote, support or oppose any legislation or other measure affecting or likely to affect the interests of the institute or its members;

- to foster and promote acquaintance, exchange of ideas and co-operation among its members;

- to acquire any rights or privileges which the Institute may regard as necessary or convenient for its purpose and object to co-operate with any organisations and bodies, corporate or otherwise, as the interest of the Institute may be deemed to require; and

- to publicise the activities of the Institute to such persons and in such manner as may be considered advantageous to the interests of the Institute, to make donations to promote the interests of the Institute.

The functionaries responsible for the execution of materials administration must always display, 'positive', 'good' and 'right' characteristics in performing their duties. They must not be lured by unethical practices such as corruption, nepotism and conformity (Hanekom et al 1986 : 160). Trust and loyalty are required of officials as they are involved with activities that have great financial commitments. They should always question their actions to ascertain whether they are ethically correct and

are in fact in the interests of the institution.

11 SUMMARY

Public administration is a comprehensive field of endeavour peculiar to the public sector and directed to improve the quality of life of the people. Within this context it is obvious that specialisation would take place. At the municipal level, municipal administration is considered to be a sub-field of activity of public administration.

In a similar vein, municipal financial administration is a specialised field of activity of municipal administration. Since every action of the municipal authority has financial implications, it is obvious that parliamentary acts, provincial ordinances and municipal by-laws would provide a framework for action. Furthermore, the municipal council, committees and high-ranking officials, such as, the town clerk, town treasurer and heads of departments all play a vital role within the sphere of municipal financial administration.

An important component of municipal financial administration is materials administration. This activity comprises of three distinct processes, namely :

- generic administrative processes consisting of : policy-making, organising, financing, staffing, determining work procedures and exercising control;

- functional processes comprising of : the purchasing and inventory functions; and

- auxiliary activities such as : electronic data processing, collecting and analysing statistics and research.

The processes constituting materials administration provides a vital service to the municipal departments by providing specific goods and services necessary to obtain functional goals. For example, by providing goods and services required by the electricity department, engineers department, city health department and public transport services.

The materials administration activity cannot be initiated and executed without funds hence the municipal budget plays a key role within this context. In execution of the materials administration activity functionaries must at all times abide by the normative factors of public administration, namely,

- deference to legislative supremacy;
- maintenance of public accountability;
- efficiency and effectiveness;
- requirements of administrative law; and
- promotion of ethical standards.

CHAPTER THREE

MUNICIPAL BUDGET AND MATERIALS ADMINISTRATION

1 INTRODUCTION

The achievement of municipal goals depends on, inter-alia, the procurement and utilisation of funds. Since the major part of the funds are derived from the taxpayer, it is imperative that a rational system of budgeting be implemented with due regard to the normative guidelines of public administration.

Furthermore, materials administration would not be possible without the availability of funds. In fact, the approved municipal budget initiates the materials administration function within a municipality. Therefore, within this context the chapter discusses the relationship between the municipal budget and materials administration.

In endeavouring to do this, this chapter focuses on:

- objectives of the budget;
- types of budgeting systems;
- nature and scope of municipal budgeting; and
- the relationship between the municipal budget and materials administration.

2 OBJECTIVES OF THE BUDGET

In order to understand the objectives of the budget it is necessary to define the term 'budget'. A number of authors have attempted to define the budget. A few definitions are cited and discussed.

Hamilton & Fearon (1980:45) state that a budget is:

> "... nothing more than a plan, expressed in monetary terms, for utilisation of resources".

Stedry (1968:6) stresses the procedure and control aspects of the budget by stating that it is a

> "... financial plan serving as a pattern for a control over future operations ... hence any estimate of future costs ... a systematic plan for utilisation of manpower, material and resources".

The Committee on Budgeting of the Municipal Finance Affairs Association of America (1971:15) provides a pragmatic municipal definition of the budget as follows:

> "...A comprehensive plan expressed in financial terms by which an operating program is effective for a given period of time. It includes estimates of:
>
> a) the services activities and projects comprising the program;
> b) the resultant expenditure requirements and
> c) the resources usable for their support".

From the aforementioned expositions it could be stated that the budget serves as a

- source of information;
- work programme;
- policy declaration; and
- control measure (Andrews 1982:60-61).

In the sphere of municipal financial administration the objectives may be elaborated on as follows:

(i) as a source of information it should clearly specify all activities to be undertaken by the municipal authorities. For example, these may be specified in terms of capital and operational activities.

(ii) it serves as work programme, which must be followed by various functionaries, such as the town clerk, treasurer and heads of departments to ensure the achievement of predetermined goals within a specified period of time;

(iii) it acts as a policy document and is indicative of the activities, goals and objectives which the municipal council wishes to achieve; and

(iv) the budget serves as a control and appraisal tool to ascertain to what extent, if at all, predetermined objectives and goals have been attained.

There are a number of ways of compiling a budget. Each method of doing so will result in a different form of budget.

3 TYPES OF BUDGETING SYSTEMS

The present types of budgeting systems evolved over many decades. It is said that reference to budgeting could be found in the hieroglyphics of ancient Egypt and the cuneiform of Babylon (Editorial S.A. Treasurer: January 1980:20-21).

Griesemer (1983:4) states that the antecedents of budgeting, such as control, could be traced back to the signing of the Magna Carta in 1215, wherein Article 12, placed several limitations on the Crown's ability to impose taxes.

Jesse Burhead, in his book Government Budgeting (1956), suggests that the establishment of formal budgeting in Great Britain could be dated from about 1822 (Griesemer 1983:4).

However, regardless of when the budget as a formal document appeared, it is important to note the administrative implications of the various types of budgeting systems.

3.1 LINE-ITEM SYSTEM

The line-item budget is the earliest type of budget format to be used by public institutions and its primary emphasis is on the control of financial resources (Griesemer 1983:4).

Hally (1980:228) defines a line-item budget as

> "... a list of planned expenditures expressed in terms of the kinds and quantities of objects of expenditure ... and the estimated revenue needed to finance them during a specified period".

The line-item system[1)] is widely used and there are several reasons advanced for its popularity. These reasons are as follows (Griesemer 1983:12):

(a) it is easily understood as it specifies, in a simple format, the items and the funds available for expenditure;

(b) the simplicity of the system facilitates prompt decision-making by executive officials;

(c) it serves as an effective measure for financial control, as it is simple to ascertain the amount that has been expended and the amount still available;

(d) the system can be easily linked and adapted to existing accounting systems; and

(e) owing to its simplicity and the fact that it is easily understood, the system is therefore practical to implement.

A major shortcoming of the line-item system, is that, it does not reveal what will be accomplished once the money is spent.

Dimock & Dimock (1969:513) are of the view that the system does not show relationships between programme inputs and outputs and that it conceals issues rather than clarifies them. For example, the knowledge of the sum being spent for salaries does not indicate what was achieved by the employees or there is no way to determine whether money budgeted for equipment is being spent judiciously or being squandered on luxuries (Barton & Chappell 1985:143).

As the line-item system does not relate to accomplishments and cannot justify expenditure in terms of achievements, it is considered inappropriate for materials administration.

3.2 PERFORMANCE BUDGETING SYSTEM

The weaknesses of the traditional line-item system of budgeting led to investigations into other forms of budgeting.

The performance budget was developed during the late 1950s and the early 1960s (Griesemer 1983:17).

Barton and Chappell (1985:143) state that the performance budget focuses on the development of work-load measures and that the cost of performing a unit of work is then computed giving an in-

dication of how efficiently work is being executed.

In its Industry Audit Guide, Audits of State and Local Governmental Units, the American Institute of Certified Public Accountants reflect the following definition of performance budgeting (Griesemer 1983:17):

> "The performance budget approach seeks to present a clear relationship between the input of resources and the output of service. To accomplish this objective, it lays principal emphasis on the measurement of quantitative data concerning units of work performed or services rendered within organisational units (departments) in performance of part or all of a given function or activity, eg. number of tons of waste collected by the department of sanitation or case work load in the department of welfare. These 'performance data' are used annually in the preparation of the budget as the basis for increasing or decreasing the number of personnel and the related operating expenses of a given department required to perform the services it renders".

Performance budgeting reflects on the activities undertaken, the progress made and its completion (Starling 1977:289). It serves to co-ordinate the work programmes of several departments and to ensure that voted funds are used as economically as possible (Starling 1977:289). Its greatest strength, therefore, is the analysing of operating efficiency (Griesemer 1983:17).

The weakness of the line-item system is that it could not evaluate its achievement, whereas the strength of performance budgeting system is its ability to analyse operating efficiency.

In this regard, both systems are considered compatible, supplementing each other (Sing 1983:121).

Performance budgeting sets a measurement by which one could evaluate the efficiency of a department or programme activity. However, efficiency is not the only criterion which influences policy decisions in budgeting (Griesemer 1983:17).

Griesemer (1983:17) aptly states in this regard that

> "... it is perfectly possible to do the wrong things very efficiently, workload measures are but one consideration in the matter of allocating resources".

The activities constituting materials administration have financial implications of enormous proportions. Consequently, it is imperative that activities such as budgeting, purchasing and inventory are executed not only efficiently, but effectively as well.

The "unit cost" concept introduced by performance budgeting is of some significance to municipalities especially in view of the costing of goods and services purchased and issued by the inventory sections (see chapter 7 paragraph 4).

3.3 BUDGETING BY OBJECTIVES

It is a fact that since World War II, public expenditure began to rise rapidly. This resulted in increasing demands being placed

on revenue resources of many countries (Roelofsz 1975:7).

The budgeting systems available then, namely, the line-item and the performance budgeting systems could not cater for the proper receipt, control and maintenance of public finance especially since the public sectors' needs came in excess of the available financial resources (Roelofsz 1975:7).

The traditional system indicated mainly the money required for personnel maintenance, transport, printing and related services (Thornhill 1982:59). With the performance budget, it was possible to do the wrong things efficiently. Both systems could conceal inefficiencies which could prove costly for public officials and citizens alike.

It was, therefore, found necessary to introduce an effective and efficient system to distribute available resources equitably amongst competing priorities so as to render the necessary services to satisfy the national goal of community welfare (Roelofsz 1975:7).

This necessitated a systematic and rational approach, so that available resources could be allocated on the basis of priorities, without sacrificing any goals (Roelofsz 1975:7).

This situation initiated the change to the planning-programming budgeting system as it is called in the United States or budget-

ing by objectives, as it became known in South Africa (Thornhill 1982:59).

In the Republic of South Africa, the Commission of Enquiry into Fiscal and Monetary Policy in South Africa (Republic of South Africa RP 87/1970:37-38) appointed in November 1967, stated in its third report that

> "... all public authorities more especially central and provincial authorities, will derive great benefit from introduction of a system of programme budgeting. The emphasis that is placed in this system on integrated planning and budgetary procedure, the planning and budgeting on the basis of specific objectives over a number of years in advance and the formal analysis and the considering of alternatives will promote increased efficiency in the public sector".

The aforementioned Commission thus recommended the introduction of the programme budgeting system in South African public institutions.

According to Roelofsz (1975:7) the budgeting by objectives system is

> "... a fiscal device designed to assist the decision-maker in the allocation of resources among competing activities by rationalising the choices which are placed before him".

Barton and Chappell (1985:146) describe it as follows:

> "This approach attempts to identify objectives of programs and choose the best means of achieving them. Objectives are defined in terms of effectiveness of a goal".

The system of budgeting by objectives is characterised by the following (Roelofsz 1975:7):

(i) definition in advance of what is to be achieved;
(ii) consideration of the various choices available;
(iii) selection of the best possible alternative;
(iv) allocation of available resources; and
(v) evaluation of results to ensure that desired goals were in fact achieved.

There is little doubt that budgeting by objectives reveals a significant deviation from traditional budgeting systems. The emphasis was no longer only on inputs but also on outputs. The budgeting by objectives is considered an important tool for planning, decision-making and control processes within an institution (Roelofsz 1975:7). Not only does it provide a feed-back to indicate how far objectives and performance targets are achieved but also provides the means to investigate corrective action as well(Roelofsz 1975:7).

This system is currently being used in South African government departments. However, the system is complex and difficult to monitor without an intensive staff support system (Griesemer 1983:16). Consequently, the system is considered to be a costly exercise. In his 1986 Budget Speech, the Minister of Finance indicated that the Government was considering the implementation

of the zero-base budgeting system (Daily News : March 1986).

3.4 ZERO-BASE BUDGETING

The zero-base budgeting system, like the budgeting by objectives system entails inputs, outputs, effects and alternatives, but with a difference, it requires the complete re-appraisal and evaluation of all programmes constituting the budget periodically (Henry 1980:223).

Sarant (1978:3) defines the system as follows:

> "ZBB is a technique which complements and links the existing planning budgeting and review processes. It identifies alternative and efficient methods of utilising limited resources in the effective attainment of selected benefits. It is a flexible management approach which provides a credible rationale for re-allocating resources by focusing on the systematic review and justification of the functioning of the funding and performance levels of current programs or activities".

Wholey (1979:3) states that:

> "Zero-base budgeting (ZBB) re-examines the base of existing program activities exploring the effects of reducing or reallocating the current levels of resources rather than taking for granted the base of existing programs. Program evaluation identifies objectives of existing programs and measures program objectives, providing information for policy and management decisions on objectives, resources and activities".

These definitions reflect that every year is started anew and that each item of expenditure on the budget is viewed in terms of programmes and packages and must be strongly motivated for inclu-

sion on the basis of priorities (Wholey 1979:3).

This system has distinct advantages over the line-item and the budgeting by objectives systems in that it (Miewald 1978:285):

- is an orderly way of evaluating alternatives;
- allows a constant reassessment of an institution's programmes, projects and departments in terms of their on-going contribution; and
- broadens the base for decision-making involving personnel to make contributions at all levels of the budgetary process.

The zero-base budgeting system therefore, requires complete justification of resource requirements both for existing and new programmes and compels administration to evaluate in detail the cost effectiveness of their operations[2].

In South African municipalities the line-item budgeting system is predominantly used. The inadequacy of this system is highlighted by Alderman Friedlander, the Chairman of the Executive Committee of the City of Cape Town, in his Budget Speech 1990/1991, as follows (1990:9)

> "The difficulties experienced in compiling this budget has reinforced the view that a different approach must be adopted in determining levels of expenditure and service procured. The traditional approach of incremental budgeting fails to take cognisance of changing trends and needs and does not thereby ensure effective allocation of resources".

Councillor Cornell, Chairman of the Executive Committee of the

City of Pietermaritzburg in his 1990/91 Budget Speech aptly quoted from an article in the journal, "The Civil Engineer in South Africa", on the financial problems experienced by municipal governments as follows (1990:2):

> "Local governments, everywhere are finding it difficult to make financial ends meet. Balancing the annual budget is becoming a difficult task as the public expectations increase and tax rands shrink owing to inflation and limited revenues. These realities, coupled with fewer rands from higher levels of government, make balancing public budgets truly a 'tightrope' act. Ways to reduce costs, increase productivity, find new revenue sources and raise revenues without increasing taxes are now a way of life in local governments".

In view of the above, the need for a zero base system of budgeting is essential to ensure that funds are being used effectively and efficiently for rendering the necessary services. In this regard, many municipal councils, inter alia, Cape Town, Durban and Pietermaritzburg have already included a priority based component in their budgeting systems. This aspect is being primarily used for determining capital expenditure, but consideration is being given to introduce it as a full component of the budget (Pedrick 1990 : interview).

4 NATURE AND SCOPE OF MUNICIPAL BUDGETING

The municipal authority is the third tier of government in a unitary state, such as South Africa. The primary role of representative organs and high-ranking officials are to ensure the optimum utilisation of financial resources of the municipal

authority, so that the welfare of the community is served to its maximum potential. To this end the municipal budget is regarded as a vital tool in municipal financial administration. All actions, however small, have financial implications if they are directed towards the achievement of the goal of community welfare.

In the light of the foregoing, the municipal councillors and officials, must plan, authorise, implement and evaluate all activities of the municipal authority. Within the financial context consideration must be given to, inter-alia :

- formulation, authorisation, articulation and implementation of all financial policies within the context of central and provincial legislation, as well as in the light of the effects of the social, economic, political, technological and scientific environment;

- implementing and co-ordinating the various facets of municipal financial administrative processes so as to ensure that the financial resources of the municipality are being used effectively, efficiently and economically as well as with due regard for the normative foundations of public administration, namely, deference to legislative supremacy, maintenance of public accountability, efficiency and effectiveness, requirements of administrative law and ethical standards.

- systematically reviewing and revising existing practices of the municipal financial administrative machinery with the intention of ensuring sound, cost effective procedures in line with scientific and technological innovations.

The aforementioned aspects are aptly summarised by Pinto (1981:30) in the following extract:

> "... (the) public budget ... is not only the formulation of a society's demand for public goods ... it is also a formulation of strategy for the co-ordination and combination of resources in action patterns capable of materialising these objectives.

Sing (1983:117) appropriately sums up the role of the municipal budget as follows:

> "It can be said, therefore that the municipal budget is an instrument of financial administration, born out of the legislative, social, economic political, scientific and technological environments of the municipality, and by systematically analysing and evaluating the past, present and future income and expenditure provides an authoritative basis for the execution of the functional and auxiliary work activities necessary for the achievement of the objectives of the municipal authority".

In the discussion that follows, a brief overview of the municipal budgeting process shall be highlighted.

4.1 MUNICIPAL BUDGETING PROCESS

The municipal budgeting process starts well in advance of the new

financial year of municipalities. It constitutes a budget cycle, including preparation, authorisation, implementation and feedback (Howard 1973:18).

In the aforementioned regard, the budget cycle represents a simple system. Howard (1973:18) explains it as follows:

> "Preparation is an input activity that precedes adoption, the conversion process. The outputs in the form of policy decisions, appropriation limitations and expenditure controls occur during execution. Auditing provides a feedback mechanism. Certainly the various phases of the budget cycle are linked like a system so that what occurs in one phase affects what happens in other phases".

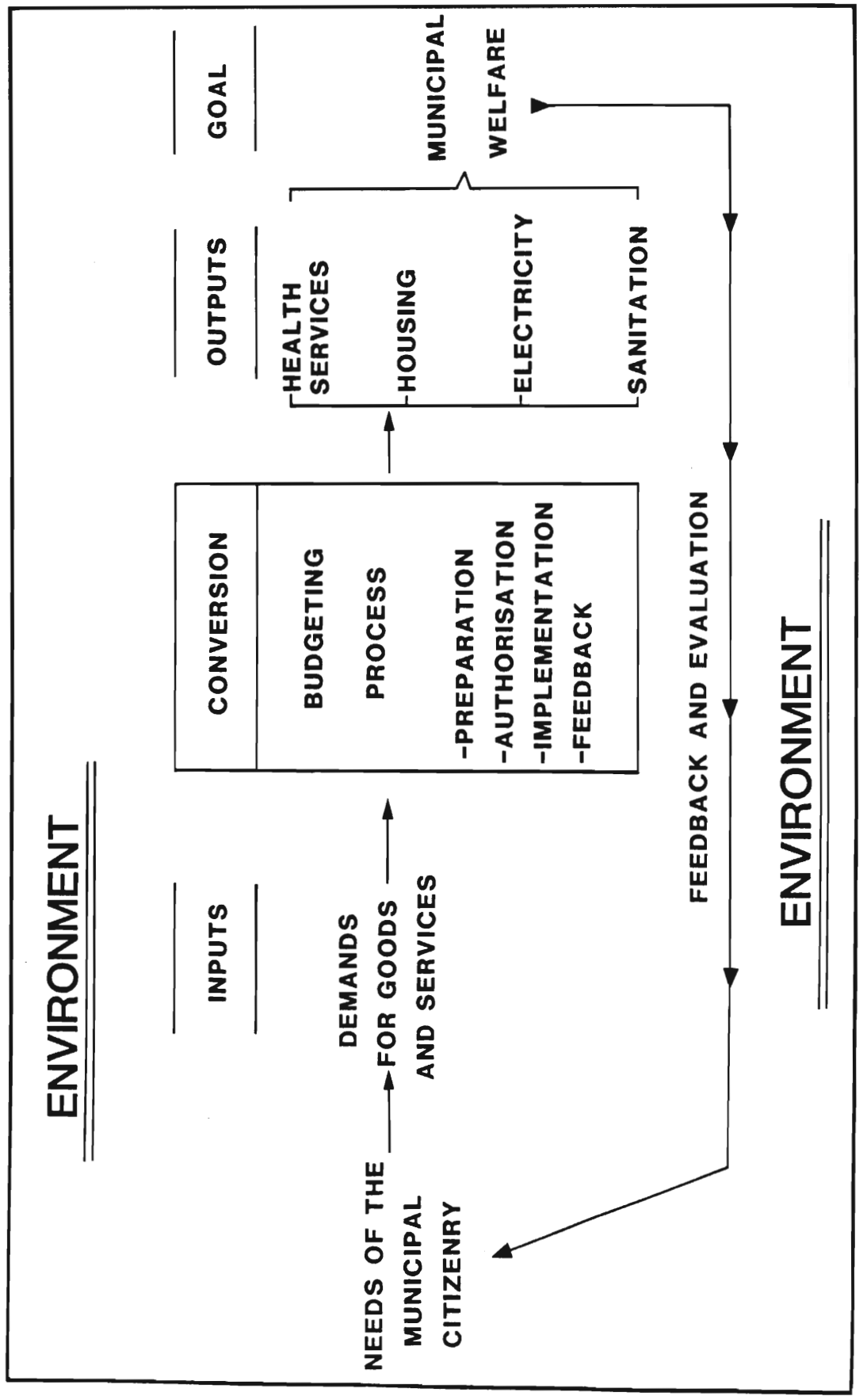
This budgetary system is simplistically illustrated in Figure 5. The municipal council is the authoritative decision-maker for the geographic area known as the municipality and its citizens (Howard 1973 : 19). The inputs to the process are numerous and because of scarce resources not all demands can be satisfied. (Howard (1973 : 19) emphasises this aspect as follows:

> "There are demands from various affected groups, there is apathy by a large part of the electorate, there are attitudes towards specific actions and there are general dispositions towards the democratic way of conducting government"

The operational outputs of the municipal authority include the provision of various services, inter alia, health, electricity, water and sanitation. In a capacious sense the budgeting process represents a system within which the various inputs are combined to produce the desired results (Howard 1973:19).

FIGURE 5

MUNICIPAL BUDGETING SYSTEM



In a unitary state, such as South Africa, the degree of dependency among the three tiers of government is primarily determined by legislation passed by the central government. For example, in regard to financial relations legislation such as:

- Financial Relations Act 65 of 1976;
- Provincial Affairs Act 88 of 1983;
- Republic of South Africa Constitution Act 110 of 1983;

provide for inter-relationships between the three tiers of authority. These legislative measures serve to ensure that effective control is exercised by both the central and provincial governments over municipal government affairs.

All provincial ordinances clearly stipulate the preparation of estimates by the municipal authorities. For example, in the Transvaal, all municipalities are required to frame estimates of revenue and expenditures, in terms of Section 58(1) of the Local Government Ordinance 17 of 1939 as follows:

> "Before the expiry of the financial year the finance or management committee shall draw up and present at an ordinary or special meeting of the council a detailed estimate of the revenue and expenditure for the next financial year. A copy of such statement shall be recorded in the minutes of the council".

Over and above the aforementioned stipulations in provincial legislation, the Administrator may also prescribe in this regard by means of the Administrator's Notice. For example, in the

Transvaal, Standard Financial By-Laws approved by the Administrator in terms of Administrator's Notice No. 927 of 1 November 1967 stipulate in terms of Section 2 as follows:

> "The annual estimates of the council on the revenue account and the capital account shall be drawn up in the form prescribed by the management committee from time to time".

Furthermore, municipalities also provide for the framing of their revenue and expenditure estimates in the financial regulations approved by the municipal council.

The Financial Standing Orders (1988 : 5) of the City of Port Elizabeth stipulates in terms of Section 1, as follows:

> "The Capital and Operating budgets for the ensuing year... shall be drawn up in the form prescribed and within the levels determined by the State and the Policy and Resources Committee".

The Financial Regulations of the City of Durban provides in terms of Section 1.5 that the annual budget shall include expenditure on both the capital and operating account which has been approved either specifically or in principle by the City Council (Durban Corporation 1989 : 3).

For purposes of uniformity all municipal budgets are drawn-up according to a specific format. Several publications are available from the Institute of Municipal Treasurers and Accountants (IMTA), including the following in respect of municipal financing:

- Guidelines for Standardised Financial Regulations for Local Authorities.
- Guideline Budgeting Procedure for South African Local Authorities.
- Financial Code for Local Authorities; and
- Report on Standardisation of Financial Statements of Local Authorities in South Africa.

The aforementioned booklets are valuable as they provide basic guidelines to financial officers on municipal financing and more specifically in regard to municipal budgeting.

Furthermore, when framing estimates of revenue and expenditure, municipal authorities must consider the guidelines set by the central government. In this regard, the municipal treasurer shall issue guidelines, taking cognisance of the State Treasury's financial directives concerning the restrictions placed on over-all expenditure growth (IMTA 1987 : 4).

In the above regard, Circular 10739 dated 6 March 1990, from the Department of Finance, to all municipal authorities, prescribes certain basic tenets for the overall control over expenditure. This document, inter alia, reflected the following guidelines for the 1990/1991 financial year, see annexure 2 (Department of

Finance 1990 : 1-2):

1. The guidelines in respect of municipal government expenditure are set out by the Minister of Finance in accordance with the Government's fiscal and monetary policy. The primary aim of this control measure is to ensure the co-ordinated spending pattern between the central and local level of governments.

2. Economic problems, such as increased money supply and high rate of inflation, has forced the government to take purposeful steps to set the country on a sound economic footing. Consequently, certain restrictive measures and constraints are necessary until the economy has sufficiently recovered, before any relaxations of these measures are possible.

3. Since the central government has decided to curb public sector expenditure, such actions must also filter through to the municipal governments, as they are part of the public sector, and their compliance is essential.

4. In view of the aforementioned aspects, municipal authorities are expected to ensure strict financial discipline and vigilant budget control for the financial year 1990/1991. In this regard the municipal council must ensure that its expenditure is in accordance with available revenue, and

financing sources, without increasing property rates and service charges beyond the ability of the citizens to pay.

5. After due consideration of all the relevant factors, the Minister of Finance, has set the maximum permissible increase in total expenditure of each municipality for the 1990/1991 financial year at 13 percent above the global amount approved by the Department of Finance, over the previous, (1989/1990) financial year.

6. To assist municipal governments to contain their expenditure within acceptable limits, the Minister of Finance urges them to take cognisance of the following measures identified by the Council for the Co-ordination of Local Governments Affairs[3)] on 8 December 1989:

> "3.1 The scrapping of all unnecessary capital projects and the optimal utilization of capital to promote job creation.
> 3.2 In depth investigations by all local authorities to identify and eliminate unnecessary high standards.
> 3.3 The purchase of South African manufactured products.
> 3.4 The acceleration of privatisation to limit local government spending to the minimum.
> 3.5 The rationalisation of personnel to ensure maximum productivity.
>
> 3.6 The implementation of effective management systems.
> 3.7 The re-evaluation of the necessity of all services rendered by local authorities".

The municipal authority must formulate its budget within the aforementioned guidelines (Pedrick 1990 : interview).

The municipal budget comprises of both capital and operational or revenue budgets (IMTA 1987 : 4).

The capital budget is different from the operational budget. The capital budget arises out of the capital programme of a municipality (Pedrick 1990 : interview). A capital programme is a plan for capital expenditure to be incurred over a fixed period of years (Croeser 1989 : 6). It describes each project and specifies the full resources estimated to be able to finance the projected expenditures (Croeser 1989 : 6). Within this context the annual capital budget is a plan of proposed capital projects to be commenced with, continued or completed during a particular financial year, together with the sources from which it will be financed (Croeser 1989 : 6). Cloete (1989 : 141) identifies physical assets such as buildings, reservoirs and plants as examples for which capital expenditure is incurred.

The operational budget is described as a comprehensive and detailed statement reflecting the amount of funds the municipal authority intends to spend on services during a specific financial year and from which sources this expenditure is going to be financed. (Croeser 1989 : 6). Cloete (1978 : 72-73) states that operational expenditure is incurred to finance the rendering of routine services, such as the provision of electricity, water, health and sanitation.

The proper planning of both the capital and operational budget is

considered important for the following reasons (Croeser 1989 : 3):

(a) The nature of the services provided by municipal authorities are not subject to evaluation and adjustment by open market mechanism and consequently must be of an acceptable standard to avoid criticisms from the public.

(b) Many of the services rendered such as electricity, water and sewerage are of vital importance to the well-being of the citizenry, and any short fall will create a hue and cry of tremendous proportions.

(c) Sound planning provides a basic prerequisite for sound decision-making in regard to the nature, scope and diversity of services to be provided by the municipal council.

(d) As municipal councillors are the elected representatives responsible to the electorate, planning and decision-making must be seen as a collaborative human endeavour between the councillors and high ranking municipal officials to achieve the goals of municipal administration both effectively and efficiently.

The treasurer and the department of finance of the municipality play a pivotal role in the formulation of the municipal budget (Cowden 1969 : 327-328). The responsibility of the treasurer is

highlighted in terms of Section 2.2.3 in the Guidelines for Standardised Financial Regulations for Local Authorities, issued by the Institute of Municipal Treasurers and Accountants as follows (IMTA 1987 : 4):

> "The Treasurer shall issue guide-lines, having regard to the State Treasury's directives concerning limitations placed on expenditure growth, in regard to the preparation and administration of the estimates, and Heads of Departments shall comply with such guidelines in preparing their estimates".

The provincial ordinances, municipal bylaws and financial regulations also highlight the important role played by the treasurer in municipal financial administration. The Financial Bylaws of the City of Pretoria emphasise this aspect, in terms of Section 3 as follows (1980 : 1):

> "Not later than the 15th April of each year the town treasurer shall furnish each head of a department with the financial information required for the preparation by such head of a draft estimate on the revenue account and the capital account for the ensuing financial year in respect of the department concerned and within 30 days after receiving such information each head of a department shall submit to the town treasurer such draft estimate in respect of his department".

Generally, the guidelines are provided by the treasurer in the form of a circular addressed to all heads of departments, see annexure 3 from the City of Durban.

All municipal authorities follow similar procedures in regard to

the preparation and approval of the budget. The procedure followed by the City of Durban is typical of other South African municipalities and is therefore highlighted : (Durban Corporation 1989 : 2-3):

- Annually during the months of March and April heads of the various municipal departments forward a draft departmental budget of income and expenditure in a prescribed format to the treasurer. These documents are scrutinised by the treasurer, compiled into a draft budget of income and expenditure and is submitted to the Management Committee of Council, with his comments on the draft budget.

- The Management Committee of Council after examining the draft annual budget of income and expenditure, makes amendments where necessary, and in turn refers it to the Standing Committee of Council, the Durban Transport Management Board and the Local Affairs Committees[4)].

- After the consideration and deliberation by these Committees the draft budget is once again forwarded to the Management Committee for amendments, if any, in light of any observations and recommendations made by such Committees.

- Thereafter the Management Committee shall recommend to the full municipal Council that the draft budget be approved and shall at the same time recommend the amount of rates

that should be levied.

- The Council then approves the budget, by not later than 30 June each year and also indicates the percentage rates to be levied in respect of the financial year in question.

An important consideration that must be noted is that the

> "annual budget shall include provision for expenditure on both capital and operating account which has been specifically or in principle approved by the City Council. Expenditure not so approved may be included in the budget as provisional sums for the purpose of enabling the City Council to determine the amounts to be raised by rates" (Durban Corporation 1989 :3).

Checks and balances are necessary control mechanisms in regard to municipal financing. For example, in the City of Durban no expenditure shall be incurred or voted by the Council if it has not been considered and reported on by the Management Committee (Durban Corporation 1989 : 4).

Once the budget has been approved by the municipal council, it must be forwarded to Department of Finance together with the budgetary return for the financial year. The budgetary return, complies with a prescribed format and entails, inter alia:

- capital budget and sources of financing;
- special and trust fund budget;
- operating budget, expenditure and income; and
- summary of expenditure;
- Total monthly account for an average household in regard to

property rates, house and site rental, electricity, water, sewerage/sanitation, refuse removal and other; and ad hoc projects (Department of Finance 1990 : 1-4).

It is important to note that the budgets of the municipality are subject to approval of the Department of Finance and is categorically highlighted as follows (Department of Finance 1990 : 2):

> "All expenditure to be incurred during the 1990/91 financial year is subject to approval, irrespective of the source of finance or whether it has been included in a previous budget".

According to Mr. Pedrick, Senior Financial Officer, of the City of Durban, City Treasurers Department, generally all budgets are approved if the expenditure is kept within the percentage increase recommended by the State Treasury (Pedrick 1990 : interview). He further stated that even where this percentage is marginally exceeded, a well written motivation setting out reasons for the increase is often sympathically considered (Pedrick 1990 : interview). In his view the City of Durban has had no problems in complying with central government policy directives in respect of municipal financing (Pedrick 1990 : interview).

The value of municipal budgets runs into millions of rand. A small municipality such as Verulam (in Natal) has a budget of R9,9 million, whilst a municipality such as Durban has a budget of R2 067,5 million. The majority of South African municipalities fall within the aforementioned budgeting limits.

Table 1 reflects the total annual municipal budget of some South African municipalities which indicates the value of financial operations undertaken by municipal authorities.

TABLE 1

TOTAL MUNICIPAL BUDGET OF SOME SOUTH AFRICAN MUNICIPALITIES FOR THE FINANCIAL YEAR 1990-1991 (INCORPORATING OPERATING AND CAPITAL BUDGETS)[5]

MUNICIPALITY	IN MILLION RAND
CAPE TOWN (BUDGET SPEECH 1990 : 18)	1 519,9
DURBAN (BUDGET SPEECH 1990 : 2)	2 067,5
EAST LONDON (LETTER 1990 : 1)	221,1
JOHANNESBURG (LETTER 1990 : 2)	1 686,1
PIETERMARITZBURG (LETTER 1990 : 3)	363,6
PORT ELIZABETH (LETTER 1990 : 1)	575,0
PRETORIA (LETTER 1990 : 1)	1 498,2
STANDTON (LETTER 1990 : 1)	183,2
STANGER (LETTER 1990 : 1)	32,0
VERULAM (LETTER 1990 : 1)	9,9

In view of the extent of municipal expenditure, it is therefore imperative that there is a co-ordinated approach between central and local tiers of government. The approach would ensure that the comprehensive goals set by the central government concurs with the goals of the municipal authority. In this regard, the Deputy Director-General : Financial Relations, Department of Finance, stresses the following in respect of municipal financing:

> "... I wish to emphasize that the information called for is required to enable the Department of Finance to perform its overall control function over the expenditure of local authorities. The control measures are macro in nature and it remains the responsibility of each local authority to determine its particular priorities and also to incur unforeseen expenditure, provided that the global limits are not exceeded" (Department of Finance 1990 : 4).

From the foregoing, it is evident that municipal authorities are at liberty to act within specific financial parameters. This is necessary to ensure that specific and peculiar priorities of these municipalities are met to satisfy and improve the quality of life of their citizenry. The central government is not in a position to fully appreciate the needs of the local citizenry, which is best understood and provided by the municipal authority.

5. MATERIALS ADMINISTRATION AND THE MUNICIPAL BUDGET

All goods and services provided by the municipal authority have financial implications. This relates both to capital and operating budgets (Pedrick 1990 : interview).

These budgets reflect the outcome of planned deliberations by heads of departments, high ranking executive officials, special committees and the municipal council. The Chairman of the Executive Committee of the City of Pietermaritzburg in his Budget Speech 1990 - 1991, emphasised this co-operative endeavour as follows (1990 : 4):

> "A feature of this year's preparation of both budgets has been the co-operation between Heads, the City Treasurer's department and the Executive Committee. As from January there have been consultations and meetings at all levels to obtain what was considered to be equitable estimates for all services".

The objectives set out in the budget are necessary to achieve the goals of the municipality for a specific financial year and ultimately to improve the quality of life of the citizenry.

Cloete (1989 : 129) states in the above regard that

> "The budget should be the foremost policy statement of the council as the allocation of the available funds will indicate which services will be curtailed and which services will be expanded".

Materials administration, entails the primary activities of purchasing and inventory functions. To enable the execution of materials administration, funds are necessary to initiate and continue with this activity.

In this regard, the heads of the various municipal departments play a vital role in determining the needs of their departments for the new financial year. In this respect heads of departments

determine specific departmental objectives and establish priorities. Thereafter, the allocation of financial resources are considered. Hence, the budget provides the basis for materials administration to take place.

There is a definite relationship between the budget and materials administration. In practice, however different approaches are adopted by South African municipalities in this regard.

Once the capital and operating budgets have been approved, the activities stipulated thereon must be executed to attain specific objectives. (Pedrick 1990 : interview).

The material needs are often predetermined and specifically laid down in the budget. The head of department is responsible for initiating the various activities. For example, it may be necessary to purchase plant, equipment and other goods and services. Such requests are usually forwarded to the Purchasing Office for execution. If the items exceed a certain value (this amount differs from province to province) it may be necessary to invite tenders. Once the tenders are received, they are scheduled and forwarded to the head of department for recommendation and finally approved by the Head of the Purchasing Office for placing of orders.

There are items also available in stock which are maintained by the inventory section. When specific goods are required, a requisition form is signed by the head of department and forwarded to the inventory section for completion of the requisition.

In both the purchasing and inventory functions, provision is made on the requisition for the reflection of cost centres. This indicates that provision has been made on the budget for the item in question. Furthermore, provision is also made for the responsible office to sign the requisition thus authorising either the purchase or withdrawal of the item from stock.

For example, in the City of Port Elizabeth, heads of departments must advise the City Treasurer, in writing the names of persons authorised to sign such requisitions in respect of the following range of values (Financial Standing Orders 1988 : 7):

a) not exceeding R5 000 per requisition;

b) not exceeding R10 000 per requisition;

c) not exceeding R40 000 per requisition; and

d) unrestricted.

Furthermore, specimen signatures of all persons authorised to sign requisitions shall be forwarded to the City Treasurer, and copies thereof are kept for verification by the purchasing and inventory functionaries (Pretorius 1990 : interview).

All purchases and inventory stock items must be provided for on the authorised budget. If no provision has been made on the budget, the purchasing and inventory functionaries have the right to refuse such a requisition (Pretorius 1990 : interview).

However, emergency requisitions so endorsed by the head of department and the City Treasurer may be fulfilled, subject to subsequent authorisation and provision of funds.

The Financial Standing Orders (1988 : 8) of the City of Port Elizabeth clearly provides as follows where the budgetary provision is insufficient to cover the costs of items on a requisition presented to the purchasing and inventory sections.

> "... if the City Treasurer has reason to believe that insufficient budgetary provision exists to cover a requisition presented to the Purchasing and Supplier Division, he shall immediately inform the Head of Department concerned, who shall obtain Town Clerk's decision as to whether the requisition should be executed or not. In the event of the requisition being executed, the Town Clerk shall report the matter to the relevant Standing Committee".

In respect of the latter, this would be the Policy and Resources Committee of the Council of the City of Port Elizabeth (Pretorius 1990 : interview).

From the foregoing it is evident that the budget plays an important role within the context of materials administration. A well determined budget is essential to ensure sound municipal financial administration and is relative to the field of materials administration as follows (Croeser 1989 : 5):

- provides for the clear determination and documentation of the objectives of the various municipal departments and the overall goals of the municipal council : in this regard the materials administration activity identifies and readily provides support for the achievement of both the objectives and goals of the municipality;

- acts as an instrument of planning by municipal departments in relation to objectives and policies of the municipal council : in this regard it provides inputs for materials administration functionaries to purchase goods and services and to provide items from the inventory stores on a timely basis;

- determines the impact of planned projects on the finances of the municipality, on the basis of estimates of costs provided by purchasing and inventory functionaries;

- supports sound management techniques for the materials administration function which serves as a basis for judicious control of financial resources; and

- provides feedback and evaluation on the qualitative and quantitative aspects of the functional activities : especially in areas where materials administration functionaries are responsible for goods and services provided directly to the community.

6. SUMMARY

The materials administration function can only be validated as an activity once funds are approved and made available for purchases and inventory stock.

In this regard the municipal budget plays a vital role, in providing a basis for the initiation and execution of materials administration.

Much planning and deliberation takes place in the preparation, authorisation and execution of the municipal budget. The budget makes provision for capital and operational expenditure. Different budgeting systems have been determined, inter alia, the line-item system, performance budgeting system, budgeting by objectives, and the zero-based budgeting system.

Most South African municipalities are following the line-item system, with some determining priorities for capital projects.

Many municipal officials are of the view that with the increasing demands and rapid urbanisation of cities and towns, financial resources which are already constrained are being stretched to the limit. Hence, a greater emphasis on a rational budgeting system, which emphasises priority determination is needed. It was felt that the zero-based budgeting system could be adapted to suit the municipalities.

In determining the income and expenditure of municipalities guidelines are provided by the central government for the municipal budgeting process. A return indicating how the budget was formulated must be forwarded to the Department of Finance for ratification. This procedure is to ensure that the overall expenditure of the municipal tier of governments is within the parameters set by the central government. The aim is to ensure co-ordinated and planned public expenditure which provides for sound financial administration on a global level. Furthermore, such financial control ensures that the goals of the municipal and central governments concur.

Materials administration entails the acquisition of goods and services by purchase for direct consumption by the respective municipal department or for inventory stock purposes.

Whatever the nature of the transaction, funds are necessary for materials administration to take place.

The above-mentioned activity, therefore, can only take place formally once the municipal budget has been approved. The budget sets out operational and capital projects which must be executed to achieve the goals of the municipality. In this regard, equipment, plant, other goods and services must be acquired. It is therefore incumbent on the functionaries responsible for materials administration to render this service as cost effectively as possible.

All purchases and stock issues are forwarded on specific requisition forms which provides for, inter alia :

- cost centre - budget item; and
- authorisation signature.

In the event funds are not available, special approval of the city treasurer is necessary, with subsequent approval of the respective committee, such as finance or policy and resources committee, and finally the municipal council.

Where there is an inadequate provision on the estimates, the purchasing and inventory section may refuse to complete the requisition. Alternatively, the approval of the city treasurer may be sought by the head of department concerned, before the requisition is serviced.

It is evident that the budget is fundamental for the execution of materials administration function. The budget facilitates the materials administration function by providing objective and substantial information on user-departments requirements which the purchasing and inventory functionaries must provide as efficiently and effectively as possible.

In the execution of the materials administration function there are often opportunities for self-aggrandizement. Therefore, it is essential that functionaries take cognisance of the normative and ethical conduct expected of them in the execution of their tasks.

In the chapters that follow attention is focused on the theoretical and operational aspects of the purchasing and inventory functions which constitutes the functional field of activity of materials administration.

NOTES

1. Cochrane (1974 : 57) stresses that the main advantage of line-item system is that through object classification, control over expenditure is facilitated, as it can easily be determined which expenditures are in terms of the approved budget or not, and accountability for any over or under expenditure can easily be determined.

2. In the same vein Resnick (1982 : 285) adds that the zero base budgeting system requires all participating managers to prepare proposals for resource allocations as though every activity, function, project or expenditure grouping requires complete justification each year.

3. The Council for Co-ordination of Local Government Affairs was established in terms of the Promotion of Local Government Affairs Act 91 of 1983, as amended, to co-ordinate the functions of general interest to municipal authorities and especially functions which should in the national interest be co-ordinated.

4. Local affairs committees are essentially advisory bodies to the parent White local authorities, dealing with civic matters, inter-alia, housing, roads, sewerage development, community facilities and administrative matters such as employement opportunities and estimates of revenue and expenditure.

5. The Table has been compiled from information obtained from source documents which are reflected against each municipality respectively.

CHAPTER FOUR

ADMINISTRATIVE ASPECTS OF THE PURCHASING FUNCTION : THEORETICAL PERSPECTIVES

1 INTRODUCTION

The municipal council comprises of councillors who represent the citizens of a municipality. It is, therefore, incumbent on the council to provide for the material needs of its citizens, so as to ensure the greatest degree of community satisfaction.' Moreover, inherent in this goal is the fact that the citizens provide much of the municipality's finance by way of rates and service fees, and therefore have an inalienable right to demand for reasonable services.

In order to perform their functions efficiently and effectively, it is necessary for municipalities to acquire a vast array of goods and services. The manner of purchase or acquisition of such commodities is an important responsibility of the council as it entails the outlay of vast sums of public funds.

In South African municipalities the purchasing function entails an expenditure of at least thirty per cent of a municipality's budget, and in terms of overall expenditure is considered only second to the staffing function (Cloete 1989 : 139).

The purchasing function entails the various responsibilities inherent in providing the material needs and services of the various user-departments within the municipality.

In this chapter a theoretical perspective is provided on the administrative aspects relevant to the municipal purchasing function. These aspects include:

- policy-making;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

In order to obtain a fruitful overview of public purchasing in South Africa the initial part of the chapter centres on :

- public purchasing versus private (industrial) purchasing; and
- nature and scope of public purchasing at central and provincial levels of government.

2 DEFINITION OF PURCHASING

Purchasing as an activity is common to both the public and private sectors. Consequently, it is necessary to view the meaning of the term in the light of both private (industrial) and public (government) purchasing.

According to Westing & Fine (1966 : 2) purchasing is a business activity directed to obtain materials, supplies and equipment required for the continued operation of an institution.

A broader view of purchasing in the private sector is presented by Westing, Fine & Lenz (1976 : 4) as :

> "Purchasing is a managerial activity that goes beyond the simple act of buying and it includes the planning and policy activities covering a wide range of related and complementary activities. Included in such activities are the research and development required for the proper selection of materials and sources; the follow-up to ensure both quantity and quality compliance with the order; the development of proper procedures, methods, and forms to enable the purchasing department to carry out established policies; the co-ordination of the activities of the purchasing department such as traffic, receiving, storekeeping and accounting, so as to facilitate smooth operations; and the development of a technique of effective communication with top management of the company so that a true picture of the performance of the purchasing function is presented".

These definitions explain 'purchasing' specifically in private institutions, Ritterskamp, Abbot & Ahrens (1968 : 1) define the term as it applies to public institutions as follows:

> "The purchasing function - or procurement[1)] function, as it is often referred to - embraces the various responsibilities inherent in providing the material needs and services of the institution. It seeks to obtain maximum utilisation of each educational dollar appropriated for equipment, supplies, and contracted services. Buying on a planned and coordinated basis, carefully negotiating purchase and analysing values, standardising and simplifying requirements, product testing, and market research are the methods purchasing employs to achieve this goal of an adequate quid pro quo for each expended dollar".

Staats (1971 : 78) further elaborates on public or government purchasing as:

> "... the science or perhaps the art, of getting the most for the taxpayer's money in a whole spectrum of buying, leasing or otherwise acquiring goods and services".

As is evident from the various definitions the purchasing function is basically the same both in the private and the public sector. The principles and techniques of purchasing used by both sectors are similar in many respects. Both are concerned with making available the right goods or services, at the right price, at the right time (Page 1980 : 1). This implies that the goods and services must be obtained in an efficient and effective manner. The purchasing function in both sectors contribute to the achievement of specific objectives and ultimately contribute to the overall goals of the public and private sectors respectively. However, despite the many similarities in the purchasing function there are also numerous differences. These are highlighted in the following section.

3 PUBLIC PURCHASING VERSUS PRIVATE (INDUSTRIAL) PURCHASING

Hugo aptly and concisely portrays the fundamental difference between public purchasing and private (industrial) purchasing as follows:

> "Private firms expect their buyers to strive for the maximisation of profits over the long term, whereas the public buyer endeavours to obtain maximum value for the taxpayer's money" (Fearon & Hamilton 1980 : 334).

Some of the more significant differences identified by Hugo are discussed hereunder (Hugo & Van Rooyen 1988 : 227-229):

3.1 Statutory Limitations

Since public funds are used in the purchasing function to acquire goods and services, government purchasing takes place within a prescribed statutory framework which imposes limitations on the activity. Primarily, these regulatory measures were established to prevent corruption, to protect the supplier and the public institution and to ensure that specific suppliers do not enjoy preference in the public purchasing process. Moreover, rigid budgetary and auditing processes are applied to ensure the necessary control.

In contrast, the purchaser in the private sector institution is bound only by the firm's business policy and strategy. This is often inherently flexible and thus enhances the use of initiative and innovation in the dynamic field of purchasing, for example, in the application of new purchasing techniques.

3.2 Public Disclosure of Purchasing Transactions

Public purchasing means purchasing for public needs. Consequently, purchasing regulations prescribe that the details of purchasing transactions of government institutions be revealed publicly. In South Africa, the State Tender Board Regulations provide for the publication of prices and names of successful tenderers in the State Tender Bulletin.

In the private sector institution the disclosure of such information may be detrimental to the company resulting in limited competition and higher prices. Consequently, the outcome of purchasing transactions are considered to be of a confidential nature.

In the public sector, public purchasing details are a matter of public record; there are no secrets, whereas in the private sector there are requirements to divulge purchasing requirements, specifications, sources and provisions, or prices paid (Page 1980 : 1).

3.3 Source and Authority for Purchasing

In South Africa, government purchasing only becomes a reality if funds are made available. This is only possible if the budget and expenditure of government departments are approved by Parliament. Purchasing of goods and services are limited to requests made in the original budgets. with few, if any exceptions. Moreover, unspent moneys left at the end of a specific financial year must be repaid to the Treasury and as a consequence often results in ineffective purchasing. Furthermore, the Auditor-General and the Treasury must also ensure that public purchasing is limited to essential needs and that no wastage and other irregularities occur.

3.4 Interest on Investment Inventories

A general tendency exists in public purchasing to maintain higher levels of inventory items, especially in view of the

fact that there is no loss of interest on investment by government departments. Funds for investment in inventory stock are supplemented from a source not directly influenced by the cost of inventory investment.

Since profit is the motive of the private sector, interest losses on investment inventory are considered to be of significance. Consequently, purchasing is effected in a manner that ensures that inventory investment is kept to the lowest possible levels.

3.5 Application of the Tender System

Like other countries worldwide, South African public institutions use the tender system as the primary purchasing technique. Although the system does demonstrate impartiality of public purchasing, it is misleading to think that it is the most effective method of purchasing. In South Africa where the supply market is limited, where competition is often unsatisfactory, where monopolistic tendencies are prevalent and where price collusion often occurs between suppliers of important commodities, it is doubtful whether the tender system always produces the most effective and efficient purchasing outcomes.

In the private sector, the buyer easily adjusts to appropriate purchasing methods if he so desires, to meet differing buying situations.

3.6 Extraordinary Influences

Public institutions, such as State departments are directed to achieve community welfare and satisfaction. In the process, government sets out many intermediary goals, in the social and economic spheres. For example, the government can spend public funds to achieve socio-economic goals such as full employment, economic development of specific growth points and the expansion of strategic industries. Therefore, in making purchasing decisions, public buyers are thus not only influenced by effective purchasing of goods and services. There are other factors which require consideration, for example, it is emphatically stated in the regulations of the State Tender Board that provision should be made for giving preference to products manufactured or assembled within South Africa.

The private sector institution, has little or no extraordinary influences, save the primary interest in obtaining the highest value for money.

4 NATURE AND SCOPE OF THE PUBLIC PURCHASING FUNCTION AT CENTRAL AND PROVINCIAL GOVERNMENT LEVELS IN SOUTH AFRICA

The public sector in South Africa is of great economic value in the national economy, especially in view of the fact that its total expenditure represents a large percentage of the gross national product (Department of Finance : Provisioning Administration Procedure Manual 1989 : 10). This is caused,

in no small measure, by the increasing demands made by the public for greater services of an improved quality (Department of Finance : Provisioning Administration Procedure Manual 1989 : 10). Against this background of growing demands, the public sector must make do with limited means and resources, for example, finance and manpower (Department of Finance : Provisioning Administration Procedure Manual 1989 : 10). The basis for an efficient and effective State machinery is thus the optimal utilisation of these scarce means.

In South Africa government departments within the three tiers of authority, that is, central, provincial and municipal tiers, spend millions of rand of public funds to purchase goods and services. Since the purchase of these items imply a monetary value, it is essential to ensure that specific guidelines are set out in terms of policy and planning, for example, what to purchase, how much to purchase, where to purchase, how to receive, preserve, store, care and issue and finally, how to dispose of worn-out, redundant and obsolete items (Department of Finance : Provisioning Administration Procedure Manual 1989 : 11). In this regard, all tiers of authority use the tender system to ensure fairness and impartiality in the public purchasing function. An overview of the purchasing function at the three levels of government shall be highlighted.

4.1 Central Government Purchasing

For the purchasing function to obtain legitimacy, it is necessary for some form of prescription. In the South African context, the Republic of South Africa Constitution Act of 1983, provides for the tricameral structure of government within a unitary system (Cloete 1989 : 14). The central tier of government provides for State departments in terms of "own affairs" and "general affairs" matters. "Own affairs" matters are peculiar to the White, Coloured and Indian population groups, which are governed by their respective Houses of Parliament, that is, House of Assembly, House of Representatives and House of Delegates respectively (Cloete 1989 : 14). The matters of a "general" nature are administered by the Cabinet, comprising of the State President and political office-bearers (ministers) of all three House of Parliament, (Cloete 1989 : 15). Legislation in respect of matters of a general nature, are passed by the Parliament comprising of the State President and the three Houses, while "own affairs" matters are approved by each of the Houses respectively (Cloete 1989 : 15).

The Constitution Act 110 of 1983, like the Constitution Act, 32 of 1961 provides for a central government, four provincial governments (to which powers are delegated by central government) and numerous municipal or local governments (Fearon & Hamilton 1980 : 331).

In spite of a clear and distinct line of authority from central and provincial government to municipal government, the purchasing function of each of the three tiers of

governments can be distinguished separately (Fearon & Hamilton 1980 : 331).

No public institution can function without goods and services. Therefore, every State department will annually utilise a certain portion of the State's limited resources to obtain stores and supplies. (Department of Finance : Provisioning Administration Procedure Manual 1989 : 10). In order to ensure an effective State machinery optimum utilisation of scarce resources is necessary (Department of Finance : Provisioning Administration Procedure Manual 1989 : 10). Consequently, effective planning is essential to determine the necessary stores and supplies, necessary to attain specific objectives. (Department of Finance : Provisioning Administration Procedure Manual 1989 : 10)

Parliament has provided statutory and policy guidelines for purchasing of stores and equipment in terms of the following measures (Van Rooyen & Hugo 1988 : 224):

- Exchequer Act 66 of 1975;
- State Tender Board Act 85 of 1968;
- Auditor-General Act 52 of 1989;
- Financial Regulations; and
- Treasury Instructions.

4.1.1 State Tender Board

Purchasing for central government is performed by the State Tender Board, through its secretariat, the Office of the Director for State Purchases, which functions under the Minister of Finance. (Fearon & Hamilton 1980 : 342).

The State Tender Board was established by the State Tender Board Act 86 of 1968. It is the centralised purchasing institution concerned with the acquisition of supplies and services for the State and the disposal of movable State property, in accordance with Tender Board Act, 1968, the General Conditions of Tender, Contract and Order (ST 36) the Code of Procedure of the Board (ST 37) and the Director of State Purchases Circular 1309 of 1968. (Naidoo 1991 : interview).

The purchasing for central government must at all times be limited to essential requirements to be acquired in the most economical manner. The essence of central government purchasing may be summed up as obtaining the necessary supplies and services in the most economical and effective manner.

Article 4 of the State Tender Board Act, provides for certain powers and functions of the Board as follows:

4.1.1.1 Powers of the Board

The Board is empowered to acquire supplies and services for the State and may therefore:

(a) on behalf of the State, conclude an agreement with a person in or outside the Republic for the procurement of supplies and services by the State or the alienation of State stores.

(b) with a view to the conclusion of an agreement referred to in paragraph (a), call for offers in any way that it may think fit and stipulate the manner and conditions in which such offers are to be made.

(c) inspect or test or cause to inspect or test suppliers and services offered.

(d) without giving reasons, accept or reject any offer for the conclusion of an agreement as intended in paragraph (a).

(e) take steps or cause steps to be taken to enforce a concluded agreement.

(f) on conditions which it may stipulate, exempt a person with whom an agreement has been concluded, from the observance of such an agreement or condone the neglect of a person to comply with such an agreement. However, the Board may not grant exemption or condonation

detrimental to the State without prior approval of the Treasury.

(g) arrange a settlement or with the approval of such persons amend the agreement concerned. However, the Board may not arrange a settlement or amend an agreement which may be detrimental to the State without prior approval by the Treasury.

4.1.1.2 Functions of the Board

Some of the most significant functions of the Board are to:

(a) determine the policy for purchase orders, for supplies and services and the invitation and acceptance of tenders;

b) ensure appropriately drawn-up specifications for all supplies and services for which tenders must be invited;

(c) standardise requirements to ensure economy and quality for State use;

(d) ensure that conditions of tenders, contracts, and orders are uniformly framed with provision for adequate protection, delivery and cancellation owing to breach of contract and other important matters of interest to the State;

(e) determine the nature and scope of testing procedure as well as the items and services that must be tested;

(f) devise steps that should be taken against defaulters who breach conditions of contracts and tenders; and

(g) determine the common items used by the majority of State departments for which general contracts may be arranged.

Departmental responsibility for stores and equipment rests with the accounting officer, that is, the Director-General of the State department, who must ensure, inter alia, that (Department of Finance : Provisioning Administration Procedure Manual 1989 : 13-14):

- adequate control measures are implemented;
- all losses to State funds and property are reported to the Auditor-General;
- State funds and property are only used for the intended and authorised purpose; and
- all accounts for stores and services may onlybe settled once confirmation has been received that these were satisfactorily received or rendered respectively.

The Director-General's responsibility for the efficient procurement and handling of stores and equipment, is delegated to the directorates under his control (Department of Finance : Provisioning Administration Procedure Manual 1989 : 14). This responsibility together with applicable

functions, is further delegated to the heads of regional offices where stores and equipment are kept. (Department of Finance : Provisioning Administration Procedure Manual 1989 : 13 - 14).

The purchasing procedures used by the central government to acquire goods and services are primarily as follows (Hamilton & Fearon 1980 : 344):

- by general state or government contract;
- by invitation of tenders; and
- by virtue of specific delegated powers and exemptions granted by the State Tender Board.

The above procedures shall be considered briefly.

4.1.1.3 State or Government Contracts

These contracts are arranged by the State Tender Board and entails an agreement between the State and a supplier and for the latter to supply to the State a specific commodity at a specific price for a specific period of time. (Hamilton & Fearon 1980 : 344). Generally, the State Tender Board arranges this type of contract for the combined requirements of all government departments, homeland governments and if necessary for the provincial administrations (Fearon & Hamilton 1980 : 344).

4.1.1.4 Invitation of Tenders

All tenders are subject to the 'General Conditions and Procedures' (ST 36), which is issued by the State Tender Board. This booklet primarily provides general information to prospective tenderers and is reviewed regularly (Van Rooyen & Hugo 1988 : 232).

Fearon & Hamilton (1980 : 344) systematically set out the tender procedure as follows:

(a) The State Tender Board invites tenders once detailed information of requirements are received from a State department or another authorised user-department. Such goods and services must be approved for purchase in terms of the current budget for that department.

(b) The tender specifications are published in the State Tender Bulletin which serves as invitations to suppliers to bid.

(c) Tenderers must submit their quotations under sealed cover, quoting the tender number, before the due date and hour.

(d) At a given time, all tenders are opened in public.

(e) All tender prices are compared on the basis of determining prices by deducting preferences and adding delivery and other related costs.

(f) The successful tenderers are informed in writing of the acceptance of their tender.

(g) The successful tenderer is expected to deliver the goods in accordance with the conditions of tender and only on the basis of a written official order from the department concerned.

(h) In the event of a dispute between the State Tender Board and the supplier, such matters are resolved in terms of the standard procedures and conditions of the State Tender Board.

The standardisation of products is of serious importance to the economy of a country and is thus an important aspect highlighted in the invitation of State tenders. According to Fearon & Hamilton (1980 : 346) standardisation in government purchasing can make a substantial contribution to conservation of capital and in the reduction of production and distribution costs as well as providing a wider domestic market for local products.

The purchasing officers in the public sector must take cognisance of two types of standards (Fearon & Hamilton 1980 : 346):

- SABS specifications : national specifications approved and published by the South African Bureau of Standards

- CKS specifications : co-ordinating specifications prepared by the South African Bureau of Standards and approved by the Central Standardisation Committee of the Department of Industries.

The existing SABS and CKS specifications for products should be used and clearly stated on all tender invitations. The standardisation of products and services can produce substantial savings to central, provincial and municipal governments and should be actively pursued by public purchasing officers (Fearon & Hamilton 1980 : 346-347).

4.1.1.5 Purchase by specific delegated powers and exemptions granted by the State Tender Board

Under certain circumstances the State Tender Board may delegate authority to a State department to purchase a specific item, by waiver of the standard rules governing purchases (Van Rooyen & Hugo 1988 : 233). In these instances, exemptions may be granted from the tender procedure and approval is given to purchase by negotiation. This rule is generally applied in cases where there is a single supplier and the nature of products are highly specialised and technically advanced (Van Rooyen & Hugo 1988 : 233).

In the event an item is not available locally, or if domestic prices are too high, orders may be placed with an overseas supplier, after the prior approval of the State Tender Board is obtained (Van Rooyen & Hugo 1988 : 233). Such orders are

forwarded to the trade representatives of the South African government in overseas countries who will make the necessary arrangements for the payment, delivery and shipment of the goods (Fearon & Hamilton 1980 : 346).

The purchasing function of the central tier of government is controlled both internally and externally. Within the institution, internal control measures are applicable, in the manner of rules and regulations and internal audit (Naidoo 1991 : interview). The budget is also an important control technique. Special approvals are necessary for purchases not on the approved budget (Naidoo 1991 : interview).

External institutional control is maintained by auditing executed by the Auditor-General's Office (Department of Finance : Provisioning Administration Procedure Manual 1989 : 11). In effect, great changes have been made in this regard. Performance auditing or "value for money" audit is now being implemented. Furthermore, all discrepancies are annually reported to Parliament by the Auditor-General (Department of Finance : Provisioning Administration Procedure Manual 1989 : 11). The departmental accounting officer, is also expected answer to the Standing Committee on Public Accounts, if deemed necessary. The Treasury is the central financial control body which ensures that Parliamentary and Standing Committee decisions are executed by State departments (Department of Finance : Provisioning Administration Procedure Manual 1989 : 12). In the final analysis, all public activities are subject to public scrutiny and is often highlighted by interest and pressure groups and the media.

4.2 Provincial Government Purchasing

At the provincial tier in South Africa, government and administration is vested in the executive committees, in terms of the Provincial Government Act 69 of 1986 (Cloete 1988 : 226). Section 7(1) of Act 69 of 1986, provides that for each province in the Republic, the State President will appoint an Administrator, and other members who under the chairmanship of the Administrator, shall form the executive committee of the province (Cloete 1988 : 228 - 229). The nature and scope of the functioning of the executive committee is clearly highlighted in Section 7(2) of Act 69 of 1986 as follows:

> "(2) All executive acts relating to the affairs of every such province shall be performed in the name of the administrator of the provinces, who shall together with the other members of the executive committee of the province constitute the executive authority of the province and carry on the administration of provincial affairs relating to the province".

Since 1 July 1986, the functional activities entrusted to the provincial executive committees are classified into four groups, namely (Cloete 1988 : 232):

i. hospital and health services;

ii. roads and traffic affairs;

iii. community services, including :

- library and museum services;
- physical planning of urban areas and regions;
- housing and welfare services; and
- local government affairs;

iv. general provincial services such as:

- nature and environment conservation; and
- works and logistics or domestic services such as finance, personnel, organisation and work study, stores and secretarial services.

In order for the provincial government to achieve its objective of community welfare, it must, of necessity, execute the functional activities as enumerated above. Of significance, to the purchasing function, is the functional activity of `general provincial services' and in particular the activity constituting "stores". "Stores" is not possible as an activity without the purchasing function. The purchasing function provides the initiative for the stores function to take place. In other words, for the supply of goods and services, the purchasing function must be executed.

The purchasing function within the provincial authority is similar to the practices within the central authority. Section 2A of the State Tender Board Amendment Act 18 of 1987, provides for the establishment of regional tender boards. These boards are established by the Minister of Finance on the recommendations of the State Tender Board, in such regions as the Minister may determine.

In view of the aforementioned, there are presently four regional tender boards in the following cities serving each province (Wirth 1991 : interview):

- Regional Tender Board: Cape Town;
- Regional Tender Board: Bloemfontein;

- Regional Tender Board: Pietermaritzburg; and
- Regional Tender Board: Pretoria.

These boards functions similarly to the State Tender Board. The regional tender boards are not restricted to procure goods and services for the province alone, but may also purchase for central government departmental offices in the province concerned (Greeff 1991 : interview). For example, in Natal, the Regional Tender Board : Pietermaritzburg purchases specific items and services for the Administration : House of Delegates. Another notable trend is that the State Tender Board may also procure items on behalf of the provincial authorities (Greeff 1991 : interview).

The primary purchasing methods used by the provincial authorities may be grouped as follows (Wirth 1991 : interview):

- invitation for tenders which are advertised;
- non-advertised tenders; and
- out of hand purchases.

The most predominant method of purchase is the tender system which is used for large value purchases (Wirth 1991 : interview).

Since it is not intended to discuss the procedural aspects of the tender system in detail, it is suffice to mention that policies and procedural applications are executed in terms of the General Conditions and Procedures (ST 36) issued by the State Tender Board and published in the State Tender Bulletin (Wirth 1991 : interview). This document covers the following pertinent aspects (ST 36 1991 : 1):

Part I : definitions;

Part II : general directives;

Part III : invitation of tenders;

Part IV : consideration of tenders; and

Part V : administration of contracts.

In terms of the repealed Provincial, Finance and Audit Act 18 of 1972, the provincial purchasing function was under the jurisdiction of the then provincial-secretary (now Director-General). However, the current situation is that provincial purchasing resorts under the State Tender Board and the Offices of the Chief Director: Procurement Administration in the newly created Department of State Expenditure (Greeff 1991 : interview).

Whilst in the past, there was a specific delineation between the central and provincial purchasing function, present trends seem to indicate a total integration and rationalisation between the two authorities (Greeff 1991 : interview).

Since the purchase of goods and services at the provincial tier also entails the use of public funds, control is of vital importance. This again is executed within the institution by formal control measures, in accordance with existing rules and regulations, as well as by an internal audit check. The control aspect is also exercised by the Auditor-General who examines all purchasing transactions, and to whom the regional tender boards must furnish full particulars of all tenders accepted (Wirth 1991 : interview).

The administrative aspects of the purchasing function at the municipal level of government shall be highlighted.

5 ADMINISTRATIVE ASPECTS OF THE MUNICIPAL PURCHASING FUNCTION

In the execution of the purchasing function, it is the enabling generic administrative processes which give direction and scope to the entire activity (Cloete 1989 :113). It is, therefore, appropriate to view the administration of the purchasing function within this context. The enabling processes of policy-making, organising, financing, staffing, determining work procedures and exercising control are inter-related and mutually inclusive (Botes 1973 : 19). Although for academic purposes these processes are discussed separately, in actual practice they form the basis for a continuum of ongoing activities necessary to achieve the goal of the purchasing function.

In light of the foregoing, these enabling processes shall be discussed within the context of the municipal purchasing function.

5.1 Policy-making

The activity of policy-making precedes policy (Cloete 1986 : 56). In the execution of the purchasing function, policies must be reviewed and constantly adapted to suit changing circumstances. In the discussion on the definitions of purchasing it was stated that purchasing is a continuous activity necessary to support the operations of an institution. In order for the purchasing

function to make an effective contribution to the institution, it must be attended to and oriented towards the overall objectives of the institution. (Alijan 1973 : 1-19).

Consequently, the purchasing function could be construed to be a dynamic activity and as such it is necessary to constantly monitor the goals and objectives it sets for itself.

As public policy-making is influenced by the environment within which it occurs, so too is public purchasing policy effected by the changes, challenges and opportunities taking place in the public sector (Page 1980 : 189). All facets of the environment are involved, political, social, economic, physical, legal and technical (Page 1980 : 189).

Page (1980 ; 189) concisely portrays the environmental effects as follows:

> "The economic, political and legal, and technological environments are perhaps of overriding importance. There is, for example, greatly increased buying of foreign-finished products, components, and commodities, which requires dealing with distributors or agents and directly with foreign sources. At the same time, foreign-trade arrangements are becoming increasingly complex. There are countervailing quotas, cartel-set prices, trigger prices, and political boycotts. Other examples are an increased buying or services of all kinds - technical assistance, consulting, supporting, and maintaining; increasing concern over shortages; spiralling inflation; more aggressive federal and state antitrust, price-fixing, and market-splitting law enforcement; increased governmental demands for reporting; and increased governmental standard and specification setting for a wide range of products and services. Working in this changing environment requires a high level of sophistication, knowledge, and skill in purchasing".

Purchasing policy is the outcome of considerable thought and planning. It comprises of a set of predetermined objectives directed towards a variety of issues affecting the purchasing function (Page 1980 : 190).

A general statement of the overall objectives of the purchasing function is that it should obtain the 'right materials' (goods and services), in the 'right quantity' for delivery at the 'right time' and 'right place' from the 'right source' (reliable vendor), with the 'right service' (includes before and after sales service), at the 'right price' (Fearon & Hamilton 1980 : 4).

The following are considered to be the important objectives of the purchasing function:

(i) <u>The supply of an uninterrupted flow of goods and services required for the continual operation of the institution</u>:

Without supplies and services the operating and functioning of an institution, such as a municipality, is not possible. For example, a hospital cannot perform surgery without the buying of intravenous solutions. Similarly, a municipality cannot ensure community welfare, if for example, the municipal health department cannot provide vaccinations because these have not been purchased (Fearon & Hamilton 1980 : 4).

(ii) The need to consider standardisation of items purchased:

In this regard, Ritterskamp, et al (1968 : 16) emphasise its importance :

> "Standardisation and simplication of commodities used by all departments pave the way for longer-term contracts. Better products can be obtained at lower cost than when each department demands a slight variation in the same commodity; standardization permits the storage of supplies so that they are readily available and usually makes it easier for more suppliers to bid".

(iii) Securing the purchase requirements at the lowest possible price: The amounts spent by public sector institutions, such as municipalities, on goods and services account for approximately thirty per cent of the total budget. A slight percentage reduction in prices ensures an even larger savings in respect of the total budget. In negotiating the lowest price, it is not necessary to sacrifice quality, prompt delivery and service (Fearon & Hamilton 1980 : 5-6).

(iv) Achieving a harmonious working relationship with user-departments within the institution and with suppliers outside: The purchasing function can only be effectively and efficiently accomplished if active participation and co-operation is obtained from all user-departments within the municipality. It is necessary for good public relations for municipalities to ensure a cordial and wholesome relationship with vendors as well. The need to make prompt payment to suppliers is vital to a sound relationship. In this regard, it is also important to note the possibility of vendors becoming potential sponsors to the municipalities community programmes, for example, the literacy and

environmental awareness programmes. Sound human relations is vital to the purchasing function (Fearon & Hamilton 1980 : 5-6).

(v) Selecting and developing competent suppliers : The success of the purchasing department depends on its skill in locating or developing suppliers, analysing their capabilities, and then selecting the appropriate ones. Only if the final selection results in suppliers who are both responsive and responsible will the institution obtain the items it needs at the lowest ultimate cost. For example, if the purchase of a computer system is made from a supplier who later goes out of business and is not able to perform the long-term maintenance, modification, and updating of the system, the initial favourable price will turn out to be a very high final price, due to the supplier's inability to make good on the original commitment (Fearon & Hamilton 1980 : 5-6).

(vi) The need to maintain adequate quality control standards:ensure that the quality of such items meet a designated quality level or standard. Otherwise, the poor quality item will not have the desired result or as a consequence increase the operating and administrative costs. For example, if the carbon paper supplied to secretarial services is of poor quality, then the typing will also be of a poor quality and will have to be redone. The inconvenience, time and effort spent in rectifying such errors is a costly exercise and should be avoided (Fearon & Hamilton 1980 : 4).

(vii) To accomplish the purchasing objectives as efficiently and effectively as possible : Fearon & Hamilton (1980 : 6) elaborate in this regard as follows:

> "It takes resources to operate the purchasing department: salaries, telephone and postage expense, supplies, travel costs, and accompanying overheads. If purchasing procedures are not efficient, purchasing's administrative costs will be excessive. The objectives of purchasing should be achieved as efficiently and economically as possible, which requires that the purchasing manager continually review the operation to assure that it is cost effective. If the firm is not realising its purchasing objectives due to inadequate analysis and planning, perhaps additional personnel are needed. However, the purchasing manager should be continually alert to possible improvements in purchasing methods, procedures, and techniques. Unnecessary steps in processing purchasing paperwork could perhaps be eliminated or the computer could be used to make the storage and recall of needed purchasing data more efficient".

From the aforementioned discussion it is clear that there are a number of policies which must be adhered to, to ensure that the goals of the purchasing function are achieved. Since the purchasing function involves a legal obligation between the buyer and the seller, any decisions made to purchase must be based on sound judgement, skills and attitudes of the buyer (Kerr 1984 : 3). The buyer is instrumental in committing the municipality to an obligation to purchase.

Organisational arrangements are necessary to ensure the execution of purchasing policies.

5.2 Organising

The success of the purchasing function depends on the organisational arrangements and the personnel appointed to execute it within a municipality.

The municipal council which is the supreme co-ordinating authority operates from the top throughout the entire institution (Ritterskamp et al 1968 : 19). An organisational structure must be so designed as to adequately establish relationships between individuals, groups or functions in the common undertaking to achieve the institutional goals (Ritterskamp et al, 1968 : 32).

The importance of sound organisational arrangements for the purchasing function cannot be overemphasised. The purchasing executive unit must take cognisance and put into practice the principles of good organising (Ritterskamp et al. 1968: 30). In this regard the following guiding principles are significant (Ritterskamp et al., 1968 : 30):

(i) policies should be defined and imparted to those who are responsible for its achievement;

(ii) work should be subdivided, systematically planned and programmed;

(iii) tasks and responsibilities should be specifically assigned and understood;

(iv) appropriate methods and procedures should be developed and utilized by those responsible for policy achievement;

(v) appropriate resources (manpower, money and material) in terms of availability and priority should be equitably located;

(vi) authority, commensurate with responsibility, should be delegated and located as close as possible to the point where operations occur and decisions need to be made;

(vii) adequate structural relationships through which to operate should be established;

(viii) effective and qualified leadership should head each institution and each subdivision of the institution;

(ix) unity of command and purpose should permeate the institution;

(x) continuous accountability for the utilisation of resources and for the production of results should be required;

(xi) effective coordination of all the individual and group efforts within the institution should be achieved; and

(xii) continuous reconsideration of all the matters pertaining to the institution should be a part of regular operations.

Having determined the nature of a good organisational structure, it is necessary to determine the arrangements best suited to the purchasing function.

An institution requires an effective purchasing system to meet its objectives. The question arises as to which type of purchasing system a municipality should adopt. Generally, legislation does not specifically dictate how the purchasing function should be organisationaly arranged. Consequently, different organisational patterns have been developed. This trend is true to both South Africa and the United States of America (Baily & Farmer 1977 : 62). There are a number of approaches which may be used, these are, inter alia, centralisation, decentralisation and a combination of centralisation and decentralisation systems (Baily & Farmer 1977 : 15).

5.2.1 Centralisation of the Purchasing Function

Ritterskamp et al (1968 : 4) state that :

> "by centralisation is meant the plan of assigning all responsibility for a given function to a single office".

A centralised purchasing system implies that all purchases are routed through a central purchasing office and no commitment to buy is final until approved by the purchasing officer (Ritterskamp et al 1968 : 5).

In this regard Baily & Farmer (1977 : 62) appropriately comment as follows:

> "The question of how far to centralize purchasing of goods and equipment within an authority has exercised the local-authority field for many years. In a study of central purchasing in 1932, the Institute of Municipal Treasurers and Accountants posed the question "Why have so few authorities adopted central purchasing?" The study set out very clearly the arguments for and against central purchasing and commented on various forms which this might take. The recommendation was that irrespective of size all authorities should seek the benefits which might be derived from one or other of the methods of centralization which could be employed".

It would appear that the case for centralisation is at its strongest in any enterprise where the various locations or groups use similar materials, goods and equipment (Baily & Farmer 1977 : 62). This situation could be mutually advantageous not only to user-departments within a municipality but with other municipalities as well, which are closely situated. In these instances, the common items would often be more reasonably priced because of the volume of purchases made by the municipalities.

From the foregoing, it is obvious that there are certain advantages in the centralised system.

5.2.1.1 Advantages of Centralisation

Ritterskamp, et al (1968 : 4-11) lists, inter alia, the following advantages which result from centralisation of the purchasing function:

(a) By centralisation of the purchasing function it is possible to combine requirements of several departments and enables better price negotiations for bulk purchases. A centralised purchasing unit because of its buying potential has enormous bargaining power.

(b) A centralised purchasing unit is in a position to study the requirements of the various departments within the municipality, co-ordinate these and plan purchases so as to obtain the best price from suppliers. Planning is of paramount importance to the purchasing function and minimises the number of 'urgent orders' for the 'unforeseen' items.

It further ensures orderly planning and organising of work, especially if purchasing were left to user-departmental staff who have a tendency to delay purchases until the actual need arises or to buy in excessive quantities to decrease their workload.

(c) It is sound purchasing practice to ensure the use of specifications and the need for standardisation of supplies and materials used in municipalities.

Gushee and Boffey (1928 : 45) state in this regard:

> "Not until standards have been established for all equipment, materials, and supplies, and not until clear and intelligible specifications have been made a prerequisite for every purchased item, can the full benefits and economics of scientific purchasing be realised".

There is little doubt that with centralised purchasing it is easy to develop a system of standardization and specifications for a series of common goods and services. This in the long term promotes efficiency and effectiveness in the purchasing function. Furthermore, there is a marked reduction of varieties of similar items being purchased and this ultimately results in a more uniform and satisfactory quality of merchandise.

(d) Although figures are not readily available to show the cost effectiveness of centralised purchasing, it is logical to assume that duplication of effort and expense is decreased when all purchasing is executed through a central purchasing unit. There is, for example, a decrease in the number of orders that will be issued and consequently in the number of invoices that have to be processed for payment and similarly in the number of cheques to be remitted to suppliers.

(e) With large volume purchasing it is possible to obtain cash and settlement discounts. Invoices which pass through a centralised purchasing unit enables prompt and efficient handling of payments to suppliers and guarantees that discounts will be deducted timeously.

(f) Through the centralisation of the purchasing function it is simple to limit purchases within approved departmental budgets. Before each purchase is authorised by the purchasing officer the availability of funds must be checked against the respective departmental budget. This could be made standard practice within a central purchasing unit and

would certainly provide a more effective budget and financial control method.

(g) Under a centralised purchasing system there are personnel with a higher degree of purchasing ability, with specialist buyers in certain fields. Consequently, more effective and efficient results are achieved in a purchasing unit administered by qualified and trained staff.

(h) The centralised purchasing unit, because of its specialist activity, is in an ideal position to obtain an efficient delivery and service from suppliers. It is able to negotiate improved delivery times and ensure satisfactory service. It is geared to stipulate, for example, the type of packaging to be used, to which delivery points goods must be supplied, and it is convenient both to the supplier and the institution to return incorrect and unsatisfactory items of merchandise from a central point. The centralised purchasing function also facilitates the follow-up and expediting of outstanding orders.

(i) The centralisation of the purchasing function is not only of benefit to the institution but to the supplier as well. The number of calls by representatives is reduced and the decrease in the number of orders entails savings for the suppliers. Furthermore, if a centralised delivery point is maintained by the institution, delivery and transport costs of the suppliers are further reduced.

Such reduction in overhead costs of the supplier may prove to be of benefit to the institution in obtaining lower prices and further discounts for cash purchases.

The centralised purchasing function does not necessarily imply only advantages, there are also limitations to the system.

5.2.1.2 Limitations of Centralisation

The following may be considered as limitations of the centralised purchasing function (Ritterskamp et al., 1968 : 11-14).

(a) It is possible that under certain circumstances centralisation of the purchasing function is not advisable. In cases of satellite units of a municipality it is beneficial to centralise the purchasing function to each geographical area rather than trying to co-ordinate the purchasing requirements of all such units under one central purchasing office. In these instances, poor communication and geographical separation are factors which may hinder rather than promote centralisation of the purchasing function.

(b) The human element is a factor which may seriously limit the functioning of a centralised purchasing unit. This occurs especially when there is disagreement between the user-department and the purchasing officer on the choice of an item intended for purchase.

(c) The emphasis on financial savings as contrasted to values in social services or the municipality may decrease the effectiveness and credibility of the purchasing unit. A purchasing officer who acquires a reputation of being concerned with monetary savings at all costs, at the expense of functional objectives, seriously hinders the overall goal achievement of the municipality. Such a 'tag' must be avoided if the purchasing unit is to effectively contribute to the welfare and administration of the municipality.

(d) It is important that a centralised purchasing unit portrays a reliable, cordial and an efficient image. It must not administer its services through excessive paper work or by insisting on minute and insignificant details. Such an attitude of 'bureaucracy[2]' and 'red tape'[3] is thoroughly resented by user-department personnel and militates against obtaining their sincere co-operation. Excessive paper work results in undue delays in processing of purchase orders and may prove costly to the institution.

(e) If the centralised purchasing unit reflects an image that it is the only <u>au fait</u> body which alone possesses the requisite knowledge for making a sound purchasing decision, then it seriously restricts its function as a service department. It must convince the user departments of its sincerity and willingness to serve and that it is prepared to consider their wishes and desires in respect of possible acquisitions. Any decision to deviate from the choice of the user department must be based on sound and logical reasoning and be executed only if it is in the best

interests of the municipality.

From the foregoing discussion it is apparent that the advantages of the centralised system outweigh the possible limitations. If co-ordinated effort and co-operation are obtained between the centralised purchasing unit and the user-departments then the system could prove to be an efficient and an effective one.

5.2.1.2.1 Centralisation of the Purchasing Function on a Co-operative Basis

Singer (1977) defines co-operative purchasing as joint purchasing of common goods and services by more than one unit of government. Korbitz (1976) is of the view that co-operative purchasing is merely the extension of the principle of centralised purchasing system. Singer (1977) provided guidelines to assist municipal authorities to purchase goods and services at the lowest prices and acceptable quality by participating in a co-operative co-ordinated purchasing programme with other municipal authorities with similar needs for goods and services. Singer (1977) identified the following approaches which may be used to co-operatively purchase goods and services:

- A large municipal authority may provide purchasing resources and expertise to one or more smaller municipal authorities at no increased cost to the large municipality by joint association.

- Smaller municipal authorities can join together to purchase a larger volume of goods and services, thereby sharing the

increased costs proportionately and benefiting from lower costs in the process.

- A new legal corporate unit may be established on a regional or national level, such as a municipal purchasing council, with participating members also being responsible for its administration.

Singer (1977 lists the following advantages of co-operative purchasing:

- enables large volume purchasing which results in larger quantity discounts and greater savings;

- provides an opportunity for municipal authorities to encourage professionalism in municipal purchasing by employing professional purchasing officers to administer their purchasing programmes;

- ensures maximum utilisation of available resources, such as staff, finance and materials; and

- provides municipal authorities with procedures and resources to handle long and short term projection and planning in a dynamic purchasing environment.

From the aforementioned, it is evident that co-operative purchasing as a system of centralised purchasing has merits. South Africa has numerous municipal authorities that are geographically closely situated and can easily consider the co-

operative purchasing system. The idea is a feasible one that may be extended to both regional and national levels in South Africa. There is little doubt that for this initiative to be successful it requires genuine commitment from all participating municipal authorities.

5.2.2 Decentralisation of the Purchasing Function

When the purchasing function is decentralised it implies that the activity of purchasing will be executed by numerous un-coordinated purchasing units in each department (Ritterskamp *et al*., 1968 : 5-6).

Ritterskamp, *et al* (1968 : 5) elaborate in this regard when they state that:

> "A decentralised plan, by contrast, gives numerous officials authority to make purchases without any reference to a central office. Thus, under the decentralised plan, each department chairman does the purchasing of the supplies and equipment for his unit; the superintendent of buildings and grounds buys all the supplies for plant operation and maintenance; and each administrative office buys its own office supplies".

5.2.2.1 Advantages of Decentralisation

The following are, *inter alia*, the advantages of decentralisation (Baily & Farmer 1977 : 15):

(a) the local purchasing officer is expected to have a better knowledge and understanding of the purchase requirements of the institution, of local suppliers and of transport and storage facilities;

(b) in the event of emergency needs the purchasing officer is able to respond promptly owing to shorter lines of communications and because he is 'on site' he has a greater awareness of the local circumstances; and

(c) since the purchasing officer is responsible directly to his immediate superior officer, this ensures better liaison and even stricter control.

From the above it is clear the advantages of a centralised purchasing system far outweigh that of a decentralised purchasing system.

5.2.2.2 Limitations of Decentralisation

In general the advantages of a centralised system can be construed as the disadvantages of the decentralised system (Baily & Farmer 1977 : 16). A few limitations are cited (Ritterskamp et al : 8-9).

(a) The standardization of items is made difficult. Consequently, a variety of similar items are acquired from different sources which make servicing and maintenance a difficult task.

(b) Reasonable price are not obtained since requirements are not combined and pooled to effect savings.

(c) Uniform standards and specifications are difficult to develop as the collation and analysis of purchasing

requirements are made problematic under a centralised system.

(d) Orderly planning and organising is found to be lacking in a decentralised system. It encourages duplication of effort and expense as the purchasing function is executed by the various purchasing units.

(e) Under a decentralised system departmental appropriations are frequently exceeded through a lack of systematic control for restricting the placing of purchasing orders in advance.

(f) Departments usually receive goods and services and approve invoices for payment and frequently, for various reasons, the department delays the transmission of invoices to the accounting section. This consequently results in cash discounts being lost. Such consistent losses may add up to hundreds of rand annually.

5.2.3 Centralisation and Decentralisation

With regard to the combination of centralised and decentralised organisational systems Baily & Farmer (1977 : 16) state that:

> "... a combination of both is often used to obtain the benefit from the best features of each, while avoiding the disadvantages of both approaches".

Some advantages listed by Baily & Farmer (1977 : 16) are:

- determining policy, standards and procedures and group specifications;

- the negotiation of contracts for common materials which are used by the departments in any volume;
- legal matters relating to supply;
- co-ordination of group inventory; and
- arranging of contracts for imported materials and for exports where relevant.

The different organisational systems have their merits and demerits. The system most appropriate to a municipality will depend on a number of factors such as, size of the municipal area, nature and scope of functions and available resources such as finance and personnel.

The execution of the purchasing function is dependent on the availablity of financial resources.

5.3 Financing

The municipality requires funds to execute its functional objectives, which collectively results in the achievements of the goal of community welfare (Cloete 1989 : 113). In this regard money is required to obtain services of personnel, to buy equipment, plant and machinery to provide services and to pay for goods and services rendered to it by other individuals and institutions (Cloete 1989 : 125). To obtain these goods and services expenditure must be incurred on the basis of available income (Cloete 1989 : 125).

The responsibility to ensure that sufficient finances are available to execute the functional activities of a municipality,

rests with the municipal council. In this regard Cloete (1989 : 82) states that municipalities are authorised to approve their own estimates of income and expenditure, impose rates within prescribed limits and to determine levies for services rendered.

It, therefore, follows that funds must be provided for the execution of the activities constituting the purchasing functions. Since municipal financial resources are scarce, the manner in which the purchasing function is approached must be repeatedly examined in order to ensure that the overall cost of the activity is kept at the lowest possible level without prejudicing the efficiency and effectiveness of the function (Cloete 1985 : 35).

The municipal budget plays a vital role in this regard. Marshall (1974 : 51) emphasises the importance of the municipal budget as follows:

> "... (it) sets departmental targets for the year (and future years), fixes the rate levy and lays down the basis of accountability ... The annual budget brings getting and spending together in a form familiar to both, the elected members and the officials. It settles both the ratepayers'contribution and its allocation over the various services. To the ratepayer it appears as a council's most important annual action; to the member, budget making is the time when he is made sharply aware of his accountability to the electers".

In this light the approved municipal budget may be regarded as an authorised policy document which provides the basis for the continued execution of the purchasing function.

Therefore, it follows that all purchasing transactions may only be sanctioned if the goods and services to be bought have been approved on the authorised budget. In this regard, heads of departments must ensure that the expenditure of funds in their departments is carried out in the spirit of financial responsibility (Sing 1983 : 111). Furthermore, departmental officials must ensure that the purchases of essential goods and services are executed as efficiently and effectively as possible.

The efficient and effective execution the purchasing function is to a large extent determined by the calibre of personnel employed in the purchasing office.

5.4 Staffing

In regard to the importance of the staffing function, Page (1980 : 69) aptly writes:

> "Staffing fills the organisational roles with personnel who are able and willing to perform in those roles. This involves careful definition of the role (positions) and effective recruiting, selection, and training of those who occupy the positions. The performance of the occupants should be continually appraised and their contributions appropriately recognized. There should be a program of both formal training and development."

The purchasing function is only recently being recognised as an important career field, especially in view of economic developments - increasing material costs, critical shortages and distribution of supply - which have focused attention on purchasing functionaries who are responsible to plan, acquire and control the supply of goods and services (Page 1980 : 69).

In the private sector, the purchasing function is now emerging as a profession, and is being recognised as an activity contributing greatly to reduced costs, efficiency and economy in achieving institutional objectives (Alijan 1973 : 26-3).
In a study undertaken by the American Institute for Property and Liability Underwriters, Edwin Overman suggested the following criteria which determines whether a vocation such as purchasing is a true profession or not (Alijan 1973 : 26-3):

1 There is a need to always strive for the ideal of altruistic attitude and behaviour (consciously seeking and serving the welfare of others, a lack of self-interest).
2 The necessity for a clear carefully conceived code of personal ethics.
3 The importance of a highly unified body of specialized knowledge.
4 The significance of a broad educational background containing generalized knowledge, being multi-disciplinary not just a single speciality.
5 The need for critical searching and analytical examinations for determining the mastery of specialised and generalised subject matter (testing of individuals concerning theory and practice).
6 The functions performed by professional societies consisting of those who have been admitted to membership in the profession (a national society with professional goals and ethical standards with authority to expel members who fail to adhere to the standards).
7 The need to inculcate and maintain respect and status in society.

The purchasing function meets the aforementioned criteria and Alijan (1973 : 26-3) lends support to this view when he writes:

> "Purchasing as a professional activity in business today is an accepted fact".

It, therefore, follows that the quality of performance of the purchasing function is determined to a large extent by the quality of the personnel appointed to execute it. Therefore, it is important to appoint personnel who have the proper knowledge and skills in this specialised field of activity.

In this regard it is important that careful selection of the executive purchasing officer and all members of his department holding subordinate administrative positions should be made with the primary objective of the purchasing office in mind, that of serving the user-departments of the municipality by providing them with the required materials, supplies and equipment at the time they are needed within reasonable costs (Ritterskamp et al 1968 : 35).

The determination of the types of personnel necessary to fulfil the objectives of the purchasing function is a challenging task which requires considerable thought and personal ability. (Alijan 1973 : 26-6). The selection of the right person is largely dependent on the nature and scope of the purchasing assignment (Alijan 1973 : 26-6). The job description provides the definition of duties and responsibilities and a description of the operation required to perform each assignment, within the purchasing function . (Alijan 1973 : 26-6-7). Once these requirements have been determined, applications for the position

may be invited with a view to interview and select the best candidate for the post.

Westing Fine & Zenz (1976 : 393) indicate that the qualifications and characteristics of persons who generally succeed in the purchasing field may be conveniently grouped into three specific categories - personal characteristics, educational background and business experience.
An overview of these essential requirements are presented hereunder.

a) Personal Characteristics

The following is not an exhaustive list of personal traits of the purchasing functionary but rather a list of the more pertinent characteristics with some indications of the reasons for their importance (Westing et al 1976 : 393 - 398):

i) Integrity : Large sums of money are spent by the purchasing personnel and consequently the financial temptations are great. Purchasing officers must remain impervious to these methods of influence, whether in the form of an inordinate gift, a secret 'kickback' or outright bribery. Personal integrity also requires one to refrain from making unwarranted promises to potential suppliers in order to ensure preferential treatment.

ii) Dependability : The continued operations of the various user-departments depends largely on the reliability of the purchasing office to follow-up outstanding orders until

goods and services are delivered according to specifications. In this regard, dependability of the purchasing functionaries to rise to the occasion cannot be overemphasised.

iii) Initiative : This is a necessary characteristic which all personnel should possess or cultivate despite the nature of their functional activities. Within the context of the purchasing function, personnel are often faced with demands from the user-departments, which require initiative and imagination to source out and purchase. Sometimes, unexpected requirements necessitate locating materials and supplies in unusual places at very short notice.

iv) Industriousness : The industriousness of the purchasing personnel is often tested by the long hours they must work. Purchasing functionaries may be on standby to execute emergency purchases over the weekends to resolve crisis situations which affect the continuity of the functional activities. Furthermore, there are often periods of pressurised activity by the user-departments which accordingly results in pressure being brought to bear on the purchasing functionaries. A purchasing officer who is unwilling to work long hours when circumstances warrant it, is lacking an important trait for success in the purchasing field.

v) Co-operation : The purchasing function affects every organisational unit within the institution. This is so because every item is purchased for one or other user-

department within the institution. Consequently, the purchasing personnel must possess an unusual ability to co-operate especially to minimise the friction that may arise out of the situation.

vi) Tact : Perhaps, the most important single characteristic that purchasing personnel should possess is tact. It is a necessary quality to ensure harmonious relations between user-departments, the purchasing office and suppliers. A tactless person may antagonize a supplier and in one stroke upset the goodwill and co-operation which have been built over a number of years. A tactful approach promotes co-operation and cordiality within the purchasing environment.

vii) Ability to Learn : Purchasing personnel must possess the ability to learn. The purchasing function is a dynamic field of activity with changing needs and demands which must be met. A purchasing functionary must have an enquiring mind and keep abreast of the institutional needs as well as the changes in the supply market. He must have the ability to integrate demand and supply requirements to ensure user-satisfaction.

viii) Ability to Work on Details : The purchasing function entails many aspects which may be classified as detailed work. These are important to ensure efficiency and effectiveness of the purchasing activity, despite being routine in nature. Meticulous care and thoroughness are necessary in this regard. For example, when placing an order, purchasing functionaries must ensure that the correct

order number is quoted, that items ordered are according to specifications, that the price, discount structure and payment terms are acceptable, that the delivery times must be on schedule and that the items are delivered to the correct address.

b) Business Experience

This is considered a necessity for persons appointed in the higher ranks of the purchasing department. (Westing et al 1976 : 395). Westing et al (1976 : 395) emphasise the need for higher ranking purchasing personnel to be knowledgeable about institutional matters and general business practices so as to effectively deal with user-departments and suppliers. Experience, has been one of the key considerations for selection to the purchasing department because many purchasing functionaries are acquired by interdepartmental transfers or are recruited from the purchasing department of other institutions (Westing et al 1976 : 395).

In recent times, however, there is an increasing emphasis being given to educational qualifications as a prerequisite for the appointment of purchasing personnel and this trend may gradually de-emphasise prior experience as the chief prerequisite for entry into a purchasing department (Westing et al 1976 : 395).

c) Educational background

With increasing scientific and technological trends making the purchasing field a highly dynamic profession, the need for purchasing personnel to possess a relevant educational qualification has become a necessity for anyone expecting to progress in the purchasing field. (Westing et al 1976 : 396).

A survey of purchasing manager associations undertaken in the United States by Westing, Fine & Zenz (1976 : 396), in 1972, revealed that 85,5% of the respondents had some college education, 32.7% had completed a degree programme and 15.9% had a graduate education. The fact that the survey significantly revealed that about half of the purchasing employees had obtained a college education or more is indicative of the value of higher education for any person embarking on a purchasing career (Westing et al 1976 : 396).

Ritterskamp et al (1968 : 35) lend support to the value of knowledge, experience and qualifications when they emphasize that

> "the most successful and efficient purchasing agent will probably be a college or university graduate who has had both educational and purchasing or business management training and experience. He should have a thorough knowledge of the basic principles and techniques of purchasing; of the methods and procedures of purchasing, storing, distributing, and accounting for the materials and supplies ordinarily required within an institution. He should have a knowledge of market conditions, current prices, quality of materials, traffic procedures, business, law, sources of specification and supply, or must at least know how to locate these sources. He should learn the reputation of the suppliers and their ability to serve the needs of the institution, and be aware of the sharp practices sometimes used by vendors".

Within this context, it is important to identify the duties and responsibilities of the purchasing personnel.

5.4.1 Duties and Responsibilities of Purchasing Personnel

The activities executed by the purchasing personnel are central to the success of the purchasing function. It is however, not possible to discuss the duties and responsibilities of all levels of purchasing personnel. Consequently, the duties and responsibilities of three key purchasing personnel shall be highlighted. These are the purchasing officer, assistant purchasing officer and the purchasing clerk.

5.4.1.1 Purchasing Officer

The purchasing officer is a senior functionary and head of the Purchasing Office whose duties and responsibilities are to (Ritterskamp et al 1968 : 36):

- supervise the purchasing of all materials, supplies, equipment and services requisitioned through the purchasing office in such a manner so as to obtain the most suitable quality under satisfactory delivery and price conditions;

- expedite all purchases to ensure that goods and services are received in time to meet the requirements of the institution;

- assist user-departments in standardising materials and

supplies and in establishing specifications;

- supervise the filing of claims and securing such adjustments as are necessary in the case of an unsatisfactory shipment or the receipt of goods damaged in transit;

- keep in touch with the general and special activities of the institution and its many user-departments; and

- secure co-operation of user-departments in making tests which are required or desirable in respect of purchases.

5.4.1.2 Assistant Purchasing Officer

The assistant purchasing officer is second in rank to the purchasing officer. The functions of the assistant purchasing officer is to (Ritterskamp et al 1968 : 37):

- attend to routine purchases of supplies, materials and repairs as directed by the purchasing officer. This may involve written quotation requests, telephone calls, seeking out suppliers, comparing prices, terms, and delivery and submission of relevant information to the purchasing officer;

- follow up outstanding purchase orders by telephone and letter to expedite the delivery of materials, supplies, and equipment to meet the requirements of the institution;

- maintain catalogue library and commodity reference file;

- supervise the processing of supplier invoices;

- maintain office machine equipment inventory;

- handle distribution and arrange for repair of typewriters and other office appliances;

- distribute and account for petty cash purchases and payments approved by the purchasing officer;

- supervise and assist in the clerical work of the office;

- establish efficient methods and a suitable record system for the purchasing;

- determine when to recommend that large advance purchases be made or small purchases be delayed to take advantage of favourable market conditions;

- determine when lower prices and better deliveries may be obtained through large volume orders representing total requirements of the institution as a whole;

- supervise the disposal of scrap, surplus and obsolete materials and equipment;

- supervise and supply material inventories and maintain accurate material accounting information, i.e. control

central storeroom with its related functions of requisitioning, receiving, checking, inspecting, handling, storing, issuing, packing, loading, taking inventory, and maintaining records;

- supervise the maintenance of office-machine equipment inventory;

- search for cheaper and better sources of supply;

- search for cheaper or better substitute materials, supplies and equipment;

- be alert to conditions which might interfere with shipments so that materials may be obtained from another source, or substitutions of materials may be made in time to meet the institutional requirements;

- approve processed invoices promptly; and

- interview sales representatives personally and when necessary put them in touch with the user-department.

5.4.1.3 Purchasing Clerk

The purchasing clerk is normally a junior official whose functions are to (Ritterskamp et al 1968 : 38):

- process all suppliers invoice received by the purchasing department;

- prepare and process each purchase order after receiving a properly authorised purchase requisition from the purchasing officer;

- process incoming mail;

- process all receiving reports;

- post outgoing mail;

- do the secretarial and clerical work of the purchasing office, including typing of correspondence and filing; and

- answer purchasing office telephones and route calls to the proper person or take messages.

It is important to note that the post structure in the purchasing organisation differ from municipality to municipality and the aforementioned posts reflect a general trend in municipal authorities. The duties and responsibilities of purchasing functionaries described indicate that they must possess adequate knowledge and training in the field of purchasing in order to efficiently and effectively execute the purchasing function.

In order to qualify as purchasing personnel a diploma in purchasing and stores administration is offered at South African technikons which is considered adequate by the Institute of Purchasing in South Africa (Fearon & Hamilton 1983 : 321-322).

Purchasing personnel may only perform their work efficiently and effectively if there are uniform work procedures to follow.

5.5 Determining Work Procedures

Work procedures enable the purchasing functionaries to perform their tasks in an orderly manner to achieve the objectives of the purchasing function as efficiently and effectively as possible (Cloete 1976 : 7-8). To this end purchasing officers must ensure that the work procedures in use eliminate the wastage of material, time and human energy (Cloete 1976 : 7-8). The purchasing function must contribute to the overall goals of the municipality as cost-effectively as possible, without sacrificing the quality of goods and services rendered as well as ensuring the timely delivery of these requisites without disrupting the continuity of the functional activities of the municipality. Therefore, Lee and Dobler (1977 : 413) emphasise that the designing of sound purchasing procedures:

- are primarily meant to facilitate the purchasing function;
- should always be set out in writing;
- are important aids in the organisational context in areas such as communication and co-ordination and should therefore be designed to integrate with the procedures of other departments;

- determines the responsibility for performing each individual step of the purchasing procedure and be clearly defined to ensure expeditious and efficient performance; and
- must clearly stipulate the best method for performing routine tasks at the lowest levels in the organisational structure of the purchasing section.

The purchasing procedures entail the use of various purchasing forms. Before discussing the work procedures used in the purchasing function it is necessary to discuss the purchasing forms used in the purchasing function.

5.5.1 PURCHASING FORMS

Forms are important tools without which any task is made difficult. The forms that are used should facilitate an activity rather than create confusion and 'red tape' (Westing et al 1976 : 56 - 57).

The number of forms which are required to carry out the purchasing function depends on several factors, inter alia, the size of the institution, the purchasing system employed, and the accounting and internal control methods used in the institution (Westing et al 1976 : 56-57).

Westing et al (1976: 57) stress that regardless of the number of forms used it is important that the forms comply with principles of good design. These principles should (Westling et al 1976 : 57):

- facilitate entering of required data;

- impress the users as being a significant form;
- enable users to easily extract data from it;
- minimise the possibility of errors in entry or use of data; and
- be economical to reproduce.

Primarily two important forms are used in the purchasing function at municipalities, these are:

- the purchasing order; and
- the requisition.

5.5.1.1 Purchasing Order

The culmination of the purchasing function is the issue of the purchase order to a supplier.

Ritterskamp et al (1968:68) emphasise its importance as follows:

> "The preparation of the purchase order on the basis of either informal negotiations or formal quotations represents consummation of a contract by accepting legally the offer made by the successful bidder".

The purchase order is the official municipal document which formalises a purchase transaction with a supplier. (Van Rooyen & Hugo 1986:180)

It provides the following pertinent information (University of Florida 1984: 8500-4):

(i) name and address of institution;

(ii) supplier's name and address;

(iii) serial number;

(iv) terms and conditions of purchase;

(v) shipping and delivery instructions;

(vi) quantity, description of item and price; and

(vii) authorisation by relevant signatories in the municipality.

The number of copies of the purchasing order used may differ from institution to institution. On average, there should be six copies which are distributed as follows. (Van Rooyen & Hugo 1986 : 181):

- original to the supplier;
- copy to be retained by the purchasing office for further attention such as follow-up;
- copy to stores (inventory section) for inspection delivery and acceptance;
- copy to the requisitioning department to inform the head of department that the order has been placed and thus serving as a check against the requisition;
- copy for payment and accounting purposes; and
- copy retained in the order book as a permanent record of transactions.

5.1.1.2 Requisition

An officer in the user-department indicates the need for a specific item or service on a requisition (Heinritz & Farrell 1981 : 43). Hodges (1961 : 264) is of the view that the

'requisition' is the expression of the need of a user-department. Basically two[4] types of requisitions are used:

- stores (inventory) requisition; and
- purchase requisition.

The stores (or inventory) requisition is used to obtain items generally kept in stock in the central stores (or inventory) section. (Heinritz & Farrell 1981 : 43). In some municipalities, if the item is not available in stock, this requisition becomes a purchase requisition.

The purchase requisition is forwarded to the purchasing office to buy specific goods or services for the requisitioning department (Heinritz & Farrell 1981 : 43).

The requisition form provides for the following information:

(i) serial number;
(ii) name of originating department;
(ii) budget item - allocation code on estimates;
(iv) quantity and description of goods and services; and
(v) authorised signatories, normally the head of the requisitioning department or a person delegated with such powers.

These forms play an important role in the purchasing procedure which entails the manner in which a purchase transaction is executed from its inception to its conclusion.

5.5.2 PURCHASING PROCEDURES

Although the purchasing procedures may differ from municipality to municipality, depending on the size and system used in such institutions, however, the following basic steps are considered essential (Westing et al 1976 : 48):

- recognition, description and transmission of need;
- selection of possible sources of supply;
- determination of price and availability;
- follow-up and expediting of the order;
- receipt and inspection;
- checking the invoice;
- processing discrepancies and rejection;
- close completed orders; and
- maintenance of records and files.

The above aspects are often referred to as the purchasing cycle.

5.5.2.1 Recognition, Description and Transmission of Need

The recognition of a need generally originates in a user-department. The department describes the need for a specific item or service on a purchase requisition and forwards it to the purchasing office for fulfilment.

Westing et al (1976: 49 - 50) emphasise the need to provide complete and accurate information on the requisition in a manner that can be readily checked and verified. The purchasing officer on receiving the requisition must thoroughly check it on

the basis of his own knowledge and skills, records of past transactions, and supplier catalogues. If requisitions are incomplete, doubtful or questionable, he should refer it back to the user-department. An incorrect decision made in these instances may prove to be costly to the institution and as such no chances should be taken.

A stores (or inventory) requisition may be forwarded by the user department to the central stores (or inventory section) if the item is held in stock.

It is important for control purposes that all requisitions are signed by authorised persons within the user-department as well as by personnel in the purchasing office and the inventory section.

5.5.2.2 Selection of Possible Sources of Supply

The selection of possible sources of supply means ascertaining the sources from which an item or service could be purchased. Once this is done, the buyer has to narrow down the list to a potentially few suppliers from whom he would obtain prices. At this stage the buyer consults various sources of information : reviews his records of supplier performances, personally visit suppliers, speak to sales representatives and checks with purchasing officers at other institutions.

5.5.2.3 Determination of Price and Availability

The purchasing of supplies and services can be effected in a number of ways. The method of purchasing depends on the prevailing circumstances. An urgent purchase may be treated differently from another for which there is ample time for negotiation, confirmation and delivery.

The key to the purchasing function is negotiation which is necessary to ensure that the purchasing of supplies and services are executed as effectively and efficiently as possible (Ritterskamp et al, 1968 : 62 - 63).

The primary goal of a purchasing officer within the municipality is to negotiate for the specific and general requirements of the user-department and to confirm orders with suppliers for goods and services required by the municipality (Ritterskamp et al 1968 : 62 - 63).

The determination of price and availability involves securing the price and delivery times for the items to be purchased. Several methods could be used in this process namely (Westing et al 1976: 51-52):

- purchase without negotiation : price lists and catalogues could be used for items of general or standard nature;
- informal quotations : obtaining quotations and negotiating with suppliers for the best possible price without sacrificing other important aspects such as quality, delivery time and back-up service; and

- tender system : by invitation of formal tenders from a number of possible suppliers which are opened after a specified period of time, analysed and awarded when the purchase order is issued to the successful supplier.

The purchasing officer has to determine which method is best suited for purchase of the required commodity, depending on the prevailing circumstances and the rules and regulations governing municipal purchasing.

A general discussion on these methods shall be undertaken to provide greater clarity as to their value within the context of the municipal purchasing function.

5.5.2.3.1 Purchase Without Negotiations

Purchase without negotiation is usually executed in the following instances (Ritterskamp et al 1968: 62,63):

- where a contract for the item required already exists and the purchase order is issued in terms of such conditions and prices as stipulated on contract;

- where a previous contract negotiated for the item in question could be used as a basis for the current purchase;

- where the item and value is so small that negotiations for such purchases may prove to be time consuming and costly and hence cannot be justified. A petty cash order may be issued in these instances;

- where the item is available from a sole supplier and the purchase value is small, an order could be confirmed. When the item is of an appreciable cost then negotiations with the supplier regarding, inter alia, price, delivery time and back-up service, is imperative before confirmation of a purchase order;

- where orders are placed on the basis of catalogue information; and

- where a purchase may be considered to be so urgent that it warrants the issue of a purchase order immediately to a responsible and reputable supplier who has had longstanding relations with the municipality.

Another form of purchasing is executed by obtaining informal quotations.

5.5.2.3.2 Informal Quotations

Municipalities also purchase by use of informal quotations.

This method is often used when time-span is limited and when specifications of the item are not clear, and it is necessary to negotiate informally with several suppliers (Ritterskamp et al 1968 : 64).

The need for quotations, either formal or informal is to establish a basis for negotiation and to issue an order once agreement is reached. Once finality has been achieved, a

contractual obligation between both parties come into existence. (Ritterskamp et al 1968 : 64)

Ritterskamp et al (1968 : 56) emphasise this point as follows:

> "In using informal quotations all essential steps in full formal bidding should be followed ... It is important, therefore, that the procurement official negotiate informally in order to cover the complete terms of the contract just as he would if he were engaged in formal bidding on a particular negotiation."

In order to purchase in terms of informal quotations it is necessary to have a pre-selection of suppliers and the list is usually limited to a few prominent vendors who specialise in that specific purchase requirement.

The telephone is the most frequently used instrument in informal negotiations. Often a telegraph, telex or telefax machine may be used if time is of the essence and the information on items to be purchased is required urgently. A list of items is provided by the purchasing officer and the supplier checks his stocks and quotes his price accordingly. If the purchase item is of the right quality and price, and delivery is acceptable, the order number may be issued immediately on the telephone and subsequently a purchase order is posted marked 'confirmation of telephone order'.

The important points in the confirmation of telephone orders is to note (Ritterskamp et al 1968 : 65):

(i) who placed the order;

(ii) who in the selling institution received and accepted it; and

(iii) the date and time of confirmation.

These measures ensure the correct channel of communication in the event of queries with the order.

There is undoubtedly an element of risk in informal quotations. Ritterskamp et al (1968 : 65) observe that

> "... the procurement official is risking his judgement at the time the order is placed as to what the proper prices should be and as to whether or not better results could be achieved by formal quotations when the 'rush' element is not so apparent".

A check in this regard is to review records of past purchases of similar commodity.

Ultimately, a purchasing officer should distribute purchases especially for items of a large annual volume to several suppliers in order to ensure that continued interest is shown in his institution (Ritterskamp et al 1968 : 65).

In many instances, it has been found that suppliers who do not receive any orders do not generally respond to any requests for quotations. However, it is necessary that there should still exist a communication channel. Suppliers put in a great deal of effort and time in obtaining prices for municipalities. The buyer should inform them of the results and thank them for the interest shown in the institution. This type of action serves to build a good image of the municipality.

The greatest possible advantage may be obtained when purchasing by formal quotations or by tender.

5.5.2.3.3 Tender System

In most municipalities it is common practice to purchase by formal quotations or by tenders for goods and services over a specific value limit. This is often determined by the financial regulations of a municipality.

Ritterskamp et al (1968 : 65) elaborate on the reasons as follows:

> "Formal quotations are used in public institutions where the amount of the purchase exceeds the limit set by law and in private institutions where the purchase is of appreciable cost".

The above is true of municipalities which formally invite suppliers to tender for items.

For greater clarification the method of obtaining tenders shall be discussed under the following headings;:

a) specifications;

b) selection of suppliers;

c) format of tender invitation;

d) procedure for receipt and preparation of tender documentation; and

e) adjudication of tenders.

a) Specifications

A specification may be defined as:

> "... any description of the physical or functional characteristics of the nature of the commodity, service or construction of the item for delivery. It may include a description of any requirement for inspecting, testing or preparing a commodity, service or construction item for delivery". (University of Florida 1984 : 8500-4).

Of particular importance is that all specifications must be checked and approved by the purchasing office prior to invitation of the tender (Van Rooyen & Hugo 1988 : 179). Primarily all specifications shall seek to promote overall economy for the purpose intended, encourage competitiveness in satisfying the municipality's need and shall not be unduly restrictive (Van Rooyen & Hugo 1988 : 179).

b) Format of tender invitation forms

Ritterskamp et al (1968 : 66) make the following pertinent comments in regard to the tender format :

- tender invitation form should be simple and easily understood;
- must reflect standard clauses in respect of, inter alia, discounts, transportation costs, customs and excise duties, delivery basis, guarantees and effects of fluctuation in rates of exchange;
- use of escalation clauses should not be encouraged, but if considered a necessity should be carefully worded and clearly set forth;

- clauses pertaining to infringement of patents and other legal aspects should be adequately covered in the tender document clearly specifying the onus of liability; and
- tender invitation form must specify boldly whether prices are firm and for what durations prices are valid.

Once the tender specifications and the invitation documents have been processed it is necessary to determine to which suppliers the tender invitations should be posted.

c) Selection of Suppliers

The selection of suppliers to bid is important to ensure that sufficient coverage is obtained for the items put out on tender. Many municipalities have over the years established a qualified tenderer's list, which stipulates the name, address and the types of commodity that suppliers tend to quote for (Van Rooyen & Hugo 1988 : 118).

It is often necessary, especially in the event of new suppliers, to obtain information about their financial standing and their production capacity to ensure reliability and compliance in the event that an item is awarded to the supplier (Page 1980 : 228-229).

Some public institutions believe that the tender documents should go out to all suppliers who specialise in the field, yet others believe in a pre-selection of suppliers. (Ritterskamp et al 1968 : 66).

If the tender specifications are for a high value item, it may be necessary to obtain an even greater market by advertising it in local and national newspapers, which is the procedure followed by many municipalities.

Once the selection of suppliers is complete the tenders are posted to them for formal quotations.

d) Receipt and Preparation of Tender Documents

After a specified period of time, the tenders are opened and the names and prices of tenderers are scheduled for analysis and adjudication (Ritterskamp et al 1968 : 67).

At municipalities it is common practice to allow suppliers at the opening of the tender quotations and is often written into the financial regulations. This serves a two fold purpose, one, it assures the suppliers that the methods and procedures are authentic and the other is that it serves to inform them of the competitiveness of the market. These aspects could only benefit the municipality.

All specifications must be written out clearly, free from ambiguity and confusion. In some cases standard specifications could be used and kept on file permanently with the necessary changes being effected when new developments are made in the field. Such specifications can be used repeatedly (Ritterskamp et al 1968 : 65).

Specifications should not be 'tailored' for just one supplier, as this defeats the purpose of this system of purchasing. When using a specific brand name, it is important to quote the notation 'or equal' as a protective measure to ensure that items of similar quality could be evaluated for purchase (Pretorius 1990 : interview).

Samples, blue prints and minimum performance standard are forms of descriptive methods used as a basis for specifications (Ritterskamp et al 1968 : 66).

Specifications should clearly indicate the quantity required and whether items should be quoted per each or price lot. Cognisance must be taken of the fact that at times a greater quantity could improve the price (Heinritz & Farrell 1981 : 251). In these cases the purchasing office should pool the request of the various departments and invite a single tender for the item. For example, the purchase of personal computers and software are commodities from which benefits accrue if purchased in large volumes (Diffenthal 1990 : interview).

Where the purchasing officer is in doubt or expert advice is sought, he should elicit the help of the personnel from the requisitioning department in the framing and writing up of tender specifications (Baily 1963 : 194). Under certain circumstances, he may authorise a requisitioning department to prepare its own specification subject to his approval (University of Florida 1984 : 8500-05).

e) Adjudication of the Tenders

The adjudication of a tender requires specific knowledge, skills and behavioural attitudes. A purchasing officer, for example, must understand the specifications, the minimum requirements as well as the quotations submitted by the suppliers to make a sound evaluation.

Ritterskamp, et al (1968 : 67) state in this regard as follows:

> "The problems connected with awarding the contract should not be lightly passed over. The procurement official must be sure of his ground, sure of his specifications and compliance with them by bidders. He must be convinced that the successful bidder will successfully fulfil the contract. Occasionally bidders are disqualified for cause. It may be discovered that they are seeking unethically to gain business by underhand methods or by 'sharp practices'. A bidder may be found to be in financial difficulty after requests for quotations are sent out. Occasionally a bidder will wish to withdraw from bidding before the award is made. These problems must be handled with proper judgement to protect the interests of the institution and to protect the standing of the purchasing department with all suppliers".

When tie-bids are received the purchasing officer must satisfy himself that there has been no collusion and if satisfied may award the order on a rotational basis (Ritterskamp et al 1968 : 67).

When a low bid, which is far lower than that of other tenderers is received, the purchasing officer must query such prices to ensure that the supplier has not made a serious mistake in his pricing[5] (Ritterskamp et al 1968 : 68). Such errors, if passed unchecked, may be the cause of long drawn out deliberations and wranglings as to supply, price and delivery. It is, therefore, essential that such aspects are clarified in the early stages of the tender adjudication process.

Occasionally, if the bids or tenders received are too high, the purchasing officer may reject them all and re-invite tenders (Ritterskamp et al 1968 : 68).
If a supplier wishes to change his price before the closing date he may be allowed to do so. But if this has to be allowed after the closing date then such an opportunity should be allowed to other tenderers as well.

Once the adjudication has been finalised, the successful tenderer is notified by means of the purchase order. All unsuccessful tenderers should be notified as well and should be thanked for their interest and time. This ensures a continuing relationship between both parties (Ritterskamp et al 1968 : 68).

Once the orders have been issued the tender documents should be filed in numerical order for control and audit purposes.

5.5.2.4 Placing the Order

Once the method of purchase has been determined and the supplier has been chosen the purchase order is issued to the supplier. This order may be manually made out or issued by computer. Before the issue of the purchase order all purchase requisitions must be authorised by the purchasing officer or his designate delegated with such powers. In some municipalities both the purchase requisition and order is formally authorised. Once the order is issued to the successful supplier, a copy of the purchase requisition is endorsed with all the relevant particulars of purchase and is forwarded to the user-department which originated the request. In the event of a number of

copies, a purchase order would be posted to the department. It acts as a control and verification document in this regard.

5.5.2.5 Follow-up and Expediting of Order

There are many methods which could be used in the follow-up and expediting of the order. The basic steps of this procedure are highlighted by Westing et al (1976 : 53) as follows:

- secure an acceptance and promise of delivery;
- review outstanding orders at regular intervals; and
- communicate with suppliers as required.

The frequency of follow-up will also be dependent on the history of the supplier's reliability and the need for the item by the purchasing office.
However, if follow-up is made too frequently it may harm relations with the supplier who may not respond to possible future purchases by the municipality. If the supplier has an unreliable record of delivery the purchasing office should insist on receiving regular notification advising the status of incomplete orders. This serves as a check and assists in ensuring that deliveries are made timeously.

5.5.2.6 Receipt and Inspection

Heinritz and Farrell (1981 : 49) clearly relate the concept of receiving as follows:

> "The receiving department is usually an adjunct of the stores (inventory) department, which may or may not be a part of the purchasing department. Its functions are to

> receive incoming goods, signing the delivery notice presented by the carrier or the supplier in connection with the shipment; to identify and record all incoming materials; to report their receipt to the purchasing department and to the (inventory section) stores, using or inspection departments as required; and to make prompt disposition of goods to the appropriate department".

The inspection of the goods is carried out by the clerks from the inspection department who perform a technical evaluation on a sample or the entire consignment. If the item fails to meet the required specifications a report is compiled stating the reasons for non-acceptance.

The receiving function at municipalities is generally carried out by the inventory section. As not all materials require formal inspection for quality a large proportion of deliveries require simple visual inspection (Heinritz & Farrell 1981 : 50)). Where items of a highly technical nature are purchased these are inspected by the personnel from the requisitioning department for acceptance (Heinritz & Farrell 1981 : 50).

5.5.2.7 Checking the Invoices

In this regard Westing et al (1976 : 50) aptly explain that:

> "Invoice checking consists of verifying the data on the seller's invoice against the buyer's record. The seller's invoice must be compared with the original order and the receiving slip that is made out when materials are received".

Invoices, once received, should be processed promptly so that the order may be cleared and payment made within the discount period, or in the case of any discrepancies, adjustments could be made without undue delay (Heinritz & Farrell 1981 : 50). Invoices should be requested for in duplicate so that one copy is

forwarded to the accounts section whilst the other is sent to the purchasing office. This section processes them simultaneously and are later correlated in the accounts payable division (Heinritz & Farrell 1981 : 50).

5.5.2.8 Processing Discrepancies and Rejections

If discrepancies are found the purchasing officer who made out the order is informed so that immediate and appropriate action is instituted. In the event of an invoice error the invoice is returned to the supplier for correction. If discount is applicable the invoice date is changed to the date on which the corrected invoice is received with the approval of the supplier (Westing et al 1976 : 53-54).

If the goods are rejected the purchasing officer must ensure that the necessary authorisation is received from the supplier for return and replacement.

5.5.2.9 Closing Complete Orders

This process entails checking that the order is completed in accordance with the terms and conditions on the basis of which the order was placed. All supporting documents, such as, inter alia, delivery notes, invoices, receiving department's advice and authorisation of acceptance, must be on hand to substantiate completion of the order (Lee & Dobler 1977 : 431-432).

The aforementioned discussion concludes the purchasing cycle. The records maintained in the purchasing office are briefly explained.

5.5.3 MAINTENANCE OF RECORDS AND FILES

Lee & Dobler (1977 : 423) emphasise the maintenance of records and files as follows:

> "The files of a purchasing department contain an endless flow of operating data. Despite the huge volume, much of this information can be useless in daily operations unless it is organised in a manner which makes it readily accessible".

The following are identified as the basic records necessary for effective and efficient operation of the purchasing function (Lee & Dobler 1977 : 423 - 426):

- file of open orders;
- file of closed orders;
- purchase log;
- commodity record;
- supplier record; and
- contract record.

5.5.3.1 File of open orders

The file of open orders is the record of all outstanding orders and because of need for frequent reference it is normally filed in alphabetical sequence.

5.5.3.2 File of closed orders

The file of closed orders provides a historical record of all purchase transactions and serves as a useful reference when such information are required to guide future purchase decisions.

5.5.3.3 Purchase log

The purchase log is a simple numerical record of all purchase orders that the purchasing office issues. It generally contains the date, order number issued, the user-department, name of supplier, type of item, value of order and budget allocation. It serves as a useful information record in the event of quick references to orders placed as well as a statistical guide to the volume of orders placed by the purchasing office.

5.5.3.4 Commodity record

The commodity record is maintained for each major item and service that is purchased on a regular basis. The card reflects full description of the item, including approved suppliers lists and price schedules.

5.5.3.5 Vendor record

Generally, the record of suppliers is centralised for constant and easy reference. It contains information on the suppliers, names, addresses, telephone numbers and the names of personnel who could be contacted in specific areas of inquiry.

Procedures must lead to the achievement of purchasing objectives, the process of control determines how effectively and efficiently this is achieved.

5.6 EXERCISING CONTROL

Since the municipality ultimately serves the community, it follows, therefore, that everything done by the municipal council and its officials should be to the benefit of the citizens (Cloete 1986 : 180).

In this regard Cloete (1986 : 180) aptly emphasises the purpose of control as follows:

> "... the exercise of control in the public sector can have but one objective, namely to ensure account is given in public for everything the authorities do or neglect to do, so that all citizens can see exactly what is being done or not being done, to further their individual and collective interests".

Control can be exercised both internally and externally. Internally, the generic administrative processes provide a framework for exercising internal control.

Baily & Farmer (1977 : 60) quoting Colin Turpin (1972) reinforce the need for public control as an external measure as follows:

> "Every expenditure on the procurement of goods or a service is expenditure of money that might have been applied to a different public purpose. Decisions on procurement expenditure are therefor of public concern and should be under effective public control".

The purchasing function within the municipal context is thus also inextricably linked to the concept of public accountability (Baily & Farmer 1977 : 60).

The municipal purchasing function contributes to the overall goal of the municipality. Consequently, the need to ensure that the purchasing function achieves the goals it sets for itself. Van Rooyen & Hugo (1988 : 53) highlight the importance of control over purchasing as follows:

> "Purchasing control is that element of purchasing management by which purchasing activities are regulated and verified to ensure that these activities are performed within the accepted framework of objectives and standards set for the purchasing function".

In the United Kingdom, municipalities are established in terms of statutes (Baily & Farmer 1977 : 58). Municipalities are also required to pass standing orders in respect of the purchasing function and to ensure that competition is used wherever possible (Baily & Farmer 1977 : 59).

In South Africa, all four provinces have provincial ordinances directed at the control of purchasing of goods and services of the municipalities. (Fearon & Hamilton 1980 : 351). Furthermore, the municipal councils regulates the purchasing function by passing financial regulations which generally defines the responsibilities in this regard (Fearon & Hamilton 1980 : 351).

In order to ensure that the purchasing functionaries carry out the tasks both efficiently and effectively, it is necessary for all purchasing policies and procedures to be laid down in writing, preferably in a manual (Van Rooyen & Hugo 1988 : 186). Van Rooyen & Hugo (1988 : 186) highlight the advantages of a

purchasing manual as a document which:

- clearly defines the authority and responsibility of purchasing. This enables the purchasing department to treat matters causing friction consistently. Questioning of specifications by the purchasing department is one example;

- clearly defines the relationship between purchasing and user-departments and consequently fosters good relationships between these departments;

- contains a systematic exposition of basic purchasing procedures, so it can be constantly used in training;

- can decrease the training period for new personnel, which in turn reduces disruptions caused by internal transfers of purchasing personnel;

- is also given to suppliers, so that they are aware of policy and procedures on matters such as payments of accounts, tenders, and processing of discrepancies and rejections;

- by clearly stating purchasing procedures sets a standard for evaluating the performance of personnel. It therefore, helps to motivate and control purchasing personnel.

The purchasing manual provides the basis and acts as a general framework for the purchasing function. Any purchasing manual should provide, inter alia, the following information (Van Rooyen & Hugo 1988 : 186 - 187):

- basic objectives of the purchasing functions as approved by senior officials of the municipality and the municipal council;

- institutional policy and strategy of the municipality and particularly its influence on the purchasing function. Furthermore, it defines the authority and responsibility of the purchasing function and also reflects the broad guidelines in the administration of the purchasing function; and

- an explanation of the main aspects of the purchasing policy and procedure in relation to, inter alia, the following:
  - negotiations with suppliers;
  - request for quotations;
  - authority for purchases;
  - supplier selection;
  - purchasing contracts;
  - supplier relations; and
  - purchasing ethics.

The provincial ordinances provide for the auditing of all transactions of municipalities. This activity now falls under the control of the Office of the Auditor-General. In terms of Section 5(2) of the Auditor-General Act 52 of 1989, municipal authorities are subject to audit by the Auditor -General. Furthermore, provisions have been made for the records of the municipal authorities to be audited by private auditors who are registered in terms of the Auditors and Accountants Act 51 of 1951. Section 43 of the Black Local Authority Act 102 of 1982, specifically

states the duties of the auditor in respect of Black municipal authorities (Cloete 1989 : 130). The provincial ordinances also provides that the accounting officer must draw up financial statements at the end of each financial year which are subject to audit (Cloete 1989 : 130). All reports of the auditors are submitted to the municipal council as well as to the Administrator or the Director-General of the province (Cloete 1989 : 131).

The audited reports provide a basis of control and enforces public accountability, both by the municipal council and the public (Cloete 1989 : 131).

5.6.1 Control Process

In order to ensure appropriate control over the purchasing function within the context of the purchasing department, Van Rooyen & Hugo (1989 ; 53) recommend the following control process, comprising of four successive steps:

5.6.1.1 Setting of Standards : represents the determining of yardsticks by which actual performance can be objectively measured. Since purchasing is a dynamic activity, it is necessary to review standards continually to ensure any adjustments, if necessary. Examples of some purchasing standards are cost standards and quality of merchandise.

5.6.1.2 Measuring actual performance : this is an ongoing activity and must be closely monitored. The quantitative information generated by measuring actual performance must be passed onto senior functionaries for analysis, reporting and necessary action. For example, it is important for senior officials of management to know when inventory levels have dropped below maximum or when an unusually large quantity of an item is requistioned.

5.6.1.3 Evaluation of deviation : this aspect draws attention to the nature of the deviation from the norm. In this regard the nature of the deviations should be investigated and reasons for its occurrence be determined. Examples of some common deviations which must be examined are: rapid increase on prices of goods and services, high inventory investments, high rate of return to suppliers of unsatisfactory goods, long lead times by suppliers and over expenditure on the budget.

5.6.1.4 Taking corrective action : this is the final step in the control process and requires corrective action of the deviation. This may take any number of forms depending on the cause of the deviation. It may include, inter alia, reviewing of standards, inventory control systems, and re-order levels, or it may necessitate changes in ordering procedure and identification of alternative sources of supply.

5.6.2 Basic Approach to Control over the Purchasing Function

The purchasing function is not an exact science, and is compounded by the divergent activities performed by the

purchasing personnel. Consequently, purchasing control, of necessity, should be broadly based, and implemented on the following three levels, as identified by Lee & Dobler (1977 : 476).

5.6.2.1 Qualitative Assessment of Management Responsibilities

In this regard it is necessary to determine the measure of success in regard to the administration of the purchasing function. The actual performance can be assured by using different measures. These measures include, inter alia, the following :

- determining the success of the purchasing policy and strategy used by the purchasing department;
- viewing the organisational structure and its contribution to success;
- participating action of senior administrative personnel in the development of policy and strategy for the institution as a whole; and
- determining the effectiveness of purchasing procedures and the degree of compliance by the user-departments.

Since the measures at this level are executed basically by virtue of quantitative standards, it is expected that this would thus be largely a subjective assessment of the success of the management team (Van Rooyen & Hugo 1988 : 56).

5.6.2.2 Evaluation of Purchasing Proficiency

This area determines how well the actual purchasing function has been performed in relation to its broad objectives. Much of purchasing proficiency is determined by the standards of control developed for the specific purpose. Many of the standards which reflect purchasing proficiency are quantitative although subjectivity does feature in its implementation. Examples of these standards are the number of purchase orders processed against: tender, informal written quotations, and telephonic quotations; the number of deliveries on schedule and the number of deliveries made late; deviations from standard prices, (such as contract,) lead times and number of faulty deliveries which were returned (Van Rooyen & Hugo 1988 : 56).

5.6.2.3 Evaluation of Purchasing Efficiency

Purchasing efficiency reflects the measure of success achieved in utilising the resources available to the purchasing department. These resources include finance and personnel. The standards of measure set at this level of control therefore, primarily determines the input-output relationships between money and personnel. In this respect the following, inter alia, may be considered (Van Rooyen & Hugo 1989 : 56) :

- average value of orders;
- number of orders placed by each purchasing officer; and
- administrative costs of purchasing department.

Van Rooyen & Hugo (1989 : 56-57) stress that although the three dimensional control system discussed above is ideal, it is, however, not simple to implement in actual practice. Despite this, it is considered invaluable for informing the purchasing management of the actual performance within the purchasing context and provides a basis for improving purchasing performance (Van Rooyen & Hugo 1988 : 57).

5.6.3 Control Techniques

It is not intended to discuss these techniques in detail, except to mention the most important ones used in the control process within the context of the purchasing function. These are *inter alia* (Van Rooyen & Hugo 1988 : 57):

- network techniques such as : PERT (Programme Evaluation Review Technique and CPM (Critical Path Method);
- purchasing audit;
- evaluation of purchasing performance; and
- budgeting (see chapter 3).

6. SUMMARY

The basic motivation of public sector purchasing differs from the private (industrial) sector purchasing in that it does not have profit maximisation as the driving force. Despite, this primary difference, the main objective of the purchasing function in both sectors is to acquire and ensure a constant flow of goods and services of acceptable quality at the most reasonable prices.

At central and provincial levels of government, public purchasing is governed by prescriptive measures, and treasury regulations. There are different methods of purchasing with prominent use being made of the tender system of purchasing. Control is exercised both from within and outside the institution. External control is chiefly executed by the Auditor-General in State and Provincial departments.

The municipal purchasing function is a dynamic activity which provides a constant supply of goods and services to municipal user-departments. The discussion on the purchasing function was discussed within an administrative framework.

The purchasing policy is the outcome of considerable thought and planning. It comprises of a set of predetermined objectives directed towards a variety of issues affecting the purchasing function. The purchasing function only comes into play once policies and programmes have been accepted for implementation by the municipal council.

There is no singular formula for determining optimally efficient and effective organisational system for the purchasing function. The centralised, decentralised and the combination of the centralised and decentralised systems all possess merits and demerits. The choice of a system depends on numerous factors, such as, size of municipality, kinds of materials purchased and available resources, such as, manpower and finance.

The establishment of a centralised purchasing system on a co-operative basis for municipal authorities on a regional and/or national basis provides considerable food for thought and should be vigorously pursued.

Financing is essential to the purchasing function. In this respect the approved municipal budget is responsible for the initiation of the purchasing function. It is important to ensure that available funds are prudently used as citizens provide a large portion of the income of local authorities by the way of rates and service fees.

The staffing functions provides the purchasing organisational unit with personnel who are able and willing to perform in the various posts in the hierarchy. In order to ensure the professional status of the discipline, it is necessary to clearly define the posts, ensure effective recruiting, selecting and training of all personnel. Personal characteristics, business experience and educational background are relevant and valuable prerequisites for a career in purchasing administration. The purchasing officer, assistant purchasing officer and purchasing clerk are some of the primary personnel who play a dynamic role

within the purchasing environment.

The determination of uniform work procedures enables the purchasing functionaries to carry out their tasks in an orderly manner thereby contributing to achievement of the objectives of the purchasing function as efficiently and effectively as possible. Procedure manuals are valuable aids which must be clearly formulated for easy reference and implementation of procedures. The role of purchasing forms, such as the purchase order and requisition, must in the first instance, facilitate the execution of the purchasing function, with ease, economy and efficiency. Purchasing procedures relate to the following basic steps, often referred to as the purchasing cycle:

- recognition, description and transmission of need;
- selection of possible sources of supply;
- determination of price and availability;
- follow-up and expediting the order;
- checking the invoice;
- processing discrepancies and rejection;
- close completed orders; and
- maintenance of records and files.

It is important to note, that of the various methods of purchasing, the tender system is prominently used by municipal authorities. If the purchasing function is to remain relevant it is imperative that records and files are updated, arranged and maintained in a manner which makes them readily accessible to all purchasing functionaries.

Control within the municipal purchasing function ascertains whether purchasing objectives are being achieved as efficiently and effectively as possible. Control is exercised both internally and externally. The generic administrative processes, provide a framework for exercising internal control. External control falls within the ambit of public control and accountability. This implies that the purchasing authorities must give account for every action or inaction, so that the citizens can see what is being done or not being done in their individual and group interests. An important aspect of maintaining control is to ensure that all policy and procedure prescriptions are written down, preferably in a manual. There are many advantages, the primary one being, that it provides a basic framework for action within the purchasing function. Auditing of all purchasing transactions is another important control technique exercised by the Office of the Auditor-General. The institution and evaluation of the control process, namely, setting of standards, measuring actual performance, evaluation of deviation and taking corrective action, serve as important guidelines for exercising control. A basic approach to ensure control over the purchasing function may be implemented at three levels, namely, qualitative assessment of management responsibilities, evaluation of purchasing proficiency and the evaluation of purchasing efficiency. However, although this control system is ideal it is not easy to implement and monitor in actual practice. Control techniques such as PERT, CPM, purchasing audit, and budgeting are important aids used in the purchasing function.

In the final analysis, the control function determines whether purchasing objectives are being achieved and to what extent corrective measures are necessary.

In the next chapter the purchasing function at South African municipalities shall be discussed.

NOTES

1 'Procurement' is often used to describe a comprehensive planned purchasing programme in contrast to the simple act of purchasing expressed requirements of user-departments. The two terms are used here interchangeably, without connotation, since the purchasing specialist of today recognises any purchasing responsibility as encompassing considerably more than making a purchase (Ritterskamp, Abbot & Ahrens (1968 : 1).

2 Hanekom & Thornhill (1983 : 151) define 'bureaucracy' as:

> "... rule by officials in public institutions in such a way that impersonal rules are enforced without having due regard for either the clientele, the values of the citizens, or the aims of the elected representatives as expressed by political office-bearers".

3 'Red Tape' is clearly explained in the following extract from an editorial in the Ontario Newsletter (1984 : 1) as follows:

> "One hundred and fifty years ago government documents in England were bound in red coloured tape. Charles Dickens turned "Red Tape" into an expression representing cumbersome bureaucracy. Today the phrase "Red Tape" has become infamous, bringing to mind images familiar to us all: long lines, complicated forms, confusing instructions and aggravating delays".

4 Heinritz & Farrel (1981 : 43) identify a third type of requisition frequently used in industries called a 'travelling requisition' which is forwarded to the purchasing office to buy items of a repetitive nature to replenish stocks.

5 In this regard the purchasing officer must exercise extreme caution so that he does not unduly jeopardise substantial savings for the institution, especially if the supplier is completely satisfied with the price tendered (Ritterskamp et al 1968 : 68).

6 Heinritz & Farrel (1981 : 47) elaborate on the computerisation of the purchasing system as follows:

> "As more purchasing departments operations become computerised, the number of copies of the purchase order may be eliminated. Departments authorised to have access to information on an order can obtain it by means of readouts on the CRT (cathode ray tube-terminal) that are part of a computerised system... It is important to realise, however, that the computerised system incorporates the same basic styles involved in a manual system".

CHAPTER FIVE

ADMINISTRATION OF THE PURCHASING FUNCTION AT SOUTH AFRICAN MUNICIPALITIES : OPERATIONAL PERSPECTIVES

1 INTRODUCTION

In the preceeding chapter the importance of the purchasing function within the public sector and particularly within the municipal authority was highlighted. It was emphasised that the purchasing function was a crucial activity which was essential for the goal attainment of an institution. It was stated that it provided the necessary goods and services for the continuity of activities and for the ultimate achievement of the goals of the municipal authority.

In this chapter the operational aspects of the purchasing function of South African municipalities shall be viewed within an administrative frame of reference including :

- legislative measures and policy directives;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

2 LEGISLATIVE MEASURES AND POLICY DIRECTIVES

Legislative measures and policy directives set out the framework for the execution of the purchasing function within South African municipalities.

2.1 Legislative Measures

The purchasing function of South African municipalities are established in terms of specific legislation. Since all municipal authorities are subject to their respective provincial authorities, provincial ordinances, set out the legislative basis for the initiation, establishment and continuity of the purchasing function within municipalities. In this regard, the enabling ordinances in the four provinces shall be viewed.

Natal

In Natal, the municipal purchasing function is conducted in accordance with the regulations prescribed by the Local Government Ordinance 25 of 1974, as well as the financial regulations approved by the municipal council from time to time.

The Local Government Ordinance 1974 covers all types and sizes of local authorities, from the very small to the very large. Since this ordinance, is considered to be restrictive for the larger cities, such as Durban and Pietermaritzburg, flexibility in application of the regulations are vested in the Extended Powers Ordinances,

which allow these cities to function more efficiently and effectively.

The Local Government Ordinance 1974 specifically sets out the parameters of the purchasing function in respect of the supply and delivery of goods and services to the municipal council. In this regard Section 187(1) of the Ordinance, 1974 stipulates as follows:

> "No contract for the supply of any goods to or any work, undertaking or service for or on behalf of the council involving an estimated expenditure in any calendar month in excess of an amount prescribed by the Administrator from time to time, shall be entered into by the council unless public tenders have been called for in the manner likewise prescribed".

The above-mentioned Section serves as the legislative basis for the purchasing function. The 'amount' which the administrator of the province prescribes is determined by the council, and submitted to the administrator for approval. Subsequently, such approvals become part of the financial regulation of the municipality.

In the case of the City of Durban this amount is R50 000. Any purchase in excess of R50 000 is put out to public tender and the procedure followed in this regard is incorporated in to the financial regulations of the City of Durban.

Arising out of the enabling legislation, detailed rules and regulations on policy and procedure are then determined and approved by the respective municipal councils. The financial regulation together with other internal policies and procedures serve to initiate develop and implement the purchasing function within municipal authorities.

Transvaal

The municipalities in the Transvaal, such as, Johannesburg, Pretoria, Sandton, Kimberley, Roodepoort and Vereeniging are all subject to the Local Government Ordinance 17 of 1939.

Section 35(1) of the Ordinance specifically states that,

> "Before a council enters into any contract for the execution of works or the purchase and sale of goods to the value of R1 000 or upwards, it shall give at least fourteen days' notice of its intention..."

This again provides the basic guideline for the purchasing function within the Province. Accordingly, each municipal authority provides for further rules and regulations for the execution of the purchasing function. These rules and regulations are approved by municipal council and are embodied within the financial regulations of the municipality. For example, in the City of Pretoria's Financial By-Laws Section 15, Tenders and Contracts, reads as follows:

> "Where the council is legally empowered to enter into contracts for the purchase of any goods by the Council or the execution of any works for or on behalf of the Council, the controller of stores and buyer may enter into such contracts, not exceeding the amount as laid down from time to time in section 35(1) of the Local Government Ordinance, 17 of 1939, on behalf of Council".

The Administrator of Transvaal in terms of the Administrator's Notice has approved an amount of R40 000 as the limit without recourse to tender. Any purchase in excess of R40 000 must be put out to tender.

Similarly the Johannesburg City Council acting in accordance with the Ordinance 1939, reflects, inter alia, the following important statements as part of their Buying Policies and Procedures (undated) :

> "Certain activities of the Buying Branch are prescribed by law".

This is an obvious reference to the prescriptive measures of Ordinance 1939.

Orange Free State

Municipalities in the Orange Free State, such as Welkom and Bloemfontein are subject to the Local Government Ordinance 8 of 1962.

With specific reference to the purchasing function, Section 143(1) of the Ordinance 1962 states as follows:

> "Before entering into a contract[1)] for the execution of any work or the supply of any goods involving an amount in excess of-
>
> (a) One thousand rand, in the case of a Council whose income during the preceding financial year exceeded one hundred and fifty thousand rand; or
>
> (b) Five thousand rand, in other cases, a council shall call for tenders...".

Financial limits are placed on the purchasing activity. It must be noted that the limits stated in the Ordinance are subject to continuous review by the respective municipality.

In this regard, approval is often sought to amend the amounts to a more realistic value for practical purposes.

Cape Province

Municipal authorities in the Cape Province are subject to Section 1 of Municipal Ordinance 20 of 1974 which sets the framework for the purchasing function as follows:

> "A council may enter into contracts for any municipal purposes and for any purpose necessary or desirable for or incidental, supplementary or ancillary to any purpose or contract;..."

In terms of the above, it is evident that this Section initiates the purchasing function in terms of specific contracts between the municipal purchasing office and the sector of suppliers or traders.

In the Financial Regulations of the City of Cape Town, Section 13.2 clearly substantiates the aforementioned activity as follows:

> "The Council may enter into contracts for any municipal purposes, provided that any contract for the provision or supply of municipal services shall require the approval of the Administrator"

Section 13.6 of the Financial Regulations further amplifies the aforementioned, as indicated hereunder:

> "Subject to the provision of any law, the Council shall, by notice publish in the press, invite formal tenders before entering into any contract for-
>
> a) the execution of any work for;
> b) the supply or leasing of any goods, material or services to;
> c) the supply or leasing of any goods, material, by-products, waste or scrap by; or
> d) the leasing of any land, building or other asset by; the Council".

The provision of 13.6(a) and (b) may be avoided by the municipal Purchasing Office in exceptional cases, inter alia, where:

a) "the supply of any work for or the supply of any goods, material or services to the Council is not likely to exceed an amount of R15 000 (fifteen thousand rand)" and when

b) "there is such urgency that it would not be in the interests of the Council to invite tenders"

The 'urgency' rule, however, is limited to R50 000, in terms of Section 13.6.1.1 of the City's Financial Regulations.

In the foregoing discussion on legislative measures, it is evident that each municipal authority is governed both by provincial ordinances as well as by rules and regulations passed by the respective municipal councils. Within the context of the purchasing function, municipal authorities have to enter into contracts for purchase and supply of goods and services. Consequently, the provincial ordinances only provide a basic guideline for this activity. All other details in respect of the purchasing functions are determined by the respective municipal councils which revise, review and amend these rules according to changing circumstances.

2.2 Policy Directives

The municipal council as the highest legislative and policy-making body for the municipality is ultimately responsible for the purchasing policies. Since every purchase

transaction commits the municipality to a legal obligation, the need for clear policy directives in the purchasing function cannot be overemphasized.

Purchasing policies are generally set out in approved financial regulations of council and in some instances embodied in purchasing policy and procedure manuals.

Keats (1988 : 2) emphasises the general elements of good purchasing policy within the municipality as follows :

> "The principles and procedures observed for the purchasing of supplies for any local authority should be designed to meet Departmental demands as promptly as possible with the minimum of expenditure of public funds, and the general policy, therefore, is to obtain competitive prices, so far as reasonably practicable before placing orders, but the purchasing organisation should not buy to price only. It should adhere to buying to a quality, the most suitable product for the intended use, for which purpose close collaboration between buyer and user is essential. The general objective is to buy in the best interest of the Council i.e. the most advantageous in view of all circumstances".

The City of Johannesburg sets out the following purchasing policy in its Buying Policies and Procedures Manual (undated) :

> "The purpose of the Buying Branch is to procure goods for all departments. This also includes the maintenance and leasing of equipment. The object of the Buying Branch is to obtain the goods as speedily as possible and at the best value".

In the City of Port Elizabeth, the Chief Buyer and Controller of Stores viewed the purchasing function as a service activity which provides the necessary goods and services for continued functioning of the municipality

(Pretorius 1990 : interview). He was of the view that if the supply lines were not kept open, then the municipality's ability to operate would be seriously jeopardised (Pretorius 1990 : interview).

The City Council of Durban has approved, inter alia, the following purchasing policies in its Materials Management Operating Policies and Procedures Manual (1984 : 11 - 12) :

- User department personnel will be responsible for notifying the Materials Manager (Purchasing Officer) on a timely basis of large or unusual purchasing requirements, changes or cancellation of purchase orders, phase-in and phase-out of parts and of other significant changes in job scheduling which may have an impact on the purchasing function.

- Departmental Purchasing Group will ensure that order placement, order follow-up and expediting are timely and responsive to support departmental requirements.

- Stock replenishment orders will be reviewed to use excess holdings in other warehouses.

- Stock replenishment orders will be placed in economical order quantities unless specifically determined to be inappropriate.

- Requisitions will be reviewed to utilize priority usage items.

The aforementioned section reflects the integration of both purchasing objectives as well as matters of procedure.

It is emphasised that the purchasing function must be executed within reasonable costs and as expeditiously as possible. In this regard, the planning and co-ordination of purchases must also be considered to be an important objective of the purchasing function. Within this context the City of Durban emphasises the following in its Materials Management operating Policies and Procedure Manual (1984 : 1 - 5) :

a) Each Departmental Purchasing Group will, when practical, perform materials requirement planning activities based on input provided from the respective user department personnel. The objective of requirements planning is to ensure that appropriate quantities of materials are purchased timeously to support operational requirements while simultaneously maximising inventory turnover performance.

b) User-department personnel will be responsible for providing the Departmental Purchasing Group or Materials Manager with timely and appropriate input to facilitate the planning and co-ordination of purchase requirements with regard to:

- purchase requirements associated with usually large projects;
- purchase requirements for non-stock items with unusually long procurement lead-times;

- changes in established purchase requirements associated with phase-down or conclusion of large projects;
- changes or cancellation of purchase orders; and
- major delays in large projects.

With the exception of the cities of Durban and Johannesburg, it would appear that South African municipalities in general have not established policy directives for the purchasing function. Even in the case of the aforementioned cities, policies have not been clearly determined. In the City of Durban, purchasing objectives and procedural applications have been integrated and in a sense, is confusing. The City of Johannesburg dispenses with the objectives of the purchasing function in merely five lines, without providing any details. The study of other major municipalities, such as, Cape Town, Port Elizabeth and Pretoria revealed that no specific purchasing policies have been defined. In most municipal authorities, the purchasing function continues to be performed in a traditional manner without due appreciation of the dynamic nature of this costly activity and its contribution to municipal goals and overall municipal welfare.

Purchasing policies can be incorporated into manuals, which provide a guideline for action within the purchasing environment. Purchasing manuals must clearly highlight the following aspects (Hugo & Van Rooyen 1988 : 197):

- clear and well-defined objectives;
- corporate municipal policy and strategy as its affects the municipal purchasing function;
- purchasing policy must cover the following relevant aspects of the purchasing function:

  . user-departmental responsibilities;
  . authority for purchases;
  . negotiations with suppliers;
  . request for quotations;
  . supplier selection;
  . purchasing relations; and
  . purchasing ethics.

The execution of purchasing policies, as is evident from the above, is reliant on the actions of personnel within the purchasing department. Hence the organisational unit responsible for the purchasing function must be so structured, that these policies are efficiently and effectively achieved.

3 ORGANISING

A variety of organisational arrangements are available for the performance of the purchasing function at the municipal level (Fearon 1973 : 24).

Kotzè (1985 : 163) aptly crystallises the impact of departmental organising on the overall goal of the municipality when he writes:

> "... elke munisipale department het 'n eie arbeidsveld wat deur die raad om bepaalde redes verdeel is om uitvoerbare eenhede uit te maak. Die doelwit van elke departement kan eiesoortig wees om by die bepaalde funskievervulling aan te pas, maar moet by die breë doelwit van die raad inskakel en dit is om die algemene welsyn van die hele gemeenskap te bevorder".

The purchasing department operates within a specific organisational structure to achieve its objective, and in the process contributes to the overall goal of the municipality, which is to ensure community welfare and satisfaction.

Bailey & Farmer (1977 : 14) express the view that an effective organisational unit is one which achieves its objectives in the most cost-efficient manner. Although, there is little agreement on the best organisational system, the purchasing function can be structured either centrally, decentrally or on a combination of these two systems (Bailey & Farmer 1977 : 14).

A discussion of the organisational systems used at some South African municipalities shall be undertaken.

3.1 Centralised System

In a centralised system the responsibility for purchasing is vested in a central authority which co-ordinates and executes the total purchasing function (Hugo & Van Rooyen 1988 : 42).

In the City of Johannesburg, the Deputy City Treasurer (Buying and Stores) indicated that the purchasing function was totally centralised (Diffenthal 1990 : letter). In his opinion, a centralised system which is controlled by a specialised branch of the City Treasurer's Department ensures greater control and compliance with the relevant sections of the Transvaal Ordinance 1939 (Diffenthal 1990 : interview).

An organisational arrangement of the Purchasing Office of the City of Johannesburg is simplistically illustrated in Figure 6.

Figure 6 reflects the organisational structure used by the Purchasing Office of the City of Johannesburg. The structure provides for components of the organising function, namely, horizontal division of work, delegation of authority, co-ordination, lines of communication and control measures (Cloete 1986 : 87).

The basic advantage of a centralised purchasing system is clearly stated in the objective of the Purchasing Office as follows (Diffenthal 1990 : letter) :

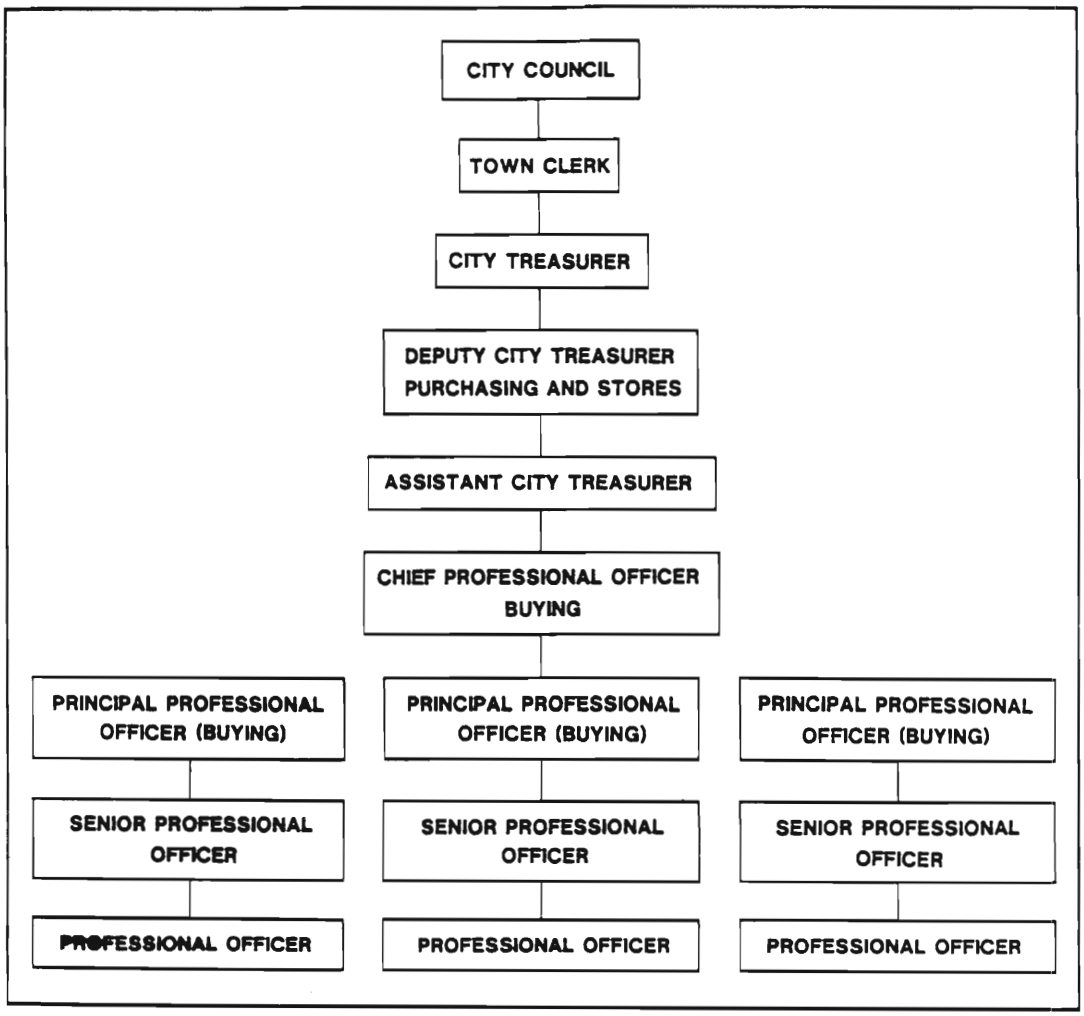
> "...to process goods for all departments.... to obtain the goods as speedily as possible and at the best value."

In order to attain the aforementioned objective, the centralised purchasing section is divided into sub-sections to ensure execution of specialised activities. In this regard the following primary activities are performed (Bowman 1990 : interview):

FIGURE 6

ORGANISATIONAL ARRANGEMENTS

OF THE PURCHASING OFFICE FOR THE CITY OF JOHANNESBURG



- invitation for contracts/tenders;
- adjudication of contracts and tenders;
- invitations of quotations;
- record-keeping; and
- queries.

Control is facilitated by the hierarchial nature of the organisational structure and by the seniority level of different posts.

The centralised purchasing office is responsible for the purchasing of the following categories of items for all user-departments within the municipality:

- furniture;
- stationery;
- electrical;
- mechanical;
- office Equipment;
- capital equipment/computer equipment; and
- miscellaneous.

The Deputy City Treasurer of Johannesburg, Mr Diffenthal expressed the view that the centralised purchasing system provided greater uniformity in the execution of the purchasing function (1990 :letter).

Mr. Bowman, the Chief Professional Officer, (Purchasing), in the City of Johannesburg, emphasised that centralised purchasing does not imply a dictatorial mandate of the Purchasing Office to make purchases (1990 : interview). He

added, that in many specialised areas, such as electrical and mechanical engineering, the user-department makes its recommendations for choosing a specific item or commodity (Bowman 1990 : interview). The Purchasing Officer consults with the user-department when compiling specifications for the purchase of goods and services (Diffenthal 1990 : letter).

3.2 Decentralised System

The decentralised system of purchasing provides for full autonomy to each municipal department to execute the purchasing function for its respective department.

In the City of Cape Town, the decentralised system of purchasing is used (Van Zyl 1990 : interview). Each of the municipal departments are authorised to execute the activities constituting the purchasing function. The following municipal departments are responsible for the procurement of goods and services for their respective departments (Van Zyl 1990 : interview).

- City Engineer;
- City Electrical Engineer;
- City Treasurer;
- City Administrator;
- City Planning, Survey and Land Information; and
- Medical Officer of Health.

This decentralised arrangement is depicted in Figure 7. The organisational structure also indicates the specific functional areas for which purchasing is executed. As is evident, the purchasing function enables buying for numerous diverse activities. The City Engineer's Department purchases for eight sections within the department. The City Electrical Engineer has the responsibilty for ten other sections within the department. The City Administrator covers the largest number of services, numbering twelve, within the section.

The City Engineer's Department will be viewed in terms of its internal organisational structure, with the intention of understanding, its nature and functions (see Figure 8).

From Figure 8 it is evident that the City Engineer is the responsible officer for the purchasing function for the overall department. To assist him in an execution of the purchasing function are various personnel, of different seniority levels. The purchasing (and stores) function is delegated, in the main, to the Assistant Chief Administrative Officer, who is assisted by the Chief Administrative Assistant and the Principal Administrative Assistant. The Principal Administrative Assistant is responsible for the co-ordination of the entire purchasing activity and oversees all daily activities constituting the purchasing function.

Within the scope of the purchasing function are various specialised areas, such as tenders/contracts, daily quotes, and informal tenders. These areas are administered by Senior

FIGURE 7

DECENTRALISED STRUCTURAL ARRANGEMENTS

FOR THE PURCHASING FUNCTION AT THE CITY OF CAPE TOWN

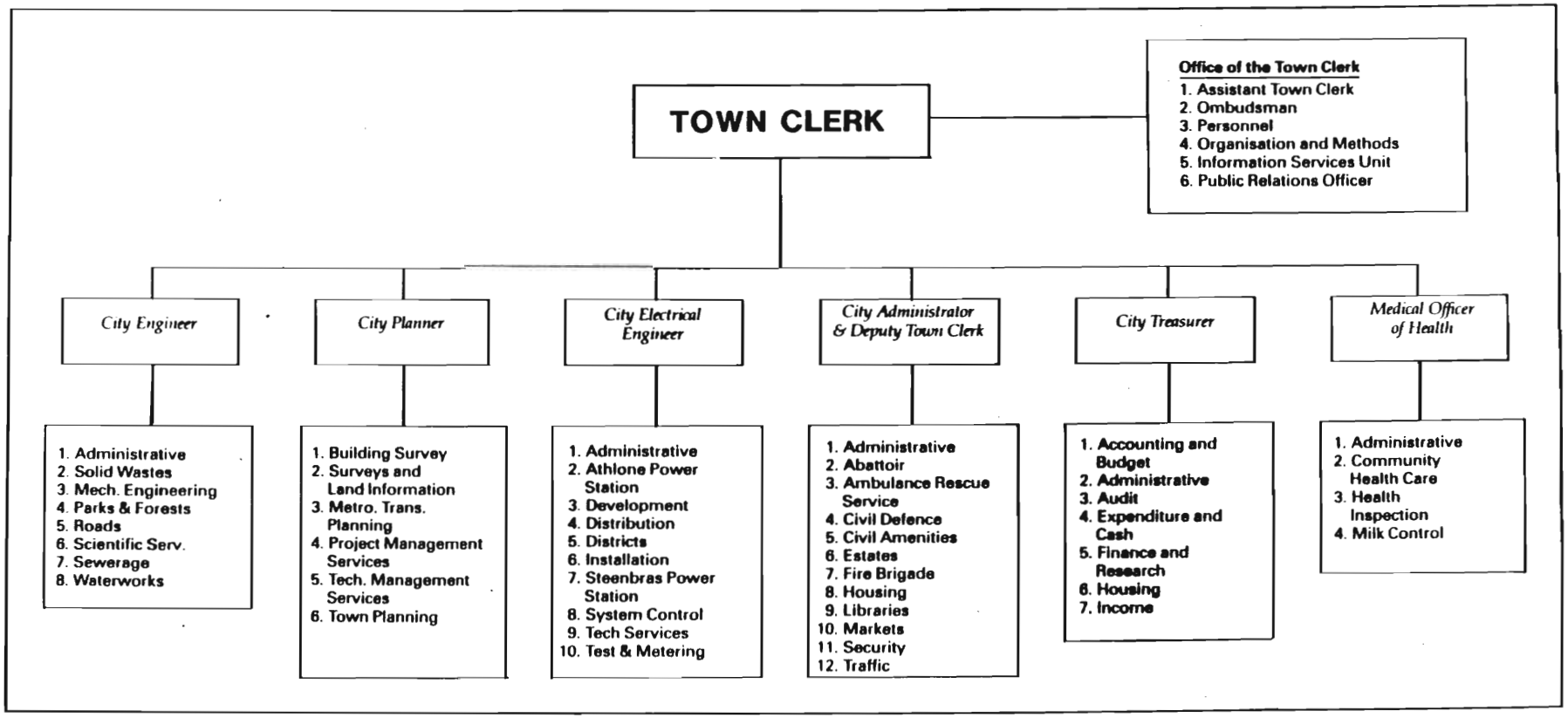
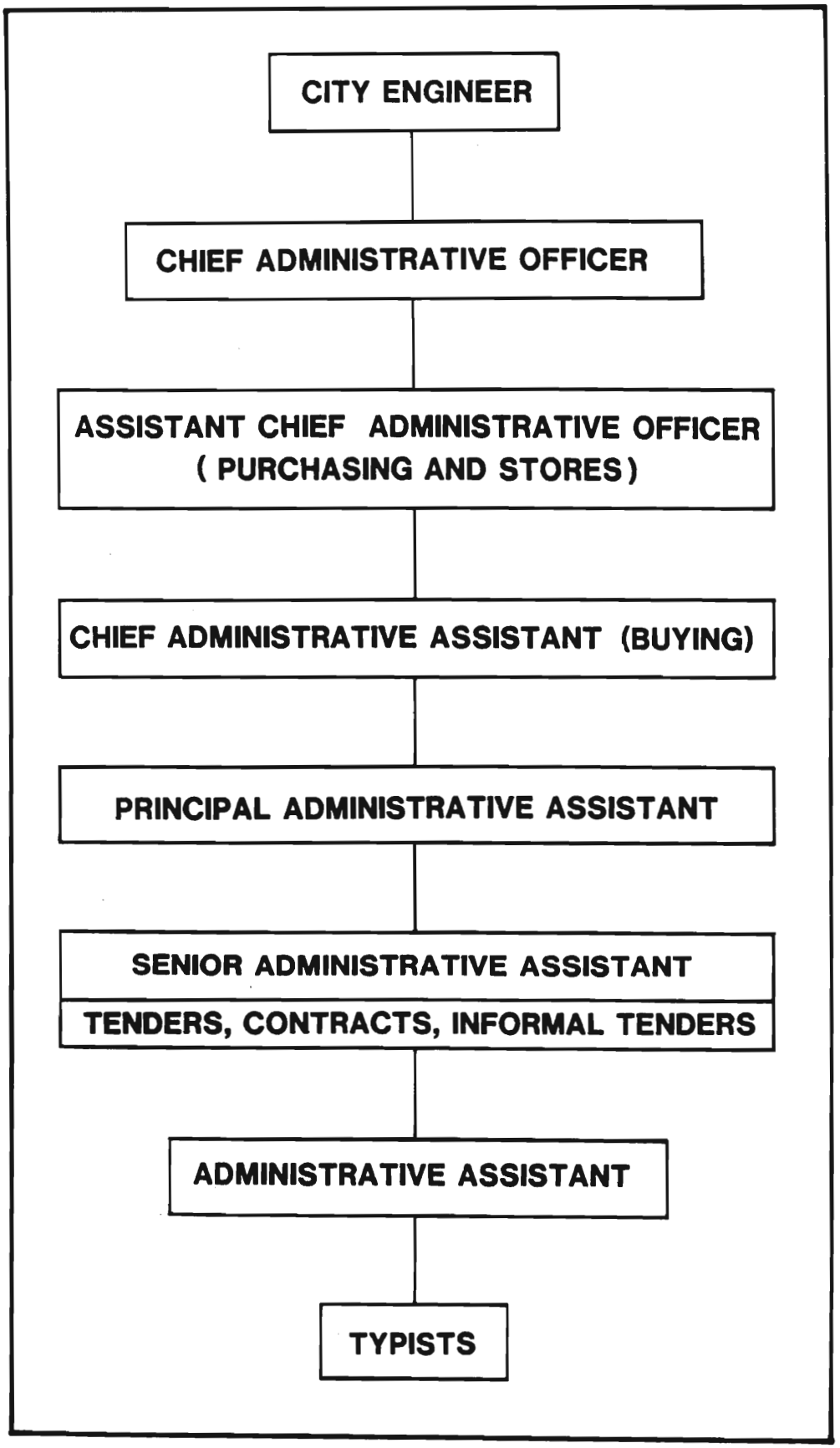


FIGURE 8
ORGANISATIONAL ARRANGEMENTS OF THE PURCHASING OFFICE OF THE CITY ENGINEERS DEPARTMENT AT CITY OF CAPE TOWN



Administrative Assistants. The purchasing function constitutes much paper work. The typists play an important role in typing out formal and informal tender documents, as well as routine correspondences to suppliers and user-departments.

3.3 Combination of the Centralised/Decentralised System

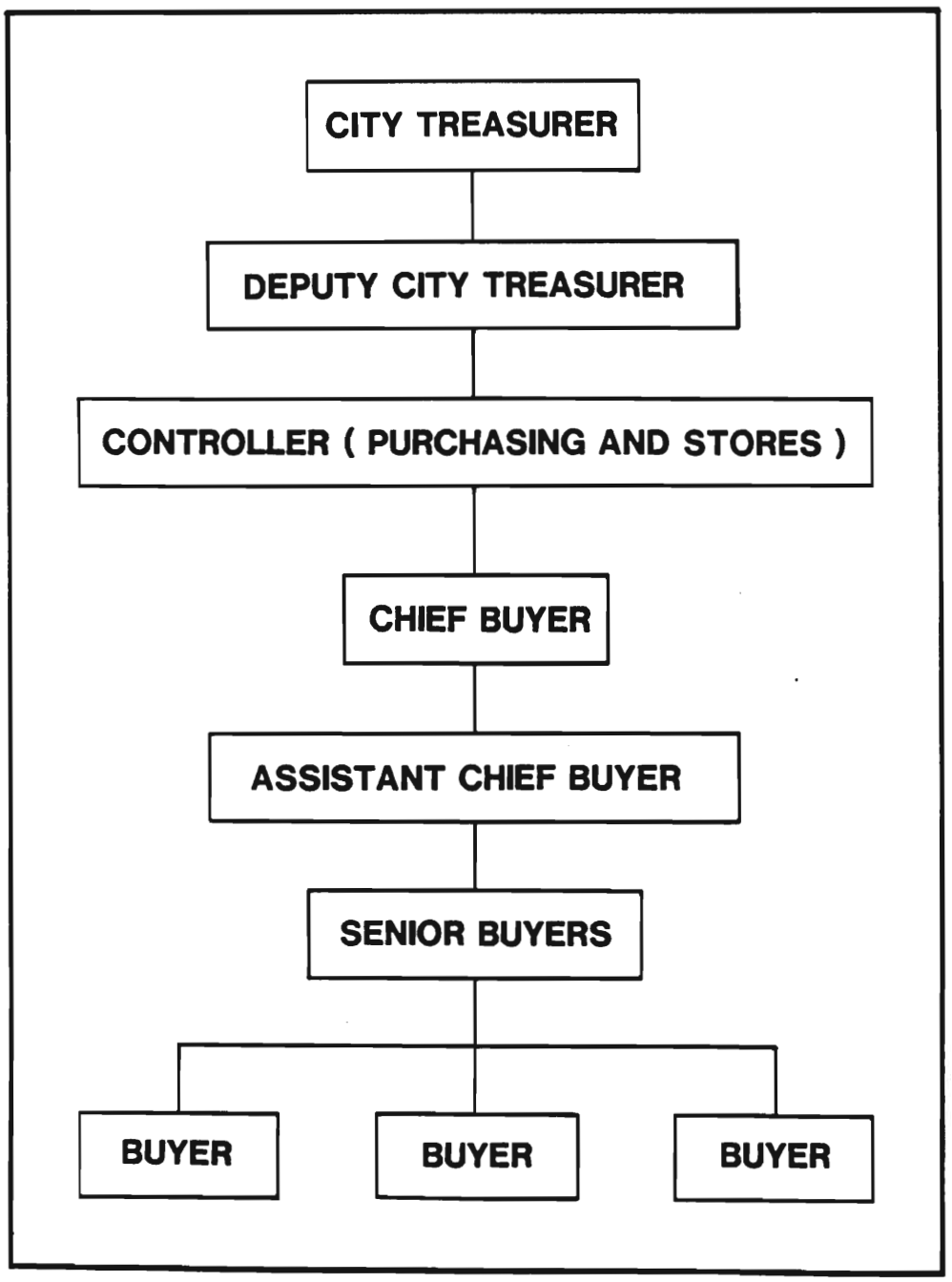
Some South African municipalities use the combination centralised/ decentralised purchasing system. Port Elizabeth and Durban are the major municipalities which operate on this system.

A combination of the centralised/decentralised system implies that advantages of both system ar best utilised (Bailey & Farmer 1979 : 16). In this system, the centralised purchasing unit is often responsible for purchasing common items used by all user-departments, whilst the decentralised unit, purchases specialised items only (Pretorius 1990 : interview). Often the decentralised unit is part of the functional (line) unit and is 'on the spot' to give advice and guidance in respect of the purchasing function (Pretorius 1990 : interview). Generally, the centralised purchasing unit oversees all activities, and sets out policies and procedures for the purchasing function as a whole.

In the City of Port Elizabeth, the Purchasing Office falls under the wing of the City Treasurer's Department. The centralised organisational structure is reflected in Figure 9.

FIGURE 9

CENTRALISED STRUCTURAL ARRANGEMENTS
OF THE PURCHASING OFFICE AT THE CITY OF PORT ELIZABETH



As reflected earlier, the centralised system of purchasing caters for all items and services except the following (Taylor 1990 : letter) :

- vehicles and spheres under the control of the City Engineer; and
- specialised items of a technical nature are under the control of the City Engineer and City Electrical Engineer respectively.

In the aforementioned instances, the City Engineer and City Electrical Engineer are responsible for specialised purchases of a technical nature for their respective departments. The purchasing system operates on a decentralised basis, decision-making in respect of purchases is left to these departments because of their specialised knowledge (Taylor 1990 : letter). The rules and regulations pertaining to purchases, as determined by centralised purchasing office, are to be adhered to. For example, large value purchases which exceed R15 000 are put out to public tender in accordance with the financial regulations (Taylor 1990 : letter).

The purchase of vehicles and spares is the responsibility of the City Engineer. However, an automotive order which is issued by the Purchasing Office of the City Engineers Department is limited to R500.00 per item. Any automotive spare in excess of R500.00 must be referred by requisition to the centralised Purchasing Office which then processes an order for the item in question (Taylor 1990 : letter).

There is an on-going liaison between the centralised and decentralised purchasing offices. This relationship is simplistically reflected in Figure 10.

Despite the fact that the City of Port Elizabeth operates on the centralised/decentralised system of purchasing, the Chief Controller of Buying and Stores, Mr. Pretorius was of the view that the centralised system was preferred because it was cost effective, reduced inventory costs and that staff were better utilized (Taylor 1990 : letter).

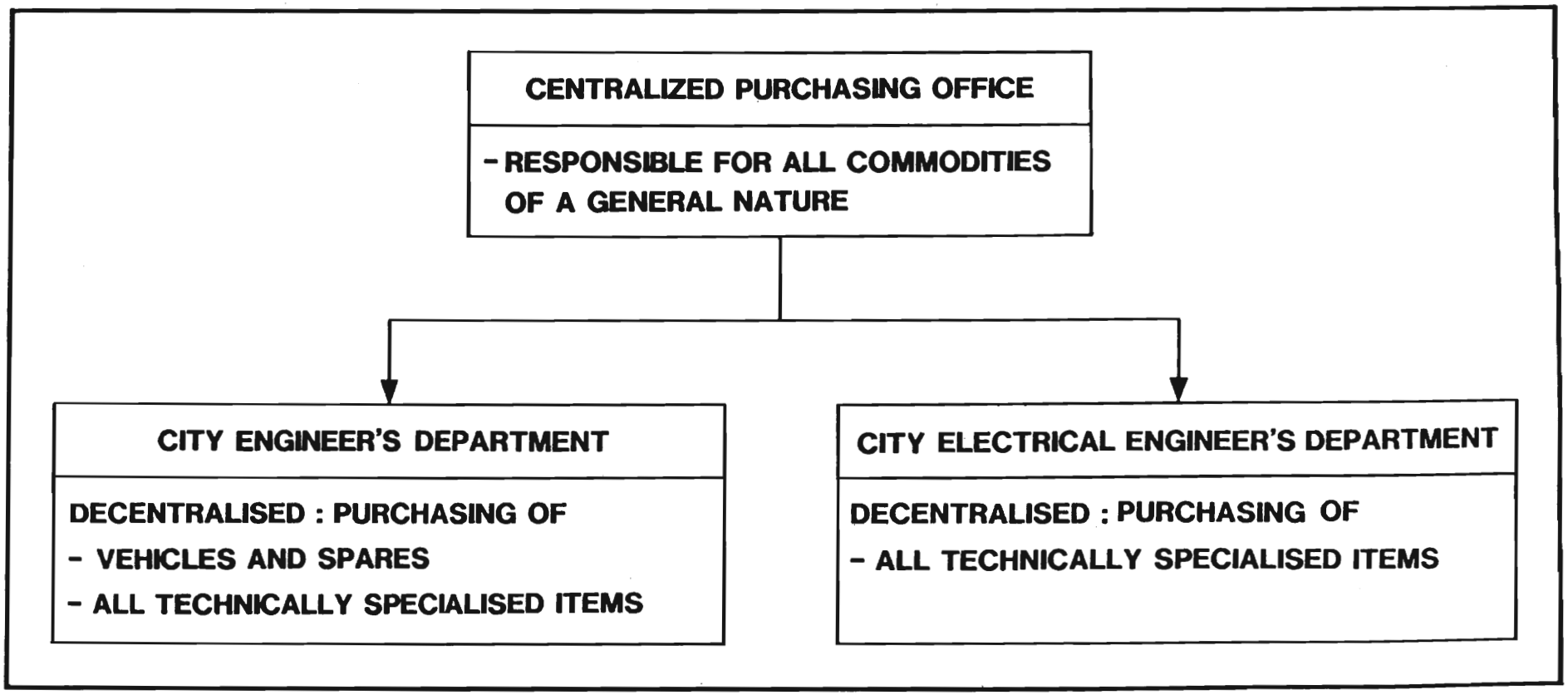
In the City of Durban, the centralised/decentralised system operates somewhat differently from the norm. In the opinion of Mr. De Lange (Director of Materials Management) the City actually operates on a centralised system, but for purposes of practicality the purchasing officers are stationed at the site of the functional department (1990 : interview). The central office is responsible for purchase of all commodities, and relies heavily on their personnel in the various user-departments for inputs in this regard. This fact is clearly illustrated by the following extract from the Materials Management Operating Policies and Procedure Manual (1984 : 1 - 5) :

> "User-department personnel will be responsible for notifying the Materials Manager or Departmental Purchasing Groups on a timely basis of large or unusual purchasing requirements,..."

Furthermore, the decentralised group of purchasing officers are responsible for the following purchasing aspects of the user-department:

FIGURE 10

RELATIONSHIP BETWEEN THE CENTRALISED AND DECENTRALISED PURCHASING OFFICES AT THE CITY OF PORT ELIZABETH



> "Departmental Purchasing Groups will ensure that order placement, order follow-up and expediting are timely and responsive to support departmental requirements" (Materials Management Operating Policies and Procedure Manual 1984 : 11 - 12).

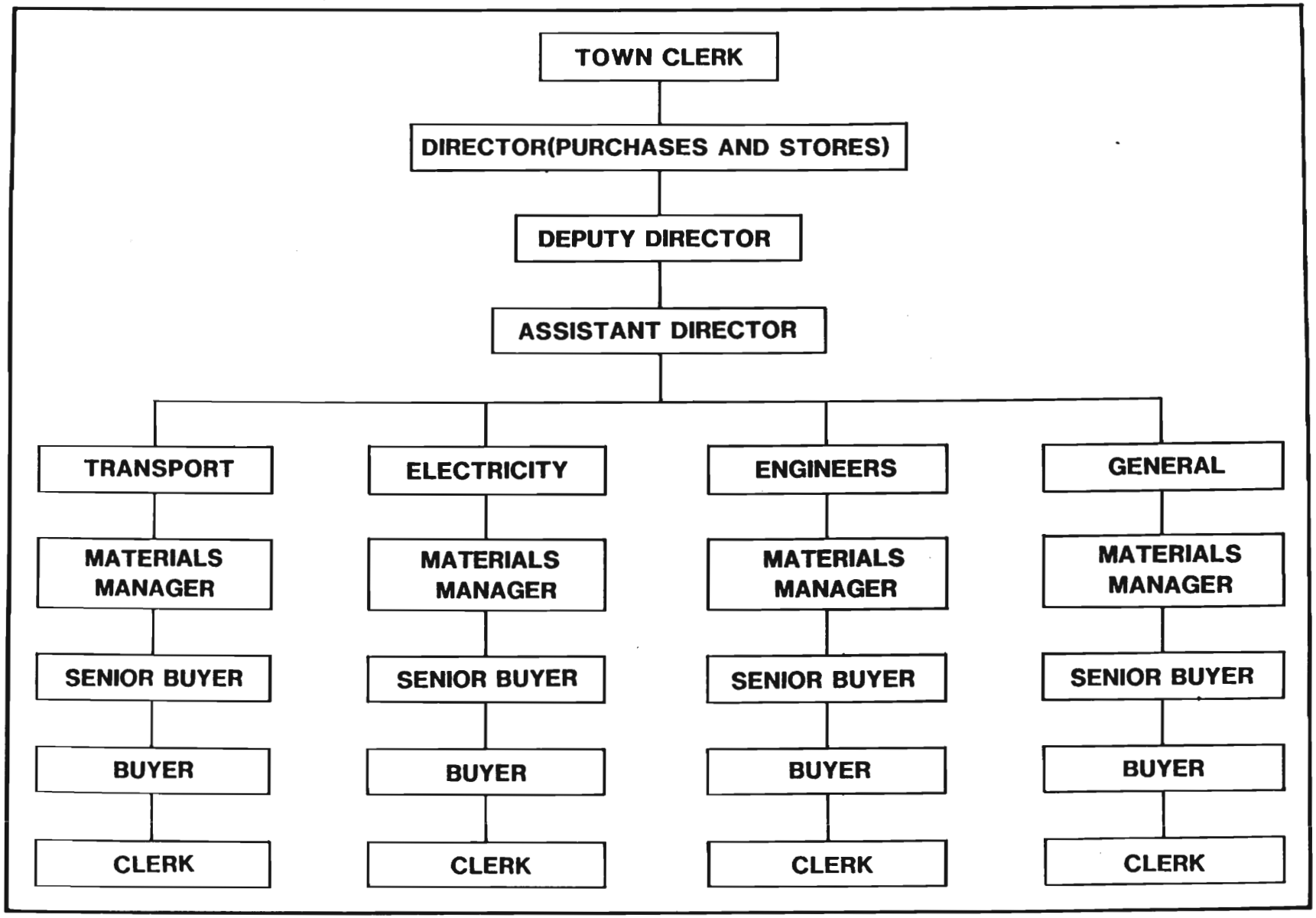
In the City of Durban, the Purchasing Office serves four specific departments (De Lange 1990 : interview). These are often referred to as 'companies'. Within each 'company' is a Purchasing Office, which is responsible specifically for purchasing goods and services relevant to that 'company' (De Lange 1990 : interview). The four 'companies' are Transport, Electricity, General and Engineers (De Lange 1990 : interview). This structured relationship is depicted in Figure 11.

The purchasing personnel in each of the 'companies' are referred to as the Departmental Purchasing Group. These Departmental Purchasing Groups provide information on purchasing requirements for each department for stock items for which tenders must be invited timeously (Mac Callam 1990 : interview). Other purchases of a specialised and 'one-of' nature are executed by the Departmental Purchase Group according to prescribed regulations (Mac Callam 1990 : interview). The Departmental Purchase Group reports to a Materials Manager (often a Chief Buyer) who is responsible for the purchasing function of a respective company" (Mac Callam 1990 : interview).

Although the Materials Manager often liaises with the user-department (company) on purchases of a highly technical nature, he is still responsible to the Director of Purchases

FIGURE 11

ORGANISATIONAL ARRANGEMENTS FOR THE PURCHASING FUNCTION AT THE CITY OF DURBAN



and Stores, who is physically situated some distance from the user-department (Mac Callam 1990 : interview). Often the Materials Manager and the Departmental Purchasing Group are in conflict with the user-department over decisions of what and when to purchase (Mac Callam 1990 : interview). Such matters are often referred to the Director or the Deputy Director at the centralised Purchasing Office for resolution. (Mac Callam 1990 : interview).

In the foregoing discussion, three organisational systems, namely, centralised, decentralised and a combination of these systems were discussed. Some specific South African municipalities which operate on these systems were highlighted. Each of these systems have their merits and demerits.

The question is, which system is most suited to the South African municipal environment. This very issue has been a subject of forceful discussion in the United States of America for many years and became a field of study of the Council of State Governments (1975). A comprehensive report compiled by the Council indicated that if there is centralisation, openess, impartiality and professionalism in public purchasing, then the public is being well served (Council of State Government 1975).

In a similar vein a study undertaken by Whitbread and Rogers (1970) amongst municipal authorities in the United Kingdom, came to the conclusion that the centralisation of the purchasing function has distinct advantages over other

purchasing systems.

Korbitz (1976) asserts that the relationship between the centralised purchasing unit and the user-department must be an effective partnership. The purchasing office must play a dynamic role by developing capabilities to (Korbitz 1976):

- provide easier requisitioning;
- provide a speedier and more responsive service in regard to the supply of goods and services;
- maintain and constantly review the control of the entire purchasing operation; and
- ensure a constant feedback to user-departments on purchasing issues such as, innovative goods and services and market developments.

From discussions held with purchasing officers in some South African municipalities indications are that there is support for and against centralised purchasing. It would appear that South African municipalities have the capability and expertise to operate centralised purchasing systems. This does not imply the creation of a totally new purchasing department to perform this function but it can be easily executed by an existing department on behalf of other municipal departments.

In view of the foregoing discussion, it is emphasised that regardless of the size of a municipality, a centralised purchasing authority ensures integrity, efficiency and effectiveness of the purchasing function.

3.4 Co-operative Purchasing System

There is no co-ordinated co-operative purchasing amongst South African municipalities. From the questionnaires received and from discussion with purchasing officials it is evident that the advantages of large volume purchases, such as bulk discounts, has not being considered by municipalities. Many purchasing officers were of the opinion that co-operative purchasing could prove to be advantageous if pursued on a regional basis. Many municipal officials were willing to support the idea of a co-operate purchasing institution. Others had reservations about its success from an administrative point of view, whilst still others thought it would place unnecessary restrictions on their autonomy. The standardisation of items would of necessity facilitate co-operative purchasing. This idea has great potential and should be vigourously pursued by an over-arching body such as the Co-Ordination Council of Local Authorities.

The purchasing structure cannot be established without funds. Financing is necessary to ensure the continuity of all purchasing operations of the municipal institutions.

4 FINANCING

The purchasing function cannot be established and executed without the necessary funds. All municipal authorities provide money on their budget for the purchase of goods and services. On the average, municipalities spend about 30

percent of their income on material and equipment, about 30 percent on salaries, wages and allowances, and about 25 percent on interest on loans, and the balance of 10 percent on services, grants to universities and charitable institutions, domestic matters and small contributions to reserve or replacement account. (Cloete 1989 : 139).

It is, therefore, evident, that the percentage expenditure incurred by the purchasing office for the acquisition of goods and services, is only second to the staffing function. This clearly places a heavy responsibility on the purchasing office to ensure the optimum utilization of financial resources without losing sight of economy, efficiency and effectiveness of the purchasing function.

Within the municipal context, policies or programmes are often initiated by departmental heads and to a lesser extent by committees of elected representatives (Taylor 1990 : interview). The feasibility of a specific programme is often discussed by the departmental officials and under specific circumstances outside consultants may be employed to assist (Taylor 1990 : interview). In the final analysis the most beneficial programmes are reported to the municipal council which either accepts, rejects or accepts subject to modification (Taylor 1990 : interview).

During the course of this process, the purchasing office may provide an estimate of costs of various programmes, in terms of the goods and services required (Diffenthal 1990 : interview). The purchasing function only obtains legitimacy,

once the policy or programme has been formally accepted by Council and approved for implementation (Diffenthal 1990 : interview). The approved programme or policy is reflected as part of the budget with concomitant expenditure amounts. The purchasing officer, then has a clear framework within which to operate. The purchasing officer then does not have to decide whether to buy or not, rather he is obliged to acquire goods and services in accordance with the approved budget, and in consultation with the responsible department (Pretorius 1990 : interview). For example, if the Council has approved a policy to provide school children with public bus transport, it is not for the purchasing officer to decide whether or not to acquire buses, he must do so in conjunction with the user-department, ensuring the best value for money in the process.

Consequently, the budget is an important tool to the purchasing office, which must ensure that funds are available on the approved estimates before committing an order for a specific good or service (Taylor 1990 : interview).

Municipal authorities, such as Johannesburg and Port Elizabeth have centralised budgetary control mechanisms for monitoring purchasing expenditure on an on-going basis. This type of system should be adopted by other municipalities as well.

The importance of expenditure is highlighted in the Financial Standing Orders of the City of Port Elizabeth as follows (Taylor 1990 : letter).

" (1) The Council shall not vote any capital or operating expenditure until it has been considered and reported on by the Policy and Resource Committee".

With regards to capital expenditure, the Financial Standing Orders further provides as follows:

"(3) No capital expenditure shall be incurred on any project unless:

(a) provision therefor has been made on the approved Capital Budget; (and)

(b) any necessary Provincial or State approvals to incur the expenditure has been obtained".

The total value of purchases made by the purchasing offices of various South African municipalities is reflected in Table 2 (approximate figures).

TABLE 2

VALUE OF PURCHASES MADE BY THE PURCHASING OFFICE OF SOME SOUTH AFRICAN MUNICIPALITIES 1)

MUNICIPALITY	FINANCIAL YEAR	AMOUNT
Durban	1989/1990	R174,000,000
Johannesburg	1989/1990	290,000,000
Port Elizabeth	1989/1990	36,000,000
Welkom	1989/1990	10,200,000
Simonstown	1989/1990	3,350,000
Vereeniging	1989/1990	12,800,000
Kimberley	1989/1990	15,600,000
Roodepoort	1989/1990	28,000,000
Greytown	1989/1990	5,000,000

The above Table reflects large sums of public money being spent on the purchase of goods and services. There are increasing demands from the municipal community which compels municipal authorities to face the challenge of providing more and improved services. This cannot be done by merely increasing the rates and services fees of the citizenry. There has to be a concomitant review of both expenditure and productivity. Public funds must be utilised to the maximum potential by improving productivity within the municipal authority. The purchasing process is the activity which financially commits the municipal authority. Therefore, it is important that the purchasing function be executed both

efficiently and effectively as possible to meet the present day challenges of public purchasing.

To meet these new challenges qualified purchasing personnel are necessary.

5 STAFFING

An effective and efficient purchasing corps is indispensable to ensure the achievement of the goals of the purchasing office.

In most South African municipalities, the purchasing office is under the jurisdiction of the town or city treasurer's department. In many instances, purchasing officers report to the town or city treasurer, or his deputy, who is in charge of the purchasing function.

The roles played by purchasing personnel vary in accordance with the size of the municipalities. In larger municipalities, such as Cape Town, Johannesburg and Durban, separate purchasing offices have been established to execute the purchasing function. In smaller municipalities, such as Verulam, Queenburgh and Tongaat, the role of the purchasing officer was very limited, in other words, he acted more as a storekeeper. In these instances, much of the recommendations are made by the user-departments, with the approval of specific committees or the municipal council. In this regard the purchasing officer's role is merely to co-ordinate the purchases, having no direct input within the

decision-making process. The role of the purchasing personnel in some municipalities will be discussed.

In a large municipality, such as Johannesburg there are thirty personnel involved in the purchasing function. The Purchasing Office is the responsibility of the Deputy City Treasurer (Buying and Stores) who is assisted by the Assistant City Treasurer (Buying and Stores) and Chief Professional Officers. In the opinion of Mr. Diffenthal, Deputy City Treasurer (Buying and Stores), the Purchasing Office is appropriately staffed (1990 : interview). He further advised that all personnel are encouraged to obtain commercial qualifications in a treasury direction (1990 : interview). Although, the purchasing officers devote their time to buying, he felt that the major part of the work is very much of a clerical nature (1990 : interview). With the exception of Mr. Diffenthal, who is a member of the Purchasing Institute of South Africa, and the Institute of Municipal Treasurers and Accountants, no other purchasing officer belongs to recognised purchasing institutions. Thus, only the Deputy City Treasurer attends meetings of the Purchasing Institute and the Institute of Municipal Treasurers and Accountants. It would appear that most of the personnel in purchasing office have 'general' experience in the City Treasurer's Department (Diffenthal 1990 : letter). In the City of Port Elizabeth ten persons are involved with the purchasing function (Pretorius 1990 : interview). The Purchasing Office falls within the City Treasurer's Department. The Chief Controller Buying and Stores, Mr. Pretorius is of the view that the Purchasing Office should be

a separate entity from the City Treasurers Department, with its autonomy and comments as follows in this regard (Taylor 1990 : letter).

> "(The) purchasing function is a distinct function separate from normal treasurer's duties..."

The post of Chief Controller (Buying and Stores) is equivalent to the rank of Chief Accountant in the City Treasurer's Department (Pretorius 1990 : interview). The Chief Controller is responsible for the purchasing function and reports to the Deputy City Treasurer (Pretorius 1990 : interview). He is assisted by Chief Buyers, Assistant Chief Buyers, Senior Buyers and Buyers. The qualifications of senior purchasing personnel, including the Controller is a matriculation certificate (1990 : letter). Most of the personnel have many years of municipal service and a few of them belong to the Purchasing Institute. To encourage the level of purchasing expertise, bursaries are made available (1990 : letter). Promotions take place only when vacancies exist (1990 : letter). All routine clerical work are performed by non-purchasing staff (1990 : letter).

Mr. Pretorius, the Chief Controller (Buying and Stores) expressed the view that the purchasing function of municipality's has been sadly disregarded. He comments: "purchasing is a very neglected profession in South Africa" (1990 : letter).

In the City of Kimberley, the Purchasing Office resorts under the City Treasurer's Department. Twenty persons are employed in the Purchasing Office. The centralised purchasing function is under the control of the Deputy City Treasurer who is aided by the Assistant City Treasurer. The responsibility for purchasing has been delegated to the Head : Stores and Buying. He reports to the Deputy City Treasurer, via the Assistant City Treasurer. The Head : Stores and Buying is assisted by an Assistant Head (Stores and Buying), Senior Accounting Assistants, Senior Lady Clerks and Typists. The Head of Stores and Buying has a Bachelor of Commerce degree and four years of purchasing experience. The rest of the personnel have either matriculation or junior certificate and experience. None of the staff of the Purchasing Office are members of a recognised purchasing institution at present. It would appear, that some of the personnel were members of the South African Institute of Purchasing, but found that the discussions at meetings were not relevant to municipal purchasing. No incentives are provided by the municipal authority to improve the level of purchasing expertise of personnel.

The aforementioned aspects of staffing at some municipalities reflect a diversity in personnel practices in respect of qualifications, professional status and experience in the purchasing function.

From discussions with high-ranking officials at the major municipalities and from the documentation provided, it is evident that qualifications of purchasing staff and other personnel requirements differ from municipality to

municipality. It is also true that since the purchasing office falls under the jurisdication of the city treasurer's department there has been a free flow of personnel with treasury experience to execute the activities constituting the purchasing function. Although this experience may be relative, it is not truly relevant in regard to the purchasing function (Pretorius 1990 : interview).

There is great variance amongst staff establishments at the various municipalities studied. Some of these aspects include, inter alia, (Pretorius 1990 : interview ; King 1990 : interview) :

- job descriptions and post designations;
- qualifications;
- experience;
- objectives of post;
- functions; and
- professional membership.

In one municipality, a junior certificate has been accepted as an adequate qualification for purchasing personnel whilst in others a matriculation certificate as been considered appropriate for high-ranking officials who are responsible for the administration of the purchasing and inventory functions of the municipality (Diffenthal 1990 : letter).
In view of such differences, it is important to ensure uniformity in personnel practices emphasing on;

- qualifications : must be appropriate and relevant to the various seniority levels within the purchasing organisation;
- experience : must be relevant to the purchasing function, preferably in the public sector;
- objectives : of the post must be clear and unambiguous.
- functions : of the incumbent of a specific post must be clearly formulated and set out in writing;
- professional membership : of recognised purchasing institutions must be encouraged.

The above areas must be clearly set out under job requirements.

It is also essential for municipal authorities to ensure uniformity, with clear guidelines on important components of personnel administration, inter alia, (Cloete 1986 : 146-160):

- recruitment;
- selection;
- placement;
- training and development;
- evaluation; and
- conditions of service.

From the foregoing, it is clear that the purchasing function is an important activity and as such requires well qualified personnel to perform the various functions within the organisational hierarchy. It is also noted, that different municipalities stipulate different personnel requirements. Furthermore, from discussions with high-ranking officials at the various municipalities, it has come to light, that the purchasing office is not considered as important as other municipal departments by the municipal council, despite the fact, that the purchasing function greatly contributes to the goal of municipal welfare. Cognisance must also be taken of the fact that the purchasing personnel could easily commit the municipality authority to a legal obligation (when placing an order) which could prove to be a costly exercise for the municipality.

It is, therefore, imperative that personnel practices for the purchasing function be placed on a sound footing to ensure greater productivity and a happy and contented work force.

Once personnel arrangements have been finalised, it is necessary to determine work procedures to execute the activities constituting the purchasing function.

6 DETERMINING WORK PROCEDURES

The need for appropriate work procedures for discharging the diverse activities constituting the purchasing function, cannot be overemphasized. Since municipal purchasing entails the use of public funds to attain public goals it is, therefore, necessary to ensure that all purchasing functionaries within the purchasing unit co-operate in attaining the policy objective. This may only be achieved by determining uniform work procedures which will result in the objectives being attained in the shortest time, using the minimum amount of labour and at the lowest possible cost (Cloete 1986 : 162).

For South African municipalities the provincial ordinances provide a broad framework for the municipal purchasing function (Fearon & Hamilton 1980 : 302). Furthermore, the municipal council sets out details of purchasing policies in terms of financial regulations (Diffenthal 1990 : letter).

The nature and scope of procedural applications is largely influenced by the type of organisational system used to perform the purchasing function.

The centralised purchasing system is used by the majority of South African municipalities. Even in municipalities where other systems are being used, an overwhelming number favoured the centralised system of purchasing. The purchasing activity is generally the function of the purchasing office which is the branch of the city treasurer's department. In

one way, it is not essentially true to state that a centralised purchasing system is totally centralised. The user-departments play a vital role in the purchasing function. In some municipalities, such as Johannesburg and Pretoria, technical departments provide relevant inputs into the purchasing process, by way of expert advice, and by providing reasons for the recommendation of purchases.

In a decentralised system, as is applicable in municipalities, such as Cape Town and Port Elizabeth, user-departments such as the Electrical Engineer and City Engineer advertise and award contracts for specific types of goods and services. In the City of Cape Town, the Health Department is responsible for the purchase of medical services and products.

There are financial value limits placed on the purchase of goods and services. These vary considerably from municipality to municipality and is specifically based on the local government ordinance of the respective province and the financial regulations of the municipality.

In the above respect consideration of the financial limits for purchases of some South Afrian municipalities are reflected as follows in their respective financial regulations:

(a) Cape Town

(i) No tenders are invited for value of goods and services up to R6 000,00.

(ii) Quotations or informal tenders are invited for commodities and services in the value range of R6000 to R15 000.

(iii) For all goods and services in excess of R15 000 formal tenders must be invited.

(b) Port Elizabeth

(i) All purchases up to R15 000 are made against written quotations.

(ii) All purchases in excess of R15 000 are subject to public tender.

(c) Johannesburg

(i) Purchase on written quotations are made for goods up to a value of under R40 000.

(ii Purchases are made on public tender for goods and services to the value of R40 000 and more.

(d) Pretoria

(i) Purchases on written quotations are made up to R40 000 in value.

(ii) Purchases are made on public tender for goods and services which exceed R40 000 in value.

(e) Durban

(i) Quotations are negotiated for value of purchases less than R50 000.

(ii) Tenders are invited for purchases in the excess of R50 000.

It is evident that municipalities falling within the same province are governed by similar conditions, that is, Cape Town and Port Elizabeth and Johannesburg and Pretoria. These municipal authorities are subject to their provincial government ordinances which provide for these limits and are further supplemented by the financial regulations of the municipality concerned. The municipality of Cape Town and Port Elizabeth are governed by Municipal Ordinance 20 of 1974. Whilst the municipalities of Johannesburg and Pretoria are subject to Local Government Ordinance 17 of 1939. Municipalities in Natal are subject to the Local Government Ordinance 25 of 1974 and those in the Orange Free State are governed by the Local Government Ordinance 8 of 1962.
These restrictions serve as a measure of control. The final purchasing decisions are dependent on the value of the purchase. Small value purchases may be approved by the purchasing office, whereas items that are put out on public tender for large value purchases are subject to special committees, such as tender committee, management committee and the municipal council. Such decisions however, are largely based on reports of recommendations submitted by the purchasing office or the appropriate user-department. A view expressed by a Chief Purchasing Officer in a

municipality with a centralised purchasing system is that, they were fully responsible and accountable for the purchasing function, but because the final decision-making authority was vested with higher bodies, this authority was not often clear in actual practice (Pretorius 1990 : interview).

The manner in which goods and services are acquired is determined by the procurement process which entails the solicitation of offers from potential suppliers, through to the award of contract, placing of order and the completion and finalisation of the terms of the contract by the supplier. This process may thus be viewed in terms of specific steps for which procedures must be determiend and implemented. In South African municipalities the following primary steps are identified as part of the procurement process:

- determining the needs of user-departments;
- ascertaining the most appropriate method of purchase in terms of rules and regulations, such as purchase by public tender or against quotations;
- selecting potential suppliers;
- implementing the method of purchase, for example, the tender system entails the following aspects:
  - inviting of tenders;
  - advertising of tenders;
  - opening of tenders;
  - scheduling of prices;
  - adjudicating of tenders; and
  - authorising and accepting of tenders;

- placing of orders;
- following-up orders;
- receiving and inspecting of goods;
- checking invoices;
- processing discrepancies and rejections; and
- closing complete orders.

Before proceeding to outline the procedures, it is essential to highlight the purchasing methods used by South African municipalities in the performance of the purchasing function.

Municipalities in South Africa, generally use two types of purchasing methods, namely:

- purchase on public tender; and
- purchase on quotation.

In South African government departments and parastatal institutions the use of the tender system is a prominent method of purchase. The Board of Trade and Industries (1973 : 9) made this specific comment on purchasing in regard to municipal authorities:

> "Local authorities arrange their own buying activities subject to a certain measure of control by the Department of Industries in respect of the application of preferences".

It would appear that municipal authorities are not compelled by central government to follow the tender system of purchasing but are in fact obliged to do so by provincial ordinances and financial regulations which make it mandatory.

The popular view expressed by purchasing officers in the various municipalities is that the tender system or variations of it, is the most appropriate method for the municipal sector to acquire goods and services. Although, some officers expressed reservations about its constraints in regard to cost and time in implementing the system.

The Board of Trade and Industries (1973 : 11) indicated that the tender system is characteristic of western countries which accepted the principle of free enterprise and the effectiveness of the price mechanism. The main objective of the system is to ensure that contracts are awarded on a competitive basis to the most efficient suppliers (Board of Trade and Industries 1973 : 12). The Board of Trade and Industries listed the following advantages of the tender system:

- it reveals sources of supply that would otherwise be unknown;
- it encourages the competitive spirit amongst potential suppliers; and
- it reinforces the image of openness and fairness in the public purchasing function thereby countering suspicions of malpractice and corruption.

Some distinct disadvantages, although limited, are that (Board of Trade and Industries 1973 : 15):

- it is more costly than direct methods of purchasing, both to the purchaser and supplier;

- procurement (or lead times) are much longer for deliveries; and
- stock levels are often high because of large volume purchases on tender.

Since the tender system is the most predominant method of purchase used by South African municipalities procedural details in this regard shall be discussed at some length in this chapter.

There are other methods which are used and in most instances these are a variation of the purchase on quotation method.

The purchase of items are generally categorised into two specific areas, stock and non-stock items. The stock items are purchased for replenishment of the various municipal stores, whilst non-stock items are purchased and issued directly to various user-departments (Diffenthal 1990 : interview).

Since the purchasing procedures applied in South African municipalities are governed by specific provincial legislations and municipal financial regulations the variations, if any, are few. Therefore, the discussion on purchasing procedures, in the main, are based on the practices adopted by the City of Johannesburg.

6.1 Purchasing Procedures in Practice

The purchasing procedures used in the City of Johannesburg are set out in the Buying Policies and Procedures Manual. The municipality primarily uses the following purchasing methods in the execution of the purchasing function:

- purchases on contract (tender) for goods to the value of R40 000 and more;
- purchases on quotation for goods up to a value of under R40 000;
- purchases against standing quotations; and
- purchase against quotation for urgent requirements.

The above purchasing methods and the procedures used in their implementation shall be briefly discussed.

6.1.1 Purchase by Tender

The purchase by municipal contract or tender is based on Local Government Ordinance 17 of 1939. This aspect is also provided for in the provincial ordinances of the other municipalities. Section 25 of the Ordinance 1939, provides for the tender system as follows:

(i) for any contract for the purchase or sale of goods to the value of R40 000 and over, fourteen days clear notice must be given by means of a newspaper advertisement, in both official languages;

(ii) if such notice is not given the Council must be informed as to why this was not done and it must resolve to accept the reason before agreeing to enter into a contract; and

(iii) for any item purchased under contract preference for local content must be considered.

Furthermore, the Financial Regulations, of the Council set out specific procedures in regard to the invitation of tenders. These are listed hereunder :

(i) Tenders must be submitted in sealed envelopes and placed in a special box for this purpose.

(ii) Tenders must be opened in public in the presence of the City Secretary or his duly authorised representative.

(iii) The lowest tender only can be accepted unless reasons for passing it over are included in the report to the Management Committee.

(iv) The City Treasurer must ensure that financial provision exists before reports involving payment of monies are submitted to the Council.

6.1.1.1 Invitation of Tenders

The Management Committee of Council has delegated the authority to the City Treasurer for the invitation of all tenders for goods and services in the excess of R40 000. The Purchasing Office which is a branch of the City Treasurers Department is responsible for the invitation of all tenders. In these instances the user-departments must forward the

necessary specifications to the Purchasing Office for the invitation of tenders. The accountant attached to the respective user-department must also provide by certification that provision exists on the current estimates for the purchase of such goods and services. Where no specific provision exists the accountant must indicate that approval has been obtained to purchase from contingency or excess funds. If the equipment is of a specialised nature, then the user-department may indicate names of possible suppliers to whom tender documents could be forwarded.

The tender document issued by the Purchasing Office to the prospective supplier comprises of:

a) Covering Letter of the City of Johannesburg - see annexure 4;
b) General Conditions - Purchases and Conditions of Tender - Form 'A' - see annexure 5;
c) Conditions Concerning Preferences, Consignment of Material and Hours of Delivery - Form 'B' - see annexure 6;
d) Special Conditions and Specification - see annexure 7;
e) Technical Data Sheet - see annexure 8;
f) Omissions and Variations - see annexure 9;
g) Form of Tender : see annexure 10; and
h) Certificate of Preference : see annexure 11.

The above-mentioned documents shall be briefly viewed to understand their purpose and contents.

a) Covering Letter

This document states that the Purchasing Office of the City Treasurer's Department of the City of Johannesburg is inviting the tenders. Under 'Important Notice' the closing date and time, opening date and time and the venue where the tenders will be opened are indicated. The contract number and the nature of goods and services that are to be purchased are shown. The attention of tenderers is focused on Clause 7 of the General Conditions of Purchase and Conditions of Tender, which pertains to alternative quotes that may be offered by suppliers.

b) General Conditions of Purchase and Conditions of Tender : Form A

All tenders issued by the Purchasing Office are subject to the General Conditions of Purchase and Conditions of Tender. This document deals with a wide variety of conditions pertaining to purchase, such as, inter alia:

- conditions and circumstances of tender;
- acceptance of conditions of tender;
- nature of the assignment;
- discrepancies;
- quality and guarantee;
- alternatives;
- variations;
- default;
- patents;

- packing;
- payment;
- firm tender prices;
- contract price adjustments;
- sequestration;
- period for which tender holds good;
- delivery;
- marking of goods;
- application of law;
- offering of commission or gratuity; and
- general.

There are twenty three conditions some of the more important ones have been listed above. These provide the general basis on which a contract for the supply and delivery of goods may be concluded between the Council and the prospective supplier. These conditions safeguard the interests of both parties entering into the contract.

c) Conditions Covering Preferences, Consignment of Material, Hours of Delivery : Form B

This document covers the following areas:

(i) preferences;
(ii) consignment of material;
(iii) consignment of materials to Stores situated in the Coloured, Asian and Black areas; and
(iv) hours of delivery.

The above aspects shall be briefly described.

(i) Preference

Section 35 (3) of the Local Government Ordinance 17 of 1939, provides the basis for the consideration of preference for suppliers offering goods with South African (local) content. Generally, the higher the local content of the goods, the higher the rate of preference, which plays an important role in determining the lowest price. The 'preference' document sets out conditions on the basis of which preferences can be claimed by tenderers and the punitive measures the Council would apply in the event of an incorrect claim (for preferences) being submitted. A Certificate of Preference must be completed by suppliers for items on which preference may be claimed (see paragraph 6.1.1.h).

(ii) Consignment of Materials

This condition simply states that if the goods are to be delivered by Transnet, then the consignment must be delivered, carriage paid, in the Contractor's name (not the City Council's) care of the Johannesburg City Council, to the stipulated place of delivery.

(iii) Consignment of Material to Stores situated in the Coloured, Asian and Black Areas

This clause specifies that goods shall not be delivered by Transnet to Black areas. Any contractor using Transnet

services must direct the consignment to a local agent or to a local depot from where it must be re-delivered by road transport to the stores in the Coloured, Asian and Black Areas.

(iv) Hours of Delivery

This condition stipulates that all Council stores are open for receiving of goods on week-days from 08h00 to 16h00 but are closed on Saturdays, Sundays and public holidays. Contractors, using Transnet services for delivery of goods should clearly endorse this condition on all consignments. Furthermore, the Council would not be responsible for any re-delivery charges raised by Transnet.

d) Special Conditions and Specifications

In this regard the Buying Policies and Procedures Manual, emphasises the necessity for clear unambiguous specifications which also reflect the minimum acceptable requirements. Specifications must not be "tailored-made" and to be so inflexible as to reduce competitive bidding. It is, therefore, necessary that specifications be written in a manner which encourages competition and the submission of more than one tender.

The Johannesburg City Council is of the view that wherever possible goods which are in accordance with South African Bureau of Standards and CKS specifications shall be purchased. User-departments are encouraged to use items

which are in accordance with these specifications.

The information requested on this document vary with the nature of goods or services put out to tender. For example, tenders for machinery and equipment may emphasise technical details and compliance with the Machinery and Occupational Safety Act 6 of 1983. Items such as foodstuff will stress health aspects, in compliance with the Health Act 63 of 1977 and the Foodstuffs, Cosmetics and Disinfectants Act 54 of 1972. Other information reflected in this document are, inter alia:

(i) Price and delivery basis: this includes aspects such as General Sales Tax, delivery charges, levy, customs duty, excise and import surcharge and settlement discount.

(ii) Surety Bond: A tenderer is expected to provide a surety bond of ten percent of the value of the contract, if required, within twenty-one days of the notice of acceptance of the tender by the City Council. The surety bond is returned after satisfactory completion of the tender. In the event that the goods supplied or services rendered are not in terms of tender, the surety bond may be retained, subject to the satisfactory fulfillment of the obligations by the tenderer.

This is an important clause as it forces the supplier to meet his obligations in terms of the contract.

(iii) Item required: specifications of the goods or services.

(iv) Quantities: required in terms of the tender.

(v) Place of delivery: delivery address of specific store or depot or that of the user-department.

(vi) Time of Placing of Orders and Rate of Delivery: These aspects are determined by the Purchasing Office in consultation with the user-department and in accordance with conditions of the accepted tender.

(vii) Preferences, Consignment of Materials and Hours of Delivery: The conditions in these instances are as reflected on Form 'B' : Conditions Concerning Preferences, Consignment of Material and Hours of Delivery.

(viii) Shipping Preference: Generally preference is given to the supply of goods from Europe, the United Kingdom, The Far East, the United States of America and Canada, in vessels owned or operated by a South African Company, on condition that this does not result in excessive delays. This is obviously done to encourage South African trade and retain South African currency within the country, which would not be the case if foreign shipping lines were used.

(ix) Sampling : An item, such as, powdered milk may be analysed in the Council's laboratory to ensure compliance with specification. If the supplier fails to comply with specification all the rejected consignments must be removed and replaced at the expense of the tenderer.

(x) Packing : Items must be suitably packed, in accordance with appropriate regulations where applicable. For example, milk containers must comply with regulations 7 (4) and 7 (5) of the Foodstuffs, Cosmetics and Disinfectants Act 54 of 1972.

(xi) Certificate of analysis : This requirement applies especially to foodstuffs which must comply with Foodstuffs, Cosmetics and Disinfectants Act 54 of 1972. For example, a tender for modified milk powder, shall comply with regulations relating to foodstuffs for infants and young children, in accordance with the aforementioned Act.

(xii) Health Report : Where necessary, a tenderer must forward a health report from the Health Department in the area where the factory is situated.

(xiii) Samples : Depending on the nature of the item. Samples must be lodged with the representative of the City Council, as reflected on the tender document, and clearly labelled as follows:

- contract number and item number;

- name of tenderer; and
- description of contents.

Failure to submit samples by the tenderer may invalidate the offer on the basis of non-compliance.

(xiv) Period for which Tender holds good : This reflects the period the tender shall remain open for acceptance by Council. This is normally a period of two months from the date of the tender invitation.

(xv) Acceptance of Tender : A valid and binding agreement comes into effect once the Council posts a letter of acceptance of a tender to the tenderer by registered post.

(xvi) Tender Price Adjustment : Unless stated otherwise, a application for increase in tender price shall only be considered if applications are submitted to the City Treasurer within two months of the date that the increases are to become effective. All applications must provide documentary proof in support of the claims for price increase. In the absence of acceptable documentary evidence such claims may be rejected.

e) Technical Data Sheet

This document provides technical details of goods offered on tender. The completion of this document by suppliers is considered important to the Purchasing Office which evaluates

different products and their potential use on the basis of the specifications. For example, the document would be used to check whether goods offered are according to specification or whether another offer at a higher price may be better value for money. It is essential that only the necessary technical information be stated on the Data Sheet to facilitate expeditious completion of the tender document by the supplier.

f) Omissions and Variations

This is a schedule that reflects the extent to which the item offered by the tenderer complies with the original specification. It plays an important role in the adjudication of tenders. The failure by the tenderer to complete this document may render the tender liable to rejection on the grounds of being incomplete.

g) Form of Tender

This document provides an important part of the tender invitation and provides the basis of an agreement between the Council and the tenderer.

The 'Form of Tender' pertains, inter alia, to aspects such as : quality, description of goods offered, deliveries, price verification and payment terms.

The tenderer or his authorised representative, undertakes by completion of this document, to supply and deliver the goods as stated on the tender, in terms of the stipulations of the

various tender documents, with which he is thoroughly conversant.

h) Certificate of Preference

This document is compiled in accordance with Regulations Relating to Tender Preference Applicable to Local Authorities, published under the Administrator's Notice 2874 of 27 December 1985, wherein provision is made for various types of preferences.

The 'certificate' is a legal document and is binding on the tenderer. If claims for preference are not received by the Council on time on the date of closing of the tender, the offer of the tenderer may be rejected on the basis of non-compliance with tender rules and regulations.

6.1.1.2 Advertising of Tenders

Section 35 (1) of the Transvaal Local Government Ordinance 17 of 1939, provides that tender invitations shall be advertised in a newspaper, thereby providing a wide publicity for the receiving of offers.

The Purchasing Office of the Johannesburg City Council advertises its tenders every Friday and opens the tenders in public on a Tuesday, after a period of eighteen days. If the tender is extensive, complicated or if the tenderers wish to obtain further information from their overseas suppliers, the opening date of tender may be extended, at the request of the

tenderers.

The user-department may, when requesting the Purchasing Office to invite tenders, specifically indicate that a tender for specialised item or service be advertised for a longer period, to ensure that offers are received.

6.1.1.3 Opening of Tenders

The opening of all tenders is executed by the City Secretary or his representative and is attended by an official of Purchasing Office. All tenders are opened in public. The only information disclosed is the name of the tenderer and the prices quoted.

The City Secretary or his representative must ensure that all tender documentation and accompanying correspondence from the respective tenderers are date stamped. This is essential to obviate any malpractice which may occur. For example, a letter may be received after the tender is opened adjusting the price of a specific supplier. If this is accepted, it would defeat the purpose of opening the tenders in public and will obviously create a poor image of the City Council in respect of ethical practices.

The Purchasing Office records the numbers of tenders received and after the documents are signed by the City Secretary, the prices are scheduled by the Purchasing Office.

If tenders are not in the tender box by the due date and hour stipulated on the tender invitation then the late offers are not considered or included in the schedule of tenderers. All late tenders are returned to the respective tenderers.

6.1.1.4 Scheduling of Prices

The price schedules are prepared by the Purchasing Office after the opening of the tenders and are sent to the user-department together with the tenders for adjudication and recommendation in the form of a report by the user-department.

This schedule reflects the preference adjusted price and also makes reference to any matters that may have an effect on prices such as price variations, extras quoted for and special additional discounts.

The schedule submitted by the Purchasing Office should not be altered in any way as the prices stated are those that were read out in public.

In the event of a price variation, a special discount or where the cost of extra items makes the equipment according to specification, it is necessary to include these details in the body of the report.

6.1.1.5 Adjudication of Tenders

The price on which the tender is adjudicated is not the tender price but the preference adjusted price which appears on the schedule submitted to the user-department by the Purchasing Office.

The adjudication process starts with the lowest tender and checks are made with the Technical Data Sheet that the item being offered is according to specification.

If the variations from the specification is of a very minor nature this need not be held against the tenderer but it is necessary for the user-depatment to give the Purchasing Office the details. As it is the policy of the Purchasing Office to buy to best value, adjudication of tenders should not stop at the lowest tender to specification. An examination should be made of the higher priced tenders in order to judge whether these tenders are better value for money. If the user-department considers that there is a case for buying other than the lowest to specification item then an explanation should be provided giving adequate details of costs and reasons for the recommendation.

When a tender is passed over because it is not according to specification then the user-department should give details of what was asked and what was in fact being offered. In many cases the lowest tenders received may not be according to specification in many respects. It is only then necessary to select a few of the more important reasons for inclusion

in the report to the Purchasing Office.

When passing over the lowest tender such phrases as 'is not according to specification', 'is not suitable', 'is unsatisfactory' are unacceptable unless details are clearly reflected.

When the lowest tender is accepted from a supplier with whom the Council has not dealt with before, the user-department and the Purchasing Office must satisfy themselves that the supplier has the ability to fulfill the tender. If there is doubt as to the tenderer's ability, a part of the tender could be awarded to ascertain the tenderer's ability to comply with the tender.

6.1.1.6 Level Price Tendering

This implies that through supplier colluding, tenderers often quote the same price for an item or service. Generally, the user-department must provide an acceptable reason to the Purchasing Office for placing the order with one of the equal tenderers. If, however this is not possible, then tenderers may be decided by ballot.

6.1.1.7 Variations in Price

The tendered price may be subject to price variations, owing to factors, such as, manufacturer's increase, fluctations in rates of exchange or by other factors. Where such variations have an effect on the cost, it must be taken into account in the adjudication of the tenders.

6.1.1.8 Non-Acceptance of Tenders

Where no tenders are acceptable, reasons for non-acceptance must be provided. Some of the reasons which are advanced are that:

- tenders are not according to specification;
- there are insufficient funds; or
- there have been changes in the system and the specifications may be subject to review.

6.1.1.9 No Tenders Received

If no tenders are received for a specific item or service, or if the tenders received are not according to specifications, tenders for these commodities may be re-invited.

6.1.1.10 Authorisation of Tender : Value Limits and Procedure

In order to ensure control, approval of tenders are set to certain value limits as follows:

- tenders valued in the range from R40 000 to R1 000 000, must be approved by the Tenders Licencing and Market Committee;
- tenders valued in excess of R1 000 000 must be approved by the Management Committee of Council; and
- if funds have to be specifically voted or if there is no provision of the estimates, such tenders must be authorised by the Council.

The Purchasing Office is responsible for the adjudication of all tenders. The user-department's recommendation should be forwarded to the Purchasing Office at least twelve working days before the Tender Committee Meeting. The Purchasing Office also prepares a report for the Tender Committee which reflects the details of the item being purchased, the purpose for which the item is required and which department requires the item. Reasons must also be provided for the purchase of additional equipment or for replacement equipment. The report of the Purchasing Office must be received by the City Secretary at least five working days before the meeting of the Tender Committee.

The Purchasing Office often queries recommendations of the user-department to ascertain relevant information to support recommendations and to expedite the passage of tenders through the Tender Committee. The Tender Committee peruses and approves the tender on the basis of the City Treasurer's report (from the Purchasing Office). The Deputy City Treasurer (Purchases and Stores) is responsible to pilot tender recommendations through the Tender Committee and the Management Committee of Council. When a report is presented to the Tender Committee it indicates that recommendations have been accepted by the City Treasurer, as well as by the respective head of the user-department.

The procedure discussed in respect of the tender system applies equally to other municipal authorities in South Africa. Since public purchasing uses public funds it must operate in a 'fish-bowl' environment, ensuring fairness,

justice and impartiality. Of the various methods of purchasing, it is the tender system which best meets these requirements. Consequently, it is mandatory on municipal authorities to purchase by tender when value of goods and services exceed a specific financial limit.

The representative bodies of the municipal council such as the Tender Committee, in the City of Johannesburg and the Policy and Resources Committee, in the City of Port Elizabeth, act on the recommendations made by both the user-department and the city treasurer. Generally, the lowest tender prices are accepted. This is the main disadvantage of the system, that is, when price becomes the sole criterion of value. This can only be justified in cases when the specifications are written so unambiguously, that there is no doubt about other factors, such as, quality and service and consequently making price the sole and deciding factor in awarding the tender (Heinritz & Farrell 1971).

It is important to note that awards made for tender items must be concerned with the 'total value' taking into consideration not only the basic price, but also long-term related matters, such as, back-up services, repairs, dependability, utility, depreciation and user-satisfaction (Baldock 1990 : interview).

Within the public sector and in particular the municipal environment, both buyer and sellers are critical of the tender system of purchasing (Mac Callam 1990 : interview). One of the criticisms is that the system does not give due

consideration to past performance and service of the tenderers. A healthy and sound relationship between the buyer and seller is necessary for ensuring continuity of both supplies and services. However, both prerequisities are neglected when successive transactions are considered solely on the basis of current prices. In some purchasing circles, 'price' is considered to be the main criterion, some consider 'quality' whilst still others maintain that service is of paramount importance. These factors are important considerations when awarding the tender and the majority of municipal purchasing officers rank 'quality', 'service' and 'price' as the primary order on which purchasing decisions are based (Diffenthal 1990 : interview; Pretorius 1990 : interview).

The lowest tender price is often accepted by municipal officials on the basis that it avoids possibilities of price manipulation and charges of malpractises and corruption (Baldock 1990 : interview). The lowest tender can only successfully be accepted if the requirements are precisely and accurately set out on tender documents in a manner that minimises factors other than cost (Pretorius 1990 : interview).

Some purchasing officers expressed the view that the financial constraints and tender regulations made the tender system inflexible (Pretorius 1990 : interview). Others were of the opinion that it was a tedious and time-consuming process. However, despite these negative reports, most municipal purchasing officers were unanimous in their

acceptance that the tender system was an appropriate method of public purchase within the municipal environment.

6.1.2 Purchase on Quotation

This method is adopted for the purchase of goods and services to the value of R40 000. This method provides for purchases which are not available in the municipal stores.

The purchase on quotation is initiated by the user-department who forwards a 'multi purpose requisition' to the Buying Office for the purchase of a specific commodity.
The Purchasing Office in turn displays the requisitions on the notice board in the Civic Association, for a whole day, pending the receipt of quotations. Quotations received from prospective suppliers are sorted out and if there is an adequate response, the order is either confirmed by the Purchasing Office or forwarded to the user-department for a recommendation. This procedure obviously depends on the nature of the item.

When the user-department makes its recommendations, it is received and checked by the Purchasing Office and if accepted, the order is confirmed with supplier and copies are sent to the municipal stores which is made aware of the position in regard to price and delivery of the item.

There are numerous municipal stores in the Johannesburg Municipality. These stores provide material for the various user-departments. For example, there are electrical stores

that provide cables and switch boxes; there are mechanical stores that provide road curbs and road-marking paints; there are stationery stores that provide stationery needs for the municipality. Many of these stores are situated some distance from the centralised Purchasing Office. Consequently, when quotations are referred to user-departments for recommendation, there are often delays of between three to five weeks before the recommendations are returned to the Purchasing Office for further attention.

6.1.3 Purchase against Standing Quotation

This type of purchase method is also referred to as an 'as and when required' quotation. This method is followed for a number of small items which have a limited or small value. These quotations are not advertised, opened in public nor reported to the Tender or Management Committees. Quotations are obtained from interested suppliers by the Purchasing Office at the request of the user-department. The order is awarded to the acceptable tenderer by the Purchasing Office which works in consultation with the user-department.

6.1.4 Purchase against Quotation for Urgent Requirements

When an emergency arises and the user-department wishes to purchase an item urgently, this may be done on the basis of three quotations. These quotations must be in writing and should be submitted with an order requisition to the Purchasing Office for processing. The requisition itself is placed on the display board for a day, to be viewed by

other prospective suppliers. If no other quotations are received then the order is placed with any one of the acceptable tenderers whose quotations was submitted by the user-departments.

All purchases, despite the method of purchase, are subject to the General Conditions of Purchase of the Johannesburg Municipality, or unless otherwise stated.

From the discussion, it is evident that the tender system is the most popular purchasing method used by South African municipalities. The other methods are relevant but used to a lesser extent.

Some purchasing officers were of the view that there should be a greater degree of negotiations used in the purchasing process especially where monopolistic conditions exists. In areas where there are sole suppliers for specific goods and services purchasing officers should use the process of negotiation to purchase rather than invite tenders (Mac Callam 1990 : interview).

The discussion upto now highlighted the procedures used in the methods of purchase, however, the procurement process entails other areas relevant to the purchasing function. These are, inter alia :

- determining needs;
- selecting potential suppliers;
- placing of orders;

- follow-up orders;
- receiving and inspecting of goods.

The aforementioned aspects are generally uniformly executed by all municipal authorities and the extent of these activities are determined to a large degree by the nature and scope of the functions performed by municipal authorities. Although, the procedures may be uniform, the value and extent of the requirements for each municipality will differ. For example, consider the needs of a small municipal authority, such as, Verulam with a total budget of R9,9 million with that of the City of Durban which annually budgets in the region of approximately R2067,5 million.

The user-department determines the needs in terms of goods and services required to execute their funcitons and consults with the purchasing office in this regard.

It is important to emphasise that the planning and scheduling of requirements is essential to the purchasing function (Mac Callam 1990 : interview). Consequently, the relationship between the purchasing office and the user-department is an important component necessary for ensuring effective and efficient purchasing. In the planning stage, the purchasing department can provide valuable information in regard to, inter alia, market conditions, availability of items and updated technological information which can affect decisions to purchase by the municipal authority. In both planning and scheduling, the purchasing office in consultation with the user-departments, consolidates the requirements in an

attempt to achieve the advantages of large volume purchases and to reduce the effects of market fluctuations and supplier shortages (Van der Merwe 1990 : interview).

The selection of potential suppliers is important to the procurement process. The Council of State Governments (1975) indicated that the establishing and maintaining of a list of qualified suppliers was an important part of an effective purchasing programme. However, maintaining such a list is not without problems. Since prequalifications are necessary to justify a place on the list, this meant that new and small-scale suppliers who did not meet the financial and experience requirements were being prejudiced. On the other hand, it was impractical and uneconomical to include every supplier on such a list regardless of standing and capabilities. A tenderers list, determined in advance speeds up the process of tender invitation, analysis, evaluation and award. However, prequalification is a necessity in order to reduce costs, efforts and time in procurement process. There is a need for prequalification programmes to be determined in a manner to ensure fair and impartial selection of suppliers as well as providing opportunities for new and small business to be included especially if their potential to compete is acceptable. In the South African municipalities studied tenderers lists are maintained by the purchasing office.

The placing of an order is executed once agreement is reached between the purchasing officer and the supplier. The method of purchase may be any one of the various systems discussed. All relevant details in terms of the agreement must be

reflected on the order, including, inter alia:

- description of items or services;
- value;
- discounts;
- delivery basis;
- method of transportation;
- delivery address; and
- order number.

The following-up of orders are necessary to determine the status of the order and to ensure that there is compliance in terms of the agreement or contract.

The receiving and inspection of goods is necessary to ensure that quantities and the qualities of the items ordered are in fact received. This is the function of receiving departments in the various municipalities.

Such receiving sections are generally part of the inventory sections at the municipalities. Once the receiving officer is satisfied with the goods delivered, the relevant delivery note or invoice is signed indicating acceptance. In the event of a query, the delivery note or invoice is accordingly endorsed and the matter is taken up with the supplier.

The aforementioned aspects give an overview of the procedures pertaining to the procurement process.

Purchasing procedures cannot be performed without forms. All municipalities have specialised documentation to execute the various procedures. The two primary documents, namely, the requisition and the purchase order shall be viewed.

6.2 Forms used in Purchasing Procedure

Various forms are necessary to effectively follow procedure. Two primary documents used to execute the purchasing function are the:

- requisition; and
- purchase order.

All municipalities use these basic documents, with very little variations in their format.

6.2.1 Requisition

The requisition is normally in quadruplicate. The requistion is often used to obtain goods out of the municipal stores by user-deparments within the municipality. In some municipalities, such as Johannesburg and Durban, it serves a two-fold purpose. If the item is not in stock, or is a non-stock item, the stores department would forward the requisition to the purchasing office to place an order for the appropriate item. A copy is forwarded to the stores section and the user-department to inform them of the status of the item. The appropriate order number is quoted thereon. In the Johannesburg Municipality the requisition form also serves as an order form. The following pertinent details are

reflected on the document:

- name of user-department;
- name of store;
- details of item;
- catalogue number;
- quantity;
- signature of authorising officer in user-department;
- signature of issuing officer in the municipal store;
- date;
- quantity issued; and
- signature of receiving officer in the user-department.

The copy of the requisition form used by the municipalities of Johannesburg, Port Elizabeth and Pretoria are set out in annexures 12,13 and 14 respectively.

6.2.2 Purchase Order

The purchase order is a document that commits the municipality to a legal obligation with a supplier. All purchase transactions by the municipality for goods and services must be confirmed by an official order. The purchase order may be of various types, depending on the type of purchase transaction being rendered. For example, there is a cash order, for supply of items and services on a cash basis only. There is an open order which is issued to a supplier for goods or services on a continued basis, eg. supply of coal, gas or mixed concrete, where quantities cannot be determined precisely, but on an estimate basis

only. There is a contract order, placed with a supplier for a specific commodity for the duration of the contract period.

Most municipalities use these types of purchase order forms with minor variations in the format.

Some essential details reflected on purchase order forms are:

- name of supplier;
- address;
- name and address of user-department;
- details of item;
- quantity;
- terms and conditions of purchase eg. on contract
- delivery basis;
- payment terms; and
- order number.

These forms are face-value documents, and can be misused if stolen. Consequently, all purchasing documentation must remain in the safe-custody of a senior officer of the purchasing office. The copy of the order forms used by the municipalities of Cape Town, Johannesburg and Port Elizabeth are set out in annexures 15,16 and 17 respectively.

In applying procedure, control is obviously necessary to ensure that staff are executing their functions in terms of the procedures laid down. To this end, control evaluates and examines the extent to which purchasing objectives are being attained.

7 EXERCISING CONTROL

The process of control intends to ascertain and verify whether the purchasing function executed within a municipality is attaining its goals as efficiently and effectively as possible.

In this regard, control could be viewed in a two-fold context. Control measures within the purchasing office and those measures that are applied from outside the specific environment.

7.1 Internal Control Measures

These are created in terms of the generic administrative processes, namely, policy-making, organising, financing, staffing, determining work procedures and exercising control. The policies are laid down within the framework of local government legislation. Guidelines in respect of the purchasing function are also contained in the approved financial regulations of the municipality. Many municipalities have policy and procedure manuals, which facilitate control. The organisational structure, whether centralised, decentralised, or a combination of both systems provides the structure for the purchasing activity. Within the parameters of this structure the components of effective organising, namely, division of labour, delegation of power, co-ordination, co-operation and communication are applied. The nature of the organisational structure provides built-in controls. For example, in the various municipalities, there are controls in respect of authorisation of purchase orders.

These are restricted in terms of specific values to specific post designations within the purchasing office. This is further supported by the provision of specimen signatures. In the City of Johannesburg, this organisational control measure is viewed as follows:

Order Limit	Designation of Authorised Officer
Up to R40 000	- Deputy City Treasurer - Assistant City Treasurer - Chief Professional Officer
Up to R20 000	- Assistant Chief Professional Officer
Up to R15 000	- Senior Professional Officer
Up to R10 000	- Professional Officer

From the above, it is evident that the value of an order determines the personnel responsible for its authorisation. This procedure measure provides for control as follows (Bowman 1990 : interview):

- a check of the items on order;
- the value of the order;

- the validity of purchase in terms of the appropriate allocation of funds on the estimates; and
- terms and conditions of purchase.

Similar control measures exist in the municipalities of Cape Town, Durban, Port Elizabeth and Pretoria in respect of the authorisation of orders in terms of predetermined value.

The purchasing personnel play a vital role in the purchasing function. The need for staff to be well-trained, motivated and enlightened in the purchasing function is highly essential. Staff must keep abreast of the latest development in the purchasing field. To this end, they should be members of recognised professional purchasing institutions. However, this appears not to be the case at many municipalities. Most of the personnel in the purchasing office have very little professional qualification in the purchasing function. Many of them have come to their jobs from other areas of the municipality. A need to stress qualification requirement for purchasing is highly essential.

Financing is essential since all municipal purchases entails the expenditure of public funds. Therefore, it is important that adequate precautions are exercised in the approval of purchase orders. All municipalities operate on both an operating and capital budget. Furthermore, financial restrictions are placed on purchases in terms of local government ordinances and the financial regulations. Purchases cannot be approved if provisions do not exist on the approved estimates of the municipality, or if no special approval of the municipal council has been obtained.

In a letter to the Town Clerk of Port Elizabeth, the Chief Director : Local Government, emphasises that purchases must be made in accordance with approved budgets as follows (Roach 1987 : letter) :

> "To accept in consultation with the Departmental Head concerned, quotations or tenders for the supply of any goods or materials ... provided ... provision has been made on the Budget for the expenditure ... "

There are provisions made for unforeseen purchases but prior approval of council must be obtained.

The work procedures for the purchasing function are laid out by the purchasing office. It is appropriate to ensure that all purchasing procedures are written-down and compiled into a procedure manual for easy reference. Most municipalities operate within procedures laid down and approved by Council, although not all municipalities have formulated acceptable procedure manuals.

Control, as is apparent, is inherent in the generic administrative processes. If the goal of the purchasing function is not being attained efficiently and effectively, then a review of these processes are necessary.

The purchasing office and its activities are subject to the audit checks by the internal audit section of the municipality.

South African municipal authorities should also take cognisance of the quantitative aspects of an internal control system, as advocated by Lee and Dobler (1977 : 476) to improve the overall execution of the purchasing function (see chapter 4, paragraph 5.6.2).

7.2 External Control Measures

The external auditors also visit the municipality and carry-out random checks on the activities of the purchasing office. In this regard, auditing may be by the Office of the Auditor-General or by private auditors authorised by the Auditor-General. A copy of the external audit report is forwarded to the municipal council for consideration and appropriate action.

The chief purchasing officer is often requested to provide an annual report to the municipal council of the activities of the purchasing office.

The chief purchasing officer is responsible to the City Treasurer, who in turn reports to the Town Clerk who in turn answers to the municipal council. The municipal council is responsible to the executive committee of the province and the central government.

Where a municipal council is found not performing in terms of the provincial ordinances, the council may be reprimanded and in extreme cases relieved of its function by the Administrator of the Province.

In the final analysis, the municipal council is accountable to the municipal electorate for its actions or inactions.

8. SUMMARY

The purchasing function is one of the many activities executed by municipal functionaries to attain the goal of municipal welfare. The importance of this function is stressed by the fact that it represents at least thirty percent of the municipal budget. Without the purchasing function, the municipality would not be able to render the necessary goods and services to its citizen. The purchasing office, provides a service by purchasing of goods and services used by the requisitioning departments to carry out their respective functions. To be able to effectively and efficiently execute the purchasing function, the enabling generic administrative processes comprising, policy-making, organising, financing, staffing, determining work procedures and exercising control are essential. There are various municipalities in South Africa which use this approach in the execution of the purchasing function. The purchasing function does not merely mean entering into a contract with a supplier, as provisions in the provincial ordinances indicate, but entails a specific and clearly demarcated field of endeavour. All municipalities are subject to provincial government ordinances of their respective provinces. However, there is no uniformity in the relevant provisions of the ordinances pertaining to the purchasing function. For example, there are different financial limits

placed on the value of tenders and quotations in the municipalities of each province. This, obviously entails marked differences in administration of the purchasing function.

Within the general framework of provincial legislation, the municipal councils determine financial regulations. Since the administration of the purchasing function is part of materials administration, which is a sub-field of municipal financial administration, provisions are also made for its implementation. The financial regulations differ from municipality to municipality. Within this context, some municipalities such as Johannesburg and Durban provide policy and procedure manuals, whilst others such as Cape Town, Port Elizabeth and Pretoria, have no specific manuals. It cannot be overemphasised that manuals must be clear and comprehensive. The policy objectives and procedural matters must be determined and unambiguously worded and documented. In municipalities, such as, Durban, Johannesburg and Verulam the manuals are an aggregation of rules and regulations. These documents must be reviewed to ensure greater clarity and direction.

There are various organisational systems used in the purchasing function. These vary from the centralised, decentralised and a combination of these systems. By far and large, most municipalities prefer the centralised purchasing system as it is considered to be effective and ensures a greater measure of savings and control. Furthermore, where the decentralised system was used, such

as in the city of Cape Town the purchasing functionaries indicated that the best achievements in the purchasing function were derived from the centralised system. They are of the view that centralised purchasing has potentially more benefits than a decentralised system. Some municipalities, such as Port Elizabeth and Durban used the centralised/decentralised system which has the advantages of both systems. However, even this system, does not prove to be ideal. The decentralised system places the authority for purchasing on the user-departments which invariably results in poor control and co-ordination between the two systems.

There is no centralised co-operative purchasing consortium in South Africa for municpal purchasing. There is a great potential for establishing this structure within the municipal context both at regional and national levels. The co-operative system of purchasing would ensure large volume savings and result in better utilisation of experience, expertise and personnel.

The purchasing function cannot be executed without finances. The need for proper control of municipal expenditure is essential. The purchasing function is executed once the municipal budget is approved. Most of the municipalities use the line-item system of budgeting, with minor variations. Whilst some municipalities have linked the budgeting system to the purchasing system, others have no check and control on the availability of funds before a purchase order is processed. Ideally, these two systems should be integrated to ensure appropriate checks and

balances. The purchasing function, which represents as much as thirty percent of the municipal budget, is indeed worthy of serious consideration in this regard.

The provision and utilisation of personnel is central to the purchasing function. To ensure proper direction and control, the purchasing functionaries must possess the proper knowledge, skills, and attitudes. These officers should possess the relevant qualifications, such as the Diploma in Purchasing and Stores Management offered at technikons in South Africa. They should also be registered members of professional bodies such as the South African Institute of Purchasing. In many of the municipalities studied, few purchasing functionaries had relative qualifications for executing the activities entailing the purchasing function. Many of them have had years of experience in the treasury department of the municipality before coming to the purchasing office. Still many more were not members of the South African Institute of Purchasing. Some purchasing functionaries were of the view that the Institute was more suited for industrial purchasing than public purchasing. The municipal authorities obviously do not sufficiently stress the need for improved qualification. This appears to stem from the fact that the purchasing function which should be a high profile department has not been recognised as such. This view should be remedied and due recognition should be given to the locus and focus of this vital function within the municipality.

The implementation of work procedure ensures that the various activities constituting the purchasing function are executed to achieve the goal of the purchasing office. In this regard procedures need to be uniform and clearly set out in a manual for easy reference. These must be constantly reviewed to ensure that they are well-suited to the achievement of purchasing objectives both efficiently and effectively. In this regard with the exception of the cities of Durban and Johannesburg, none of the other municipal have devised such a procedural manual. The need to ensure that all procedures must be clear and unambiguous for expeditious execution of work cannot be over emphasized.

Procedures have been determined for numerous purchasing methods, the primary ones being the tender system and the quotation system. In South African municipalities the tender system is widely used, despite its merits and demerits. In fact, the use of this system is mandatory on all municipal authorities in terms of provincial ordinances. A greater consideration of the process of negotiations by purchasing functionaries would improve the purchasing process by ensuring savings in time and money. Procedures have also been instituted for other related functions of the purchasing process, namely:

- determining needs;
- selecting potential suppliers;
- placing of orders;
- follow-up of orders; and
- receiving and inspecting of goods.

The procedures for the foregoing are generally uniformly executed by municipal purchasing offices, and are dependent on the size and the nature of the functions rendered by the municipal authorities. Forms, such as the requisition and the purchase order play a vital role in facilitating the uniform execution of procedures. All municipalities use these forms with minor variations in format.

Control is necessary to evaluate and examine whether the goals of the purchasing function are being achieved efficiently and effectively. In this regard control plays a vital role. Control is basically of two types, internal and external. The internal form of control is exercised within the purchasing environment by virtue of the generic administrative processes of policy-making, organising, financing, staffing, determining work procedures and exercising control. Internal auditing also plays a role in the control function. External control measures, are exercised by the external auditors and by the submission of annual reports to the provincial and central authorities. Many purchasing personnel believe that they are adequately meeting the goals of the purchasing function. However, some were of the view that there is a need for greater autonomy if the purchasing function is to reach its full potential. In their view, the purchasing function was constrained by local government ordinances, financial regulations, and municipal treasury control. Others were of the opinion that the purchasing office should not be subject to control by the city treasurer's department and should be given independent status. It should report either directly to the

town clerk or a committee of council. This would then place it on an equal basis with other user-departments, thereby providing it with sufficient authority and power to conduct its activities on an even footing. It was felt that the lack of this authority relegates the purchasing office to a mere service division without the power to ensure its decisions are mandatory on all user-departments.

NOTES

1 The Table was complied from information provided by the various municipalities.

CHAPTER SIX

ADMINISTRATIVE ASPECTS OF THE INVENTORY FUNCTION: THEORETICAL PERSPECTIVES

1 INTRODUCTION

The inventory function, as a primary activity of materials administration, is concerned with the receiving, issuing, custody, care and disposal of all stores and equipment within the municipal sector. The inventory function provides the necessary goods and services for the continued activity of all municipal user-departments. A substantial amount of public funds are invested in the inventory function, and it is therefore necessary that this activity be executed both efficiently and effectively.

Accordingly, in this chapter attention is focused on the following administrative aspects of the inventory function at municipalities within a theoretical perspective:

- policy-making;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

In order to provide a complete picture, the first part of the chapter briefly explains the inventory function at central and provincial tiers of government.

2 INVENTORY FUNCTION IN THE GOVERNMENT SECTOR IN SOUTH AFRICA

The government sector in South Africa at the central, provincial and local levels play a vital role in the economy of the country as a whole (Van Rooyen and Hugo 1988 : 223). Statistics reflect that between 1970 and 1977 central government expenditure represented more than 20 percent of the gross domestic product in South Africa (Van Rooyen & Hugo 1988 : 223). Although no specific statistics are available, Van Rooyen & Hugo (1988 : 223) maintain that with increasing budgetary allocations, current expenditure by central government indicates an increase of approximately 226 percent. Much of the money has been expended on the purchase of goods and services, as well as for the provision of stock items used by State departments. This trend also applies to provincial and local authorities, although no figures are available to verify this (Van Rooyen & Hugo 1988 : 223).

The inventory function attains its legitimacy through the purchasing function which through the procurement mechanism obtains stores and equipment for stock purposes. Within the public or the private sector every item kept in stock represents a financial value (Cloete 1989 : 139). However, the impact in the public sector is greater because public

funds are used for the purchase of stock for the inventory function (Hugo 1980 : 331). Consequently,the public demands an inventory service which (Council of State Governments 1983 : 11):

- reduces costs of government;
- inspires public confidence in the government;
- directly improves the quality and timeliness of services rendered by the various line departments; and
- promotes honesty and integrity throughout governmental operations.

Since no government department can function without stores, the departmental budget, therefore, provides funds to purchase stores. The receipt, custody, issue and disposal (deletions/ write-off) of stores is an important activity in government departments at all levels of government. This activity which is often referred to as stores administration is part of a larger process called provisioning administration found at the central and provincial tiers of government. At the municipal tier this activity is part of the materials administration function.

In order to understand the inventory function in a broader sense, it is necessary to briefly discuss the inventory function at central and provincial tiers of government.

3 INVENTORY FUNCTION AT THE CENTRAL AND PROVINCIAL GOVERNMENT LEVELS IN SOUTH AFRICA

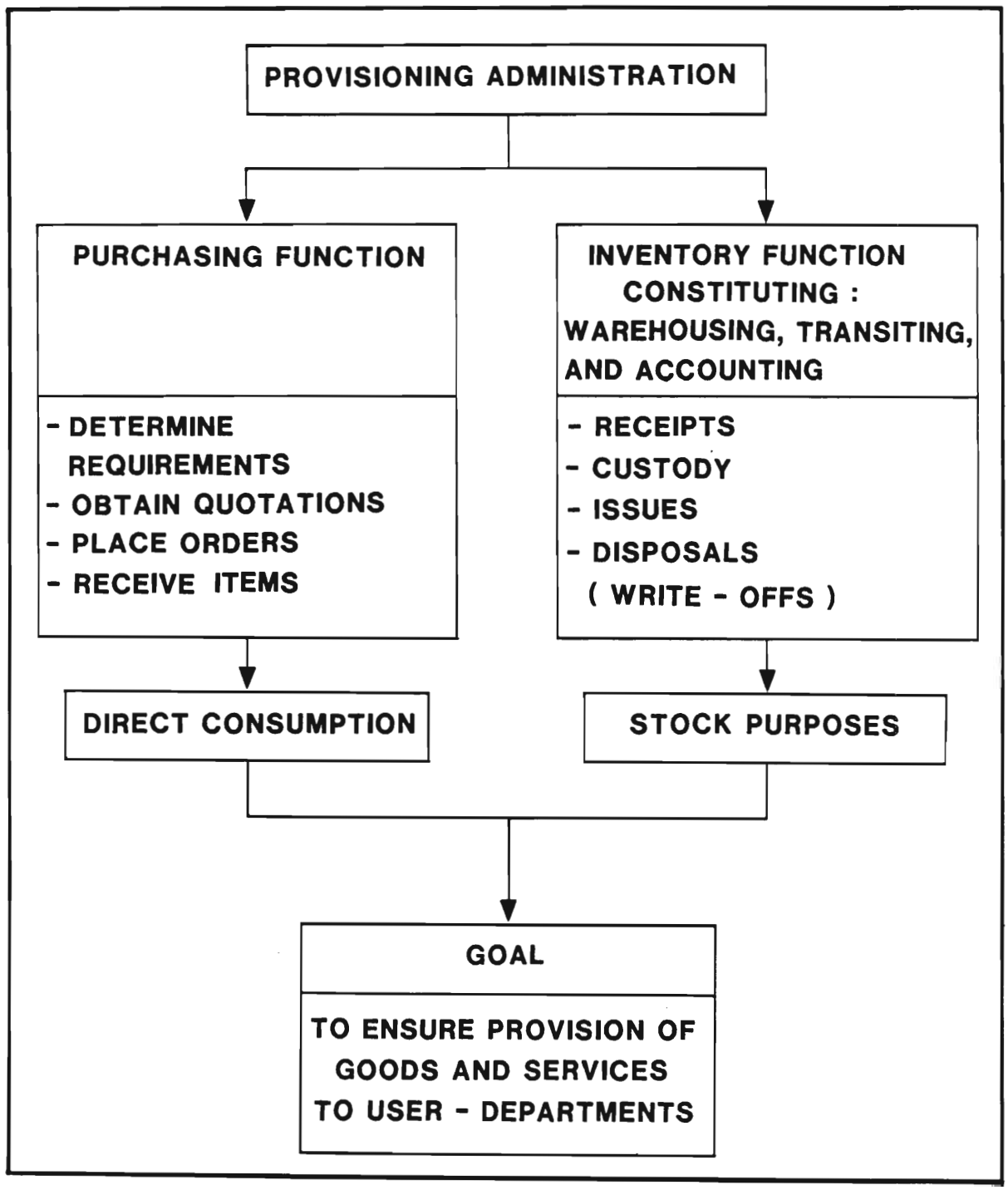
At the central and provincial levels of government the inventory or stores function is an integrated activity of a wider field of administration called provisioning administration.

The terms 'provisioning administration' may be described as a comprehensive activity which entails the process of procurement (especially purchasing) of stores, equipment and services and the custody, issuing, recording and disposal of stores, equipment and livestock (Naidoo 1991 : interview). This is an integrated activity which is cyclic in nature. This activity is reflected in Figure 12.

In order for the government of the day to ensure continued support of its voters, it must strive to achieve an acceptable standard of living for its citizens. Each State or provincial department must strive to attain its predetermined functional objectives which collectively serve to achieve the goal of community welfare. To achieve this end, each line department, as well as support department, requires the necessary stores, equipment and services. These requirements are purchased through the medium of the approved budget. (Department of Finance : Provisioning Administration Procedure Manual 1989 : 10). Once these items (stores and equipment) have been purchased, they must be stored and used in the most economical manner (Department of Finance : Provisioning Administration Procedure Manual 1989 : 10). Since all stores and equipment have a monetary value, planning is imperative for the purchase, preservation, storage, care, issue, record-keeping and disposal

FIGURE 12

ACTIVITIES CONSTITUTING PROVISIONING ADMINISTRATION AT CENTRAL AND PROVINCIAL LEVELS OF AUTHORITY IN SOUTH AFRICA



(deletions/write-off) of all such items (Department of Finance : Provisioning Administration Procedure Manual 1989 : 10). In short, efficient and effective administration of the inventory function is highly essential.

Both the provincial and central tiers of government are subject to parliamentary legislation in respect of the inventory function. Foremost in this regard is the Exchequer Act 66 of 1975 and the financial regulations contained in the Financial Handbook.

The objective of the Exchequer Act is, inter alia :

> "To provide for the regulation... receipt custody and control of other State property;"

Within this context, the legitimacy of the inventory function is highlighted. Furthermore, the Act clearly specifies in terms of Section 31 that the Treasury shall give guidance and exercise control over State moneys and other State property to ensure systematic and orderly management as well as to promote efficiency and economy. Section 38 of the Act makes provision for the Minister of Finance to prescribe specific regulations, inter alia, for the control of State property. In terms of Section 39 of the Act, the Treasury may also issue instructions in this regard and specifically for the administration of the provisions of the Exchequer Act and the Financial Regulations, for the achievement of the objectives set out therein. The Financial Regulations formulated in terms of Section 38(1) specifies further duties and responsibilities of the accounting officer. In regard to the

inventory function, the accounting officer is responsible for maintaining proper accounting records and for instituting and maintaining adequate systems of internal checks and control over State property.

In the Financial Handbook, Chapter A : Financial Responsibility of the Accounting Officer, Section A3 provides the following guidelines for the administration of the inventory function:

- that the accounting officer is responsible for the sound administration of stores in his department;

- that considering the substantial sums of public money spent on stores, it is essential that the administration of stores warrant serious attention in respect of economy and the purposeful utilisation of funds. In view of the high expenditure in regard to inter alia providing storage space, wages and salaries of stores staff, packaging, keeping of records, stocktaking and as well as losses as a result of obsolescence, capital yielding no interest, breakages and thefts connected with storage, every effort should be made to purchase stores, where possible, only as and when required. In cases where practical and economical, stores should therefore be purchased directly for a service; and

- that the accounting officer must ensure that all stores functionaries are fully conversant with stores

requirements and these requirements are executed in such a manner that it will promote efficiency.

Chapter N of the Financial Handbook provides for the administration of livestock and equipment purchased by the State and provincial administrations.

Furthermore, the Treasury has provided a detailed procedure manual entitled "Provisioning Administration Procedure Manual" which stipulates policies and procedures in regard to both the purchasing and the inventory function.

At central and provincial tiers of government the inventory function is catergorised into specific activities as follows (Department of Finance : Provisioning Administration Procedure Manual 1989 : 15):

Accounting - entails the administrative functions in respect of provisioning administration.

Warehousing - relates to the physical custody and handling of all stores and equipment.

Transiting - is a flow point which examines and controls all incoming and outgoing stocks for purposes of ensuring proper quantity and quality of stores and equipment.

Within the central and provincial government specific service divisions have been made responsible for providing stores and

equipment to user-departments (Naidoo 1990 : interview). These are called supplies divisions. For example, in the Province of Natal, the Provincial Stores is responsible for supplying numerous items of stock to user-departments within the Province (Naidoo 1990 : interview). At the central level of government, for example, in the House of Delegates the Supplies Section in Churchill Road, Durban provides a variety of stores and equipment to the Administration : House of Delegates (Naidoo 1990 : interview).

Moreover, where items cannot be supplied from the supplies divisions, provision exists for user-departments to obtain such supplies directly through specific procurement mechanisms (Naidoo 1990 : interview).

A typical supplies divisions, at central level is divided into specific sections, namely, accounting, warehousing and transiting (Department of Finance : Provisioning Administration Procedure Manual 1989 : 15). At the helm of the organisation is the Deputy Director : Provisioning Administration. This officer is in turn assisted by a range of personnel, including (Naidoo 1990 : interview):

- Assistant Directors;
- Chief Provisioning Officers;
- Senior Provisioning Officers;
- Provisioning Officers;
- Assistant Provisioning Officers;
- Senior Provisioning Clerks; and
- Provisioning Clerks.

The high-ranking personnel in the State department responsible for provisioning administration is the Director-General, who is the accounting officer responsible for the proper administration of all stores and equipment within his department.

Stores and equipment may not be drawn from the supplies division without funds being approved on the user-department's current estimates (Department of Finance : Provisioning Administration Procedures Manual 1989 : 65). The Provision Administration Procedure Manual (1989 : 65) provides that the cost of all stores and services are to be estimated in accordance with the Financial Management System. An Estimations Committee at each Regional Office is responsible to investigate, amend and approve the estimation schedules on stores and services (Department of Finance : Provisioning Administration Procedure Manual 1989: 65).

Once the approved budget is received from Head Office (Department of Finance, Pretoria) the deputy accountant of each Regional Office shall arrange a Regional Budgeting Committee Meeting in order to allocate funds (Department of Finance : Provisioning Administration Procedure Manual 1989 : 65).

The functionary responsible for the procurement of stores and services within a user-department must ensure that (Department of Finance : Provisioning Administration Procedure Manual 1989 : 126):

- it is an essential item or service;
- the items have been budgeted for, funds have been voted, and sufficient reserve funds are available to finance the expenditure; and
- the official who authorises the placing of the requisition must ensure that a genuine requirement exists for the stores or services, the expenditure is justified and that funds are available.

It is the responsibility of the Director-General as the accounting officer to ensure that well qualified personnel are employed and made responsible for the inventory function within their State departments, at the central level of government (Naidoo 1991 : interview).
At provincial level, this responsibility rests with the Administrator of the Province and the Heads of Departments.

It is imperative that personnel in the execution of the inventory function have appropriate, knowledge, skills and attitudes, as well as take cognisance of the normative guidelines of public administration (Cloete 1986 : 8).

Moreover, functionaries should improve their qualifications by studying through the tertiary educational institutions such as technikons which tutor students for the Diploma in Purchasing and Stores Administration (Fearon & Hamilton 1980 : 322).

Functionaries should also belong to professional

associations, such as the Purchasing Institute of South Africa, so that they are able to keep abreast of the latest developments in the field of provisioning administration.

Specialised management training programmes offered by the Commission for Administration in stores administration should be made compulsory for all supervisory personnel involved with the inventory function.

Furthermore, appropriate training programmes and seminars should also be provided for other categories of stores personnel at the operational level to ensure optimum utilisation of knowledge and skills in the promotion of higher productivity in the administration of the inventory function.

In providing for an adequate supply of stores and equipment a technique known as the "Analytical Technique for Provisioning" is used by the inventory section. This technique is used primarily for determining the type and quantity of items which should be maintained in stock.

Chapter N of the Financial Handbook provides guidelines for determining procedures for the receipts, marking, record-keeping, storage, custody, care, issues, transfers, sale, and stocktaking of items as well as the disposal of redundant, obsolete and unserviceable stores, equipment and livestock.

In addition, the Provisioning Administration Procedure Manual published by Treasury in the Department of Finance provides

in a total of twenty-six chapters detailed procedures for the administration of the inventory function which is used both by central and provincial government departments.

Functionaries, both in the user-departments and in the inventory sections must carry out their tasks within the abovementioned guidelines. Record-keeping and proper care of documentation for the purposes of accounting is emphasised throughout the Provisioning Administration Procedure Manual.

Any losses of stores shall be dealt with in accordance with Chapter W of the Financial Handbook. This Chapter provides guidelines for reporting, recovering and writing-off of items normally sustained through theft, loss or damage.

An innovative trend in the inventory function is the move to introduce and implement an internationally accepted codification system for all stock items (Reddy 1991 : interview). This method of identification has been accepted in principle by the inventory sections in the government sector in South Africa and is currently being prepared for implementation (Reddy 1991 : interview).

In the first instance, control is exercised through primary legislation, such as, the Exchequer Act 66 of 1975, which provides guidelines in regard to the acquisition, custody, and issue of stores and equipment. It furthermore provides for the Treasury to issue financial regulations to administer the inventory function. In this regard Chapters N and W in the Financial Handbook are considered important in exercising

control. Furthermore, the Treasury has provided a detailed manual, Provisioning Administration Procedure Manual, which covers all aspects of provisioning administration and especially highlights the inventory function.

The role of the accounting officer in the inventory function is highlighted and his responsibility is emphasised as follows (Department of Finance : Provisioning Administration Procedure Manual : 1989 13-14):

- he is responsible and accountable for the efficient handling of, and control of State stores (Financial Regulation 6);
- he must report all losses of State stores to the Auditor-General (Financial Regulation 1(4));
- he must ensure that State stores are to be used for purposes intended and authorised (Financial Regulation 7); and
- he must ensure that all accounts for stores and services are not to be settled until confirmation has been received that services have been satisfactorily received or rendered. (Financial Regulation 9).

Furthermore, at the end of each financial year the accounting officer must submit annual statements to the Auditor-General and the Treasury reflecting the monetary value of the following (Chapter N : N13 Financial Handbook):

- all stores on hand;
- all equipment on hand;

- all surpluses;
- all deficiencies;
- all losses which may be recovered; and
- all losses which cannot be recovered.

These annual statements are checked and verified by the Auditor-General when he carries out his annual audit inspections.

In addition, the inventory function is subject both to internal and external control.

Internal control is ensured through the medium of the generic administrative processes, namely, policy-making, organising, financing, staffing, determining work procedures and exercising control. These enabling processes give direction and scope to the inventory function and also provide parameters for exercising internal control. For example, a policy requirement is that no items can be issued from stock without an authorised requisition or if no funds have been provided for such items on the budget. A control exercising feature is that stocktaking of all stores and equipment must be executed at least once in every financial year.

External control is ensured primarily through the Office of the Auditor-General. The Auditor-General Act 52 of 1989, provides explicitly for the audit of stores and equipment maintained by the government departments as well as by the supplies sections at central and provincial tiers of government.

4 THEORETICAL ASPECTS OF THE INVENTORY FUNCTION AT THE MUNICIPAL LEVEL OF GOVERNMENT.

The theoretical aspects of the inventory function at municipalities is discussed in terms of the generic administrative processes.

4.1 POLICY-MAKING

The inventory function is important as a major part of the municipality's budget is invested in stores and equipment which are necessary for the continued execution of the activities constituting municipal administration. In this regard, the importance of the inventory function or stores administration is highlighted by Gildenhuys (1989 : 675) as follows:

> "Daar moet altyd onthou word dat voorrade kontant verteenwoordig... voorraadadministrasie is nie so simplisties as wat dit soms wil voorkom nie. Hierdie finansieringhandelinge behoort nie ligtelik afgemaak te word nie".

The inventory function provides the necessary goods and services, without which, the primary objective of municipal administration, that is, community welfare, will not be achieved. The efficient and effective administration of the municipal inventory function will contribute to the attainment of the overall goals of the municipality. Therefore, it is necessary for the municipal council and its officials to, inter alia, ensure the proper execution and

control of the inventory function. To this end, it is highly essential to determine and set the objectives for the inventory function.

The municipal councils are political institutions and must therefore undertake legislative and governmental functions in addition to their supervision of the administrative activities of their officials. (Cloete 1988 : 255).

The governmental function of the municipal councils entails giving direction to the officials in the manner in which provision of the relevant legislation, ordinances and by-laws have to be carried out as well as supervising the activities of municipal officials to ensure that the councillors are able to render account to the voters on the manner in which the administration of the municipality has been executed (Cloete 1988 : 255).

The responsibility, therefore, for the efficient and effective execution of the inventory function ultimately rests with the municipal council. However, provincial ordinances in South Africa do not specifically provide for the inventory function. The need for the inventory function arises indirectly out of the relevant sections in the ordinance which provide for the purchase of goods and services. For example, in Natal the Local Government Ordinance 25 of 1974, Section 187(1) provides for the invitation of public tenders for goods and services on behalf of the municipal council (Cloete 1989 : 139).

Most South African municipalities provide for the inventory function in terms of their by-laws or financial regulations. Consequently, this implies that goods that are purchased must necessarily be kept in safe custody before use. In this way the inventory function becomes a necessity for the proper administration of the stores and equipment purchased by the municipality.

Morrison (1967 : 3) lists a number of responsibilities of the inventory function. These are briefly outlined as follows:

- an economical service is considered to be the principle objective of the inventory function. Such a service must be provided as efficiently and effectively as possible;

- preparing and providing a catalogue for the identification of all stock items. This entails a process of systematically defining and describing each item of stock. At municipalities this would include a departmental inventory of all stores and equipment from a predetermined value;

- process of receiving and accepting all goods and services from within and outside the municipality;

- necessity to inspect all items purchased, with regard to quality, quantity and description, before acceptance;

- issuing and dispatching of stock items according to departmental requisitions. In a large municipal environment it may necessitate the parcelling of items and delivery by road transport;

- maintenance of an accurate record of all receipts, issues and disposals of all stores and equipment in the municipality;

- ensuring an adequate level of all stock items to meet the demands of user-departments and includes the process of re-ordering for purposes of replenishment of stocks;

- the need for periodic stocktaking, that is the physical verification of all stores and equipment; and

- to provide adequate storage facilities for the safe custody and protection of all stores and equipment.

In addition, Ritterskamp et al (1968 : 107) specify the following aspects as being central to the inventory functions:

- ensuring a sufficient provision of commonly used items for requisitioning departments;

- the price of such items must represent tangible savings to requisitioning departments;

- economics result in the purchasing function, being more

efficient, such as a reduction in the number of emergency orders;

- encourages simplification and standardisation of acceptable items by user-departments; and

- items required urgently could be collected from the stores section promptly by the user-departments.

From the views of the aforementioned writers, the following policy objectives of the inventory function are considered pertinent to the municipal environment:

- assisting in achieving the goals of the municipality by rendering an efficient and effective service of providing stores and equipment to the requisitioning departments;

- ensuring departmental satisfaction;

- maintaining records of all stores and equipment within the municipality;

- ensuring a regular check and control by stocktaking procedures;

- ensuring the safe custody of all stores and equipment; and

- disposing of all obsolete, worn-out and redundant stocks.

The above objectives cannot be attained without a well balanced organisational structure to execute the activities relevant to the inventory function.

4.2 ORGANISING

In many South African municipalities the municipal council delegates the responsibility of the purchasing and inventory functions to the city treasurer. Flinn (1978 : 219) writes in this regard as follows:

> "the purchase and storage of materials... is the responsibility of the City Treasurer".

Morrison lends support to the above view that the purchasing and stores functions should be integrated and administered under one head, as follows:

> "Stores and purchasing are largely inter-dependent, and any inefficiency or lack of co-operation on either side is soon reflected in the other. To cope satisfactorily with the whole supply problem in modern conditions, a complete "dovetailing" of these two functions is essential. There are occasionally special circumstances in an industry which would justify some split in control, but the more progressive concerns show an increasing tendency to set up a completely integrated purchasing and stores department responsible for all these activities, bringing the... work under one responsible departmental manager".

Although this arrangement is not a universal practice in South African municipalities, however, the trend towards placing the purchasing and inventory functions under the city treasurer's control is being accepted as the most satisfactory place in the organisational pattern (Cowden 1969

: 351).

Cowden (1969 : 351) further lists the following advantages of this organisational arrangements as follows:

- unity of financial control under which all control documents are centralised in one department; and

- economy in administration as it affects aspects such as, formal purchasing procedure, ordering, receipt, storing, pricing, issuing and costing of goods which are all handled by one department.

From the aforementioned discussion it is apparent that the purchasing and inventory functions are largely interdependent and therefore, should generally fall under one departmental head who is responsible for co-ordinating these functions and ensuring that an efficient and effective service is being rendered.

Two important components of organising is stressed in regard to the inventory function at municipalities, one is the division of work and the other the concept of centralisation and decentralisation.

4.2.1 DIVISION OF WORK

The division of work ensures equitable distribution of jobs amongst various posts within the organisational structure

(Cloete 1986 : 87).

The chief storeman is responsible for the day-to-day administration of the inventory section and is accountable to a head who is responsible for both the purchase and inventory functions. At the municipalities, such responsibilities are delegated to high-ranking officers such as directors, controllers, deputy city treasurers and finance officers. These designations vary considerably from municipality to municipality.

The chief storeman is responsible for the efficient and effective operation of the inventory function. By virtue of his senior position in the hierarchy, he is concerned more with administrative functions. The officer is assisted by deputies, namely, senior storemen, and below them are a category of storemen who are fully fledged operational workers involved with the daily routine of receipts, issues and control procedures.

The general assistants are workers of the messenger and labourer categories and are responsible for transporting items within and outside the inventory section. In order to operate an efficient and effective inventory section, it is necessary to determine whether the function as such should be executed in a centralised or decentralised manner.

4.2.2 CENTRALISATION AND DECENTRALISATION OF THE INVENTORY FUNCTION

It seems remarkable when reflecting on the development of municipal government in South Africa, how long it took before efficient purchase and inventory systems were introduced; only in the last four decades has centralised control under the treasury been accepted as the best system (Cowden 1969 : 351).

Thus, nowadays, it is generally accepted that centralisation in both the purchasing and storing of goods is the most acceptable organisational arrangements for two reasons:

- firstly, in order that goods may be purchased at the most favourable prices; and

- secondly, in order that they may be stored and accounted for under a proper system of centralised control (Cowden 1969 350-351).

Flinn (1978 : 223) is of the view that the organisational arrangements for the inventory function is not without problems. The question whether to centralise or decentralise the inventory function, is critical to the efficient and effective rendering of services.

The complete centralisation of the inventory function can

best be implemented in a small municipality where all the user-departments are in close proximity to the central store (Flinn 1978 : 223). However, this becomes difficult once the municipality spreads and develops with a concomitant growth in the size and spread of departments. (Flinn 1978 : 223). At this point decisions must be made as to the best organisational arrangement suited to the execution of the inventory function (Flinn 1978 : 223).

Flinn (1978 : 223) suggests the following types of organisational arrangements which may be considered by municipalities:

a) complete centralisation of the inventory section under the control of the purchasing office and from which stores and materials are issued to user-departments;

b) a centralised inventory section operating with a subsidiary inventory (or stores) section drawing from the main store; but all stores still being under the control of one department;

c) individual and separate departmental inventory sections each under the control of a separate department; and

d) separate inventory sections or stores depots situated where they will be of the greatest benefit to the user-department, but all functioning under the control of one department.

A brief review of these methods is necessary to understand their merits and demerits.

The focus of organisational types (a) and (b) is centralisation. In other words, all materials and equipment shall be delivered to one point by the supplier, from where they will be re-distributed to other stores by municipal officials using municipal transport (Flinn 1978 : 223). These methods have the following advantages (Flinn 1978 : 223):

- complete weighing facilities provides for 'on the spot' check of all incoming deliveries, and verification thereof;

- uniformity in the inspection of materials and stores; and

- centralisation of all records, such as invoices, delivery notes and goods received vouchers which provides for expeditious service and resolution of queries.

Flinn (1978 : 223) however, points out the following disadvantage, which outweighs the aforementioned merits of centralisation of the inventory function:

> "the expense and delay of additional handling, weighing and counting as well as transporting the stores and equipment to the numerous stores, some in outlying areas, where they will be issued for use, is ...

considered to be an 'expensive luxury'".

The type (c) organisational arrangement considers separate departmental stores to which materials are to be delivered after the purchase has been effected. This is in fact a decentralised organisational structure. In these instances, there is no adequate reason to believe that the responsible department will not exercise proper control of stores and equipment (Flinn 1978 : 223). However, in the absence of a uniform system of inventory control, an anomalous position would possibly arise, of a municipality using several different methods of inventory control, with each user-department proclaiming that the system they are using is the best (Flinn 1978 : 223). Flinn (1978 : 223) further states that even if a uniform system of inventory control was devised and implemented by the various user-departments, there would be no proper means of ensuring that all phases were constantly being observed and carried out.

The type (d) organisational structure entails the establishment of as many stores as necessary to give maximum service to all user-departments, but all stores being under the control of one department (Flinn 1978 : 223). Flinn (1978 : 223) re-iterates that he does not advocate decentralisation of stores, but rather a greater degree of centralisation would result in greater efficiency and volume of savings.

The centralisation of the inventory function, therefore, is more appropriate to a small municipality (Flinn 1978 : 223).

The larger municipality must inevitably decentralise its municipal departments as the municipality grows (Flinn 1978 : 223). It would be impractical and uneconomical to do otherwise (Flinn 1978 : 223). Flinn (1978 : 223) emphasises that despite decentralisation of the inventory function, centralisation of control over the inventory function would in many ways minimise the disadvantages of decentralisation. The most important savings of centralisation is the reduction in the number of purchase orders by requisitioning departments. The nature and range of items stocked would determine the extent to which departments utilise the services of the central inventory section.

Centralisation eliminates the time and effort often spent by user-department's personnel to source out suppliers.

Having discussed the aspects of centralisation and decentralisation it is necessary to ascertain whether such systems are to be operated on a 'closed' or an 'open'basis.

4.2.3 CLOSED AND OPEN INVENTORY SYSTEMS

Baily and Travernier (1970 : 6) expect a centralised inventory section to have the following primary objective:

> "A good system ensures that materials are at the right place at the right time, in the right quantity. It is probable that there are financial limitations to stock held, and that storage space is at a premium. The aim, therefore, should be to meet production and market requirements economically within those limitations".

Although the above objective is more private sector orientated, it emphasises the effective and efficiency concept and is therefore of relevance to the municipal environment.

There are basically two systems used for the safe custody, storage and physical control of all stock items. These are the closed and open systems (Lee & Dobler 1977 : 349-353).

A closed system entails the storing of all items in a closed controlled area. The physical control is maintained by locking up the storage area. As a rule only inventory staff are authorised within such an area. All items which leave and enter must be substantiated by authorised documentation. This system affords maximum physical security and ensures firmer accounting control over stocks (Lee & Dobler 1977 : 349).

An open system is an area where goods are kept for immediate and constant use without the protection of a storeroom. Unlike a closed system, this area is open to all staff and is designed to expedite production activities. Consequently, it is widely used in industries where there is a constant need for highly repetitive, mass production operations. It places little emphasis on physical security and accounting control. It is ideal for manufacturing industries such as an automobile assembly plant. After the material is received by inventory personnel it is forwarded to the production sites where the supervisor accepts responsibility (Lee & Dobler 1977 : 352 - 353).

Although an open system is suited for a manufacturing concern some municipalities also use it to stock material which is maintained in an open yard. The closed system is commonly used at most of the municipalities studied.

Within the organisational context an aspect which is closely allied to the effective execution of the inventory function is the provision of adequate facilities for its operation.

4.2.4 FACILITIES

Facilities for receiving, storage, issue and dispatch are necessary for ease of operation of the inventory section. In this regard Ritterskamp, et al (1968 : 113) emphasise that the correct location of the inventory section contributes greatly to its ease of operation:

> "If possible the stores building should be located as close to the centre of activities as possible, to reduce the delivery costs, first by shortening the trucking distances, and second by encouraging pick-ups by departments. On the other hand, the location should be on property where expansion can take place when necessary and where adequate parking for employees, customers, and delivery trucks is taken into consideration. When possible the central storeroom should be located adjacent to, or preferably in the same building with, the service departments such as the carpenter shop, plumbing and heating departments, painters, masons, and electrical workers, in order to permit issue to these entities without transportation cost".

A single floor building is ideally suited for the inventory function, whilst a multi-storey building is an hinderance to efficiency and effectiveness of operations. The receipt and

issue of goods is made difficult by use of elevators and is time consuming. The distribution of personnel over several levels leads to unequal distribution of workloads and makes supervision difficult. A single floor centralised section ensures better control and supervision of staff and proper utilisation of available storage space (Ritterskamp et al 1968 : 113).

Any design of a inventory section must of necessity consider the need for sufficient storage area, both for current and reserve stocks, convenience for receiving and issuing and despatching of goods, loading and unloading facilities and office space to accommodate the stores staff (Ritterskamp et al 1968 : 113).

Most municipalities have special provisions for receiving and issuing of inflammable and dangerous chemicals and gas. In these instances it may be necessary to have a separate storeroom to handle such items because of restrictions and specialised methods necessary for receiving and issuing items of this nature (Ritterskamp et al 1968 : 114).

The good layout of the inventory section is considered essential for efficient receipt and issue of goods. The objectives in this regard are as follows (Lee & Dobler 1977 : 358):

- allow a smooth straight-line flow of movement through the stores with the least amount of backtracking;
- reduced handling and transportation of stocks;

- least amount of travel and waste motion for inventory personnel;
- efficient and effective use of available space; and
- ensure provision for flexibility and expansion of the layout of the inventory section.

In determining the manner of storing of materials, the following information should be obtained for each item of stock (Lee & Dobler 1977 : 355):

- the space required to adequately store the item;
- the frequency and quantity of issues;
- the unit of storage, singly, pairs, dozens;
- the quantity that should be stored for as current and reserve stock; and
- the type of storage facility that is best suited to the nature and type of stock item, that is, size, weight, shape and handling ease.

When obtaining the above information the possible future needs of requisitioning departments for such items should also be considered. If there is a possibility of increasing quantities, pre-planning should ensure sufficient space is available for new stocks (Lee & Dobler 1977 : 355).

Generally, the following types of items are used for storing of stocks (Lee & Dobler 1977 : 355):

- pallets and skids;
- open and closed shelving;

- cabinets;
- bins;
- stacking boxes;
- special storage racks;
- gravity feed racks; and
- outdoor platforms and racks.

The most important objective of storing is to minimise deterioration, spoilage and pilferage. For example, items such as screws and bolts are subject to rust or corrosion and must be stored in dry areas and covered with suitable rust protective compounds (Lee & Dobler 1977 : 356).

Ritterskamp et al (1968 : 114) advise as follows in respect of material storage :

> "A majority of items can be stored most economically on shelves or in bins, arranged in aisles for conservation of space and ease of access. Racks are more suitable for rope, wire, cable, tyres, belting, pipe, conduit and similar items. Equipment, such as desks, files, chairs, and cabinets can merely be arranged on the floor in compact groups. Bulk storage must be provided for items like cement, lime, plaster, barrels of cleaning products, and also for reserve stocks of fast-moving items such as mimeograph paper, lamp bulbs, paper towels and napkins. Main aisles should be wide enough for traffic use and space between shelving should be sufficient to allow for passage of dollies or carts used to replenish stocks and accumulate order for delivery."

In this discussion on organisational arrangements, the division of work, centralisation and decentralisation the closed and open inventory systems and the importance of the location and facilities were highlighted. The relationship must be seen in respect of the worker and his environment, both are central to the efficient and effective operation of

an inventory section.

4.3 FINANCING

The inventory function at South African municipalities is executed either on a centralised or decentralised basis, depending on the growth and size of the municipality. Despite the organisational system being used, all activities constituting the inventory function have financial implications. Kotzè (1985 : 449) aptly supports this view when he writes that:

> "...die voorrade-afdeling as deel van die tesouriers-departement moet funksioneer omdat voorade en materiaal geld is".

More specifically, within the municipal environment, stores and equipment kept in stock in municipal inventory sections have been purchased out of public funds (Gildenhuys 1989 : 675). Therefore, where public expenditure is incurred there is a need for public control (Bailey & Farmer 1977 : 60).

Funds are essential to establish and develop the inventory function, for example, to determine and purchase the initial inventory of supplies, as well as providing the necessary facilities for storage, receipts and issues of stores and equipment (Ritterskamp et al 1968 : 108).

These funds may be provided by the municipal council in one of several ways, depending on the institutional policies and the method selected for financing the inventory function

(Ritterskamp et al 1968 : 108).

Ritterskamp et al (1968 : 108) basically suggest two ways of financing the inventory function:

- to begin the inventory operations an outright appropriation may be requested to cover the initial cost of the inventory of stores and equipment and if necessary to include the cost of housing the operations; and

- to secure an advance of funds for the purpose of purchasing an initial stock inventory and the sum to be repaid over a specified period of time from the sale of items, which include a moderate mark-up to cover operating costs.

Most South African municipalities have a system of recovery of inventory costs to finance their inventory function. This is often considered to be a complicated and controversial issue (Keats 1988 : 13). The general trend in this regard is to determine a common percentage rate for all items either issued from stock or purchased for direct delivery from the supplier to the user-department (Keats 1988 : 13). Limits could also be fixed for high cost capital equipment, for example, 6 per cent charge on actual cost, but a limit of say R1 000 per contract or payment (Keats 1988 : 13).

The municipal budget is the primary document which plays a pivotal role in the inventory function. Without funds being

approved for specific goods and equipment the inventory stocks cannot be replenished. User-departments must budget for all goods and services either on their capital or operational budget.

Cognisance must be taken of the fact that the inventory section provides a service function which must be both cost effective and efficient. Ideally, the inventory function should operate on a "break-even" budget, without deficiencies nor surpluses in expenditure (Pretorius 1990 : interview).

4.4 STAFFING

Once the organising arrangements have been made, it is necessary to recruit personnel in order that the work may begin.

Cloete (1985 : 129-130) emphasises the need for qualified personnel in public institutions to provide the necessary goods and services as follows:

> "Every public institution requires stores to keep on functioning. By making continuous projections each public institution usually ensures that it always has sufficient stores to deliver the public goods and/or services expected of it. It is also known that it could sometimes take years to manufacture according to the specific requirements, the stores and equipment needed by the public institution concerned. In the same way it is well-known that every public institution will always need sufficient qualified personnel which ensure in an orderly manner that they have sufficient appropriately trained, experienced and developed personnel to enable them to function effectively and efficiently".

Westing, Fine & Zenz (1976 : 22) reiterate this viewpoint in the sphere of the inventory function that it

> "... is frequently and erroneously looked on as a clerical activity to be assigned to a poorly paid clerk. This attitude is unfortunate, because the careful handling of stores and maintenance of accurate control over them are essential to efficient operations".

The inventory personnel are important to the success of the inventory function. Therefore, such personnel must be well qualified to execute the functions assigned to them. With technological developments, such as the increasing utilisation of computers in the inventory function, personnel must possess the necessary knowledge and skills to effectively and efficiently execute their tasks. Their intention should be to pursue further studies in the field of inventory or stores administration. Several South African technikons offer a three year national diploma course in purchasing and stores administration which adequately covers both fields (Colvin & Thorne 1980 : 321-322).

In addition to aspects such as education and training the necessity for job description is emphasised. In this regard Ritterskamp, et al (1968 : 77-78) define the importance of job description as follows:

> "A job description gives the title of the position and indicates the officer to whom the person will be responsible. It then spells out the objectives of the department and the area for which the individual will be responsible".

> Within the municipality the inventory function is of considerable importance to the Council and its ratepayers who are called upon to pay for the stores and materials purchased (Keats 1988 : 2).

The inventory personnel in municipalities must ensure that the following primary activities of the inventory function are executed (Keats 1988 : 1):

- that all the stores ordered and paid for are actually received.
- that there is proper control over the ordering, receiving, checking, examining, storing and issuing of all stocks.
- that stocks are correctly located and maintained under complete physical control until issued for use.
- that a complete and accurate record is kept of every stock transaction.

In addition to the responsibility for the administration of the inventory function, the chief storekeeper is also duty bound to supervise the operations of the inventory section as well as the staff under his control so that (Keats 1988 : 2):

- the inventory personnel are properly trained for the various functions.
- the cleanliness, neatness and convenient arrangement of stock is ensured to expedite issuing and checking.
- every stock location is clearly numbered (commodity code number) and marked for ease of receiving and issuing.

- every stock item is allocated a code number for easy identification.
- the various classes of stock are kept separate for expeditious service.
- all stocks are adequately protected against deterioration, pilferages and breakages.
- every item received remains in the store for as short a time as possible.

Once the staffing arrangements have been met, it is necessary to systematically carry out the work procedures necessary to achieve the objectives of the inventory function.

4.5 DETERMINING WORK PROCEDURES

Procedures are specific patterns of operation. Bennet & Ritzman (1970 : 2-6) stress the importance of procedures as follows:

> "Procedures are plans prescribing predetermined and standard methods of handling repetitive activities in the future. They are sub-ordinate to policies and specify in detail the exact manner of accomplishing some activity, generally in chronological sequence".

Procedures are essential to accomplish the activities constituting the inventory function which Ritterskamp et al (1968 : 118) detail as:

> "... the receipt, inspection and checking of materials, their storage and protection, issuance and delivery to departments upon approved requests, maintenance of stock by means of requisitions on the purchasing department, the keeping of records of receipts and disbursements of stock items, the operation of a perpetual inventory, the approval of invoices, the preparation of monthly statements to departments, the maintenance and training of a competent staff and the accountability for all stock items and equipment".

From the aforementioned extract the procedures in respect of the following primary functional activities which constitute the inventory function shall be discussed:

- functions of inventories;
- types of inventories;
- approaches used in the identification of inventory stock;
- inventory records;
- receiving;
- issuing;
- inventory control;
- determination of re-order quantities
- costing; and
- disposal of unserviceable, obsolete and redundant items.

4.5.1 FUNCTIONS OF INVENTORIES

Leenders et al (1980 : 171) maintain that inventories are important because of the following reasons:

- they provide and maintain good customer service;
- they ease the flow of goods through the production process;
- they provide protection against the uncertainties of supply and demand; and
- they obtain a reasonable amount of utilisation of equipment and manpower.

In the municipal environment, it is essential that there is a continued provision of goods and services to ensure municipal welfare of the citizens. For example, any breakdowns in provision of electricity or water services must be promptly restored. To this end, a well stocked inventory section would quickly provide the necessary materials, stores and equipment so that the services could be restored without undue delays.

4.5.2 TYPES OF INVENTORIES

Van Rooyen & Hugo (1988 : 85-86) demonstrated that inventories may be grouped into the following categories: production; process; maintenance and final product inventories.

4.5.2.1 PRODUCTION INVENTORIES

These include raw materials, parts and components intended for the manufacturing of the enterprise's products. Production inventories consist of two types, namely, specialised items manufactured according to specifications and standard industrial items.

The maintenance of economical quantities[1)] have certain advantages such as: protection against interruptions in the supplier's production process as well as against delays in the delivery of raw materials.

4.5.2.2 PROCESS INVENTORIES

These are stocks of semi-finished products which are stored at various stages in the production process. These inventories act as a buffer between the various stages, and prevent unstable production at other stages in the production process.

4.5.2.3 MAINTENANCE INVENTORIES

These consist of lubricants, machine repair kits, packing materials, protective clothing and cleaning materials. These materials are used in the production process and do not form part of the finished goods. Maintenance inventories assist in maintaining a smooth flow of the production process.

4.5.2.4 FINAL PRODUCT INVENTORIES

These consist of completed products ready for shipment when ordered by the customer. These inventories, when stored, have the advantage of separating the production process from fluctuating market demands and also serve to compensate for interruptions in the production process. The final product inventories are the responsibility of the marketing manager in a large industrial concern.

The aforementioned classes of inventory are peculiar to a manufacturing concern in the private sector. Within the municipal context the inventory items used to render the

functional activities may be categorised under both production and maintenance inventories.

An important task of the inventory function is to identify the items most commonly used by the various municipal departments.

4.5.3 APPROACHES USED IN IDENTIFICATION OF STOCKS

Before proceeding to detail the various approaches for identification it is necessary to determine the nature of the items to be identified.

The general view is that an inventory section should stock items most commonly used by the majority of departments within the municipality.

Ritterskamp, et al (1968 : 116) elaborates in this regard as follows:

> "Such a classification would include, among others, office supplies and equipment, maintenance materials and laboratory supplies. These items are in constant demand and lend themselves to standardisation and quantity buying, with consequent savings in the cost of purchase".

According to Ritterskamp, et al (1968 : 116) items should only be stocked after joint consultations between the purchasing office and the user-department personnel.

All items must find acceptance by all end users. The user-department must be informed of the range of items in stock. The correct identification of such items is imperative for smooth and efficient receipts and issues.

It has been established that the primary objective of the inventory function is to render an efficient and effective service to the various user-departments within the municipality. However, this would not be possible without a system of identification of items stocked.

Lee & Dobler (1977 - 346) state the significance of identification as follows:

> "The objective is to develop an unambiguous identification system that facilitates clear internal communication. Ideally, this system should be designed so that it can be used effectively by all departments in the firm. Clearly, the purchasing, inventory control and stores departments are critical areas where the system must provide consistent and unambiguous identification of materials".

In order to identify stock items they require to be classified before a suitable coding system could be implemented. A classification plan is concerned with grouping of similar items in a manner which facilitates easy identification by the user (Durben et al 1970 : 14-8).

In this regard Durben et al (1970 : 14-8) states as follows:

> "During the identification procedure it is advisable to record a dictionary of standard nomenclature for items within each classification subdivisions so that uniformity may be maintained for all future usage. The dictionary will serve as a reference guide for identification and classification of new items and should be maintained on a current basis as long as the date file is in use".

An effective coding system should be characterised by the following qualities (Durben et al 1970 : 14-8):

- expandability : to provide for additional entries with classification for new items. It should possess a

capacity to expand current classifications and accept new ones for future needs;

- precision : the structure of the code should be clear so that only one code may be correctly applied to each item;
- convenience : it is easily understood and be simple to apply by all users;
- meaningfulness : a code should, if possible reflect some basic characterisation of the item; and
- operability : it should facilitate easy operation either on data processing machines or for manual reference.

Lee & Dobler (1977 : 347-348) describe three approaches used in developing a coding system for identification purposes, these are:

- arbitrary approach;
- symbolic approach; and
- engineering drawing numbers.

4.5.3.1 Arbitrary Approach

In the arbitrary approach items are simply allocated arbitrary numbers in sequence. Although each is a discreet number it bears no relationship to the numbers assigned to related items. This method is poor with little value in its application.

4.5.3.2 Symbolic Approach

The symbolic system could be either numerical or mnemonic. A numerical system assigns a six to ten digit code number to each

item. These numbers indicate classification, sub-classification and item code. This method provides a complete and ordered framework which facilitates easy and unambiguous identification by all users.

A mnemonic system functions in the same way as a numerical system but combines numerical and alphabetical notations in its symbols. This system is popular if few items are involved. It makes visual identification easier because it is more descriptive and often shorter. As more and different types of stock items are added to the inventory listing, this advantage diminishes because the number of good symbols is limited.

4.5.3.3 Engineering Drawing Numbers

The engineering drawing numbers system is used mainly by companies manufacturing stock parts. The stock item is identified in terms of its engineering drawing number. It is effective and simple as it directly refers to the technical data source for the part. As such it is easily understood by all institutional personnel and thus promotes clear interdepartmental communication.

Of these approaches the symbolic approach is best suited to municipalities which requires an ordered system that facilitates easy identification of stock items.

Once identification is completed it is necessary to formulate an inventory catalogue of all items held in stock (Lee & Dobler 1977 : 190). Such a catalogue should include details such as:

- catalogue number;
- description of item;
- unit of issue; and
- approximate price.

The catalogue may be formulated either in an alphabetical or numerical sequence or using a combination of both to reflect the items in stock (Lee & Dobler 1977 : 190).

The advantage of a catalogue is that it removes confusion and doubt and serves as a medium of communication for all personnel requiring stocks. It also acts as an operational manual and record that facilitates the work of the inventory section.

Besides the inventory catalogue it is also important to emphasise the role of inventory records which are essential for the execution of the inventory function.

4.5.4 INVENTORY RECORDS

In this regard Melintsky (1956 : 63-66) emphasises that records serve as:

- an administrative aid : records aid in the administrative function, such as facilitating the exercise of authority and responsibility for the municipal control function. It also assists in personnel needs of the department as it reflects

the past, present and anticipated work loads of the section;

- a protection against dishonesty : stock records act as a measure of control against malpractices and misappropriation by staff. It acts as a deterrent and a good control system should provide an easy means of detection.

- a protection against carelessness : the human element may cause errors in receipts, issues and in stocktaking. A planned record system provides methods of correction, for example, when receiving goods, the delivery or packing note is checked against the copy of the purchase order;

- a corporate memory : records serve as a 'corporate memory' on which one could rely and it does not share the failings of its human counterpart. The records are always there when required for reference;

- a basis for future action : changes for the future in procedures, methods and operations could be determined on the basis of past action and results;

- an evaluation media : records serve to assist in the evaluation process; it reveals good performances and errors of the past. It is therefore able to direct the institution to an efficient and effective system;

- an historical data : in the form of microfilming, provides the means for evaluating individual department's and the institution's performance;

- a legal value : records provide the basis for legal action either in supporting or refuting claims. They act as proof of legal status, regarding, inter alia, ownership, right to use or legitimacy of the institution's actions;

- a financial worth : inventory records provide actual and complete cost, operations, reflect the value of stores and equipment, enables inventory adjustments and ensures prompt payment of accounts;

- a legislative worth : public institutions, such as municipalities, are able to justify their actions by providing substantiating records and documents to their auditors, Parliament and the public; and

- an aid in reducing costs : updated and efficient recording system provides the basis for important decisions to be made promptly by executives. This may otherwise prove to be a costly exercise when manpower, effort and time is required to collect, assimilate and analyse the required information.

4.5.4.1 Perpetual Inventory Record

The basic inventory record in use is the perpetual inventory record.

Durben et al (1970 : 14-15) define its nature and form as follows:

> "The perpetual inventory record is a continuous account of the incoming materials, outgoing materials, and the balance on hand. It takes many forms. It may be a card record system, a page in a ledger book, a visual control board, or a tag tacked to the bin where the material is stored".

This record could be maintained manually or by mechanisation or by computerisation. Heinritz & Farrell (1981 : 181) elaborate in this regard as follows:

> "... mechanised or computerised records have almost totally replaced manual methods of record keeping. This has not only eliminated many hours of tedious clerical effort and minimised errors of transcription and calculation, but it provides a far more useful management tool by making it possible to present more complete information in an analytical form, more quickly and at more frequent intervals".

All perpetual inventory records must be checked periodically against actual stocks. This ensures accuracy of the record and necessitates adjustments in the event of any discrepancies. However, efficient and effective administration of the inventory function necessitates at least one complete physical stocktaking to be performed annually (Heinritz & Farrell 1981 : 181).

The perpetual inventory record serves both for inventory items held in stock as well as for all other stores and equipment within the municipality.

Public institutions, such as municipalities, also require to establish their total inventory costs, which would include value

of stocks in the stores as well as the value of all assets, stores and equipment within the institution. Therefore, a physical and complete stocktaking is executed by departments under the direction of either stores staff or personnel appointed specifically for such tasks.

Other inventory records which are of primary importance is the 'goods received note' and the 'requisition'. The value of these documents shall be discussed under receiving and issuing of stocks respectively.

4.5.5 RECEIVING

Generally the receiving procedure at both public and private institutions are the same. The receiving section is normally a part of the inventory section, although in large industrial concerns it may be established as a separate unit (Mason et al 1970 : 15-18).

Lee & Dobler (1977 : 343) emphasise the responsibilities of the receiving section as follows:

> "The receiving department is responsible for the expeditious receipt, identification and general inspection of all incoming materials. Receiving is also responsible for promptly notifying all interested parties of the receipt and condition of incoming materials".

All items delivered to the receiving section should be inspected and accepted. The receiving officer must ensure before acceptance, that he is able to identify the purchase order number, the nature, description and quantity of goods. Such particulars must be verified against the suppliers 'packing or

delivery note' and the 'purchase order' from the 'awaiting delivery' file (Mason et al 1970 : 15-18).
Once satisfied, the receiving officer must complete the 'goods received note' which serves as a receiving report. (Mason et al 1970 : 15-18).

The receiving report or 'goods received note' requires the following basic information (Ritterskamp et al 1968 : 87):

- date of receipt;
- method of shipment;
- purchase order number;
- department's name;
- description and quantity of items;
- stock code number;
- signature of compiler; and
- signature of recipient.

The above form is generally completed in triplicate and the distribution is made as follows:

- original copy to accounts payable section;
- copy to the department; and
- copy is kept on the inventory section's receiving file.

With the increasing use of electronic data processing equipment, such information is directly computed from a terminal (CRT)[2] in the receiving department (Lee & Dobler 1977 : 346).

Some municipalities do not complete any documentation, but accept

the packing slip or delivery note as a receiving report. Others use the copy of the stores purchase order for this purpose (Lee & Dobler 1977 : 346).

The importance of thorough scrutiny of goods by the receiving section is stressed by Lee & Dobler (1977 : 346) who state in this regard that

> "Any problem or error in a specific purchase transaction should come to light during the receiving operation. If the problem (shortage in quantity, damaged material, wrong items, etc.) is not detected and corrected during the receiving operation, the cost to correct the mistake later is much higher".

For most shipments of goods a visual physical check is sufficient. However, where there is a need for expertise in the inspection process, for example, when receiving specialised items for research or instruction, then departmental personnel should be called on to assist in verifying for authenticity and acceptance (Heinritz & Farrell 1981 : 50).

4.5.6 ISSUING

It is important that there is a written record of every stock transaction and that every issue must be supported by a receipt (Ritterskamp et al 1968 : 120).

All issues from the inventory section should be executed on the basis of a stock issue 'requisition'. The requisitioning department forwards a 'requisition' signed by the head of department or his authorised representative, for the items required.

Such a form should, inter alia, reflect the following data (Mason et al 1970 : 15-23):

- date;
- departmental name and code;
- catalogue number of items;
- description, quantity and price;
- budget allocated code; and
- authorised signatures for receiving and issuing.

The 'requisition' form is completed in triplicate and distributed as follows:

- the original and first copy is forwarded to the inventory section; and
- the third copy is retained by the department for record and checking purposes.

Once the items have been costed the second copy of the 'requisition' is returned to the department reflecting the value of goods supplied. The original is used to debit the department's account with the cost incurred.

All materials used by the service departments for a specific job must be issued and costed out against job requisitions, which are similar to stock requisition forms but allows for cost of labour (Ritterskamp et al 1968 : 121).

Small items which are not in frequent demand and, therefore, do not warrant stocking may be purchased and collected from a pre-selected supplier on an authorised 'purchase order' issued by the inventory section. The supplier would bill the inventory section on a monthly basis for all such purchases. This procedure allows for the better utilisation of storage space and ensures a saving in time and effort normally spent in purchasing and stocking-up of such items (Ritterskamp et al 1968 : 121).
Prompt billing executed regularly are necessary to ensure that the requisitioning departments do not exceed their budget allocations (Ritterskamp et al 1968 : 121).

The responsibility for safeguarding all materials, parts, suppliers and other stock items is the function of the inventory personnel. Such items form part of the physical inventory of the institution and must not be issued without proper authorisation (Mason et al 1970 : 15-21).

4.5.7 INVENTORY CONTROL

The need for the control of inventory items is to closely monitor stock levels. This is considered to be crucial in manufacturing industries which may require materials urgently for production purposes. Any delays in this regard may stop production and prove to be a costly and an unnecessary expense for the company. As soon as the stock level drops to a critical point, that item must be immediately re-ordered to replenish stocks.

Inventory control as a primary inventory function is defined by Westing, et al (1976 : 23) as follows :

> "The purpose of inventory control is the preservation of an adequate and balanced inventory of materials and suppliers with a minimum investment, so as to reduce storage and handling costs, obsolence and deterioration risks, insurance and interest charges and the risks of price level changes".

Morrison (1967 : 3) is of the view that :

> "(Inventory) control is the operation of continuously arranging receipts and issues to ensure that stock balances are adequate to support the current rate of consumption, with due regard to economy".

Lee and Dobler (1977 : 194) identify three basic systems which can be used to control inventory items, and these are listed and discussed as:

- cyclical ordering system;
- fixed order quantity system; and
- materials requirement planning system.

A brief overview of these systems are given.

4.5.7.1 Cyclical Ordering System

The cyclical ordering system is a time-based method which necessitates scheduled periodic stocktaking of all inventory items. The stock levels can be monitored by physical inspection, by visual review of perpetual inventory cards, or by use of computer surveillance. In a small inventory section the simplest

method would be a physical count of all inventory items. In larger institutions, such as municipalities, the inventory records which reflects receipts, issues and balances could be reviewed. This method could be maintained manually by record cards or tally cards or by computerisation.

This system is well suited for the planned acquisition of stocks such as steel and glass because of infrequent schedules maintained by suppliers of these items. It is also favoured for items used on an irregular or seasonal basis because the purchase of such items require advance planning on the basis of possible use.

The system is considered disadvantageous because:

- it necessitates a periodic stock review which is laborious and time consuming;

- there are differing rates of usage of each stock item and consequently there are occasions when stocks may be exhausted before the next scheduled review date. This necessitates a minimum balance for each item which serves as an indication for re-order as the item is being used increasingly;

- the cyclical system demands that specific order quantities be purchased for a specified period of time, before the next scheduled review date. This may mean that the actual order quantities may deviate either marginally or substantially from the optimum level required. This implies

that inventory costs for such items increases. This does not auger well for an efficient and effective system of inventory control; and

- the system tends to increase the purchasing work load around the scheduled review dates, for re-ordering purposes.

4.5.7.2 Fixed Order Quantity System

The fixed order quantity system is also referred to as the minimum-maximum inventory system. It is based on the ordering of a fixed quantity or an optimum order level for each item. Lee & Dobler (1977 : 200) explain this method of operation as follows:

"1 The predetermination of a fixed quantity to be ordered each time the supply of the item is replenished. This determination typically is based on a consideration of price, rate of usage, and other pertinent production and administrative factors.

2 The predetermination of an order point, so that when the stock level on hand drops to the order point, the item is automatically 'flagged' for record purposes. The order point is computed so that estimated usage of the item during the order lead time period will cause the actual stock level to fall to a planned minimum stock level by the time the new order is received.

Receipt of the new order then increases the stock level to a planned maximum figure".

Basically, the method entails maintaining a perpetual inventory record for each item. This may be executed manually or by computer. Once the balance of an item falls to its ordering point, the purchasing department is notified to replenish stock. This implies that the stock item is at all times between the maximum and minimum inventory levels.

The advantages of this system are:

- acquisition is made in an efficient manner by purchasing economical quantities;
- only items which require to be re-ordered are involved thus reducing manpower, time and effort;
- by manipulating the desired stock levels between the minimum and maximum quantity a positive control over the total inventory investments is made possible.

The limitations of the system are, inter alia:

- it becomes extremely cumbersome to operate efficiently and effectively when materials have unstable usage patterns and lead times; and
- it is subject to error in posting and issuing of stocks.

4.5.7.3 Materials Requirement Planning System

The materials requirement planning system is referred to as MRP, and is extensively utilised in the private sector by huge

manufacturing concerns for production and inventory planning (Lee & Dobler 1977 : 197).
It relies heavily on the computer to store data, analyse it, manipulate it and produce the required information at great speed.

The system is initiated with a master production schedule which really is a statement of requirements for finished products, by a specific date and quantity. Thereafter a bill of materials is drawn up reflecting all the necessary components and raw materials required to complete the manufacturing process of such items. Here, the valuable role that the computer plays is highlighted. It calculates the required quantities by consideration of such aspects as, inter alia, usage, changes and adjustments to bill of materials, lead times for purchasing and manufacturing and the ordering status.
In brief, this system specifies, inter alia, the quantity and nature of the item to be purchased, the time such orders must be placed and when such deliveries should be scheduled for receipt.

These systems place emphasis on items held in stock in the inventory section. It is however, necessary for the control of all stores and equipment within an institution. In this regard it is essential to maintain a perpetual inventory record. This concept has been highlighted in the discussion on inventory forms.

4.5.8 ECONOMIC ORDER QUANTITY MODEL

Any of the aforementioned systems discussed could be used as a

basis for re-ordering of stocks, that is, cyclical, fixed order quantity and the materials requirement planning systems.

Within the aforementioned methods, Lee & Dobler (1977 : 200) advocate the use of the economic order quantity concept which assists in determining the most advantageous order quantity to purchase for a specific item.

The reason for the use of the economic order quantity concept is to determine the quantity to purchase at any given time which will achieve the lowest cost per unit (Westing et al 1976 : 163). Costs are always involved in the replenishment of stock. When using the economic order quantity method it is necessary to determine such costs (Lee & Dobler 1977 : 200) Basically, there are two cost factors, the cost of writing a purchase order, referred to as acquisition costs and the cost of stocking materials called carrying costs (Westing et al 1976 : 164).

4.5.8.1 Acquisition Costs

Lee & Dobler (1977 : 203-204) state that acquisition costs are incurred everytime a purchase order is issued. All departments which are involved in the issue of an order, that is, purchasing, receiving, inventory and accounts departments, contribute to this cost. Besides this, there is an additional cost, referred to as incremental cost which also affects the total acquisition costs (Heinritz & Farrell 1981 : 150).

Incremental costs are defined as the costs which actually change as a result of making a particular operating decision. For example, if the quantity of orders issued decreases, the incremental costs will also decrease. Therefore, in reality

incremental costs change as an order quantity changes. A consideration of both departmental operation costs as well as incremental costs determine the total acquisition costs of an order (Heinritz & Farrell 1981 : 150).

4.5.8.2 Carrying Costs

Westing et al (1976 : 164-165) emphasise that the cost of carrying items in stock is high and that estimates in the private sector may vary between 10-35% depending on the nature of the stock and economic conditions.

Table 2 reflects the components and the percentage ranges of carrying stock (Westing et al 1976 : 165)

TABLE 3

COMPONENTS AND PERCENTAGE RANGES OF CARRYING COSTS

COMPONENTS	PERCENTAGE RANGES
Interest cost	4 - 15
Obsolence and deterioration	2 - 8
Storage	2 - 5
Insurance	1 - 4
Taxes	1 - 3
Total Cost	10 - 35%

Carrying costs, such as interest on investment (inventory), insurance, property taxes, storage, obsolence and deterioration, all contribute to the total carrying costs of inventories. Since items differ in nature, and characteristics, it is reasonable to calculate carrying costs on an average with an inherent flexibility for adjustments as accurate information becomes available.

Heinritz and Farrell (1981 : 152) propose an alternative method which is considered to be more realistic. It is a four-fold classification of items according to specific groups with similar characteristics and by determining an average carrying cost for each group. This may range from 10 to 50 per cent. This method is considered more realistic and valuable in determining the economic order quantity.

4.5.8.3 Computation of the Economic Order Quantity Model

Once the acquisition and carrying costs have been established then the economic order quantity[3)] can be determined. Heinritz & Farrell (1981 : 152) add that the optimum ordering quantity is directly related to a single variable and the total annual usage of the item.

The economic order quantity can be computed as follows (Heinritz & Farrell 1981 : 152):

$$EOQ : \frac{2x \text{ Annual usage x Acquisition Costs}}{\text{Unit costs x Carrying cost}}$$

which can be algebracially shown as:

$$EOQ : \frac{24\ dB}{CI}$$

Where EOQ = Economic order quantity

d = monthly usage in units

B = acquisition or order cost in value

c = unit costs in value

I = carrying cost

The system has found popular acceptance in large manufacturing industries in the private sector. It has several limitations and benefits. These are briefly viewed.

4.5.8.4 Limitations of the Economic Order Quantity Model

- this method was primarily devised for determining production quantities but was adopted for purchasing by substituting ordering costs for machine set-up costs. This aspect is criticised by many persons who persist that ordering costs are trivial and indeterminable (Westing et al 1976 : 171); and

- the formula does not actively consider such changing conditions as, inter alia, quantity discounts, transport costs, price changes, and demand variations. Such limitations have to be rectified with specific adjustments to the formula, hence, making it complicated and difficult to apply (Westing et al 1976 : 171).

Any formula must be interpreted and implemented with commonsense and judgement. Regardless of what the economic order quantity may be, bulky items should be ordered when storage space is available because a lack of it could limit the quantity which could be effectively handled by the inventory section. Nor is it wise to order items which have a limited shelf life in large quantities because of the possibility of deterioration. Purchase of such items as, inter alia, cement, batteries, photographic paper and cellulose tape should be ordered with caution (Heinritz & Farrell 1981 : 155).

4.5.8.5 Benefits of the Economic Order Quantity Model

Heinritz & Farrell (1981 : 154-155) emphasise the merits of this model as follows:

- this method is becoming popular because of the substantial savings and benefits which result from its implementation. It reduces inventory carrying costs as well as inventory ordering costs;
- with the use of this formula purchasing officers no longer have to rely on their experience or intention to determine the most economic ordering quantity. It ensures improved

performance in the purchasing function, saving both effort and energy;

- for a larger number of stores and supply items the formula can be relied on completely, thus relieving the purchasing officer of all responsibility in this regard and resulting in correct decisions which are reflected in excellent performances; and
- the formula replaces fact for judgement. It establishes a definite relationship between significant variables in the situation thereby eliminating the need for personal judgement ensuring that quantity decisions are consistent and in accordance with purchasing policy. The formula lends itself to easy calculation and analysis on the computer and also can be converted into a read-off table for quick and direct reference with the least effort.

The economic order quantity concept is proving to be a widely used method for determining and ensuring cost-effectiveness both in the public and private sectors.

In most of the municipalities studied the economic order quantity model is used, which is, inter alia, dependent on the rate of usage. This means that a predetermined or fixed quantity is ordered each time the supply of an item is replenished. This system requires a perpetual inventory record for each item and may be executed manually (by use of record or tally cards) or by the use of computers.

4.5.9 DETERMINATION OF RE-ORDER QUANTITY

The determination of re-order quantity revolves around many factors, for example, demand of item, nature of item, and storage facilities.

In the municipal environment, the determination of re-order quantity is based primarily on demand. The private sector is profit oriented, and extensively uses the economic order quantity model to ensure that the item intended for purchase is obtained at the lowest cost per unit (Heinritz & Farrell 1981 : 154).

Most of the municipalities studied use this model which aims at cost effectiveness of operations in a systematic and rational manner.

4.5.10 COSTING

Ritterskamp *et al* (1968 : 125) state in this regard that all items issued from the inventory section are costed out to requisitioning departments. Adequate procedures in this regard is essential for control purposes.

Personnel responsible for the costing function should not be involved in the inventory function as well. This may otherwise give rise to possible malpractices (Ritterskamp *et al* 1968 : 125).

The prices to be charged for items is generally determined by stated policies in this regard. This may be on a mark-up basis to cover cost of operations or it may be wholly supported from a central fund with debits being raised against the Inventory account, or the account of the user-department (Ritterskamp et al 1968 : 125).

The billings made to requistioning departments may be executed at regular intervals, and may be on a monthly basis or after each and every issue. Such statements are sent to the department concerned with supporting documentation, such as, a copy of the 'requisition' or a signed 'issue voucher'. Such documents could be used to verify whether items were received and charged out correctly. It also serves as a budgetary control measure which ensures that departments do not exceed their budgetary allocations (Ritterskamp et al 1968 : 125).

The inventory section must report on an annual basis on the complete stock inventory, receipts, issues and actual balances of items. This report is intended for executive officials who determine its financial standing as well as the efficiency and effectiveness of operations executed by the section. (Ritterskamp et al 1968 : 125).

4.5.11 DELETION OF UNSERVICEABLE, OBSOLETE AND REDUNDANT ITEMS

In the private sector, the term used for unserviceable,

obsolete and redundant items is 'industrial surpluses' which originates from (Lee & Dobler 1977 : 365):

- scrap and waste;
- surplus obsolete or damaged stocks; and
- surplus obsolete or damaged equipment.

These items are disposed by a salvage and reclamation department in a large private undertaking. The basic objective of the department is to dispose of such surpluses at an optimum profit level.

Within the municipal context, the manual, Guidelines for Standarised Financial Regulations for Local Authorities, issued by the Institute of Municipal Treasurers and Accountants, states as follows in terms of paragraph 14.9:

> " Where, in the opinion of the Local Authority, any stores and material should be scrapped or declared redundant or obsolete, the Treasurer or Head of Department so authorised shall dispose of such stores and material to the best advantage of the Local Authority, in accordance with directives issued by the Treasurer or the Local Authority as the case may be".

At South African municipalities these items are placed before a special committee which reviews each item and determines the course of action that should be taken. For example, it may recommend:

- cannibalising of the equipment;
- selling as scrap;
- if serviceable, offering it to other institutions, such as educational and charitable institutions; and
- selling by public auction.

Monies realised are normally credited to the municipal revenue account or to a specific departmental allocation.

4.6 EXERCISING CONTROL

Control is an integral part of the process of administration. The inventory function is subject to control within the context of the generic administrative processes of (Cloete 1986 : 180):

- policy-making;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

These processes play a vital role in ensuring that the inventory function is executed both efficiently and effectively. For example, the policy-making process demarcates the parameters of the inventory function and sets out objectives which must be attained by the inventory functionaries (Cloete 1986 : 180). In this respect a comprehensive policy and procedure manual will provide a set of guidelines both for the inventory functionaries and the user-departments. Alijan (1973 : 3-3) emphasises in this regard that a policy and procedure manual forms the cornerstone for any modern organisation.

For the manual to be effective, it must be a useful tool, an aid

to user-departments, and must be supported by management as well (Alijan 1973 : 3-4). Another form of control is exercised by the nature of the organisational arrangements of the inventory function. Whether in a centralised or decentralised system, the organisational hierarchy provides checks and balances in terms of delegated authority. Each functionary plays a specific role in the hierarchy as specified by his job description. In the same vein procedures clearly set out the manner in which the inventory objectives should be achieved. Financial control ensures that inventory items are only purchased and issued if funds are provided on the estimates.

Control within the inventory section is also exercised by use of formal measures, such as reporting, inspecting, internal auditing, cost accounting, statistical returns, and instructions setting out minimum standard and volume of work expected of functionaries as they provide services or supply products to the community (Cloete 1986 : 181).

Accountability, in the final analysis, must be given by every public functionary. The head of the inventory section is responsible to the municipal council for the administration of the inventory function. The municipal council in turn is accountable to the municipal electorate. Municipal by-laws and provincial ordinances provide guidelines in respect of control.

The inventory function is also subject to external auditors, who must submit the report of their findings to the municipal council.

Informal control can be enhanced by inculcating in inventory functionaries, a zest for work, a sense of duty, diligence and a healthy and sound respect for the normative guidelines of public administration.

5 SUMMARY

The inventory function which is one of the primary activities of materials administration is found at the central, provincial and local tiers of government. This activity is concerned with the receiving, issuing, custody and care of stores and equipment purchased by the various sectors of government. The inventory function, therefore, utilises vast sums of money for the purchase of stock which is maintained and issued by the inventory section. The inventory function at the central and provincial tiers of government is subject to acts of Parliament, foremost being the Exchequer Act 66 of 1975, and the financial regulations contained in the Financial Handbook, formulated by the Treasury of the Department of Finance. These acts and regulations provide a basic framework for the administration of the inventory function. The accounting officer, is singularly, the most important person in the State department on whose shoulders rests the responsibility of the inventory function.

In terms of specific provisions in the Exchequer Act and the Financial Handbook the accounting officer must see to the proper control, custody and use of all stores and equipment. The accounting officer, submits reports to the Treasury and Auditor-

General on the status of stores and equipment in the State department.
A similar approach is exercised by the Administrator of the Province and the Heads of Provincial Departments.

Both the central and provincial tiers of government must implement the inventory function according to Chapter N in the Financial Handbook, which relates to control, custody and care of all State stores and equipment.

At the municipal level of government, the inventory function aims at receiving, issuing and monitoring all stores and equipment purchased by the municipality. The importance of the function may be viewed in terms of the financial investment it represents. In the execution of the inventory function the generic administration processes of:

- policy-making;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control

are necessary for ensuring efficiency and effectiveness of operation.

The provincial ordinances and financial regulations provide the legislative basis for the inventory function at the municipal level. Within this context municipal authorities also pass financial regulations to supplement legislation and to provide an

elaborate framework for the execution of the inventory function. Policy manuals are encouraged as these set out the goals and objectives of the inventory function.

Organisational arrangements, for the performance of the inventory function may be centralised, decentralised or a combination of these systems. Each of these approaches have their relative merits and demerits. In most municipalities the centralised/decentralised system is used with emphasis on centralised control of all transactions and relevant documentation.

Financing of the inventory function is crucial to the continuity of services provided by the inventory section. The municipal budget provides funds for the initiation and development of the inventory function.

Staffing the inventory section with well qualified personnel is central to efficient and effective execution of the inventory function. Inventory functionaries are responsible for a costly exercise which requires them to possess the necessary knowledge, skills and attitudes to execute their tasks with the necessary professionalism that is required.

Work procedures are necessary in ensuring uniformity in the execution of, inter alia, receiving, issuing, inventory control, costing and disposal activities which constitutes the inventory function. Three different approaches are used in the inventory control function which ensures the availability of stock items on a continuous basis namely, cyclical ordering system, fixed

ordering system and the materials requirement planning system. Within these systems the economic order quantity model is used to determine the re-order quantity of stores and equipment. In ensuring an efficient and effective service a procedure manual is absolutely necessary. Furthermore, it is essential that a list of items be provided by the inventory section so that stock items are clearly described and made available to user-departments in the form of a catalogue.

Control is exercised both internally and externally. The generic administrative processes of policy-making, organising, financing, staffing, determining work procedures and exercising control effectively serve as control measures within an institutionalised framework. Other means of control is exercised by formal measures such as reporting, inspections and internal auditing. External auditors also carry out inspections and submit a report of their findings to the municipal council for action. In the final analysis, functionaries must also adhere to the normative guidelines of public administration in execution of the inventory function.

NOTES

1 An economical quantity refers to a quantity that is cost effective ensuring that orders are planned and executed in a manner which maintains total inventory costs to the minimum.

2 CRT is a cathode ray tube, which is a computer display terminal used for input and verification of data.

3 The determination of the re-order quantity can be based on any of the inventory control systems that have been discussed. The most economic quantity to order, that is, to purchase at the lowest cost per unit, is determined by economic order quantity model.

CHAPTER SEVEN

ADMINISTRATION OF THE INVENTORY FUNCTION AT SOUTH AFRICAN MUNICIPALITIES : OPERATIONAL PERSPECTIVES

1 INTRODUCTION

In the previous chapter the theoretical aspects of the inventory function at municipalities were discussed. The activity was considered important for the attainment of municipal goals as it provided common items for use by the various departments within the municipality for the continued execution of their functional and support activities.

In this chapter the operational aspects of the inventory function at South African municipalities shall be discussed within the following context:

- legislative measures and policy directives;
- organising;
- financing;
- staffing;
- determining work procedures; and
- exercising control.

2 LEGISLATIVE MEASURES AND POLICY DIRECTIVES

The legislature in any form of government express their convictions and directives by way of legislation (Cloete 1986 : 19). In this manner the legislature sets out the objectives which executive institutions must pursue and attain (Cloete 1986 : 18). This is also true of municipal administration and in particular materials administration. Therefore, it follows that officers responsible for the inventory function must set intermediatary objectives to achieve the broad policy goals of materials administration function.

2.1 Legislative Measures

In the discussion on the administration of the purchasing function at South African municipalities explicit mention was made of the provincial ordinances which initiated the purchasing function (see chapter five, paragraph 2). Since the inventory function is dependent on the purchasing function, it follows that adequate provisions should also be made for the receipt, custody, issue and disposal of all stores and equipment purchased by the municipality. This is implied because none of the provincial ordinances specifically provide for the inventory function. Many South African municipalities, therefore, make provision for the inventory function in their financial regulations which is

approved by the municipal council as a basis for the administration of the inventory function. The financial regulations relating to the inventory function at municipalities in the four provinces shall be highlighted.

In Natal, municipalities are governed by Local Government Ordinance 25 of 1974. Within this context municipalities are allowed to determine financial regulations to supplement the provisions of the ordinance. In the City of Durban the inventory function is highlighted under Section 9, Stores and Goods, in the Durban Corporation Financial Regulations as follows:

> "9.1 The Director : Materials Management Department shall be responsible to the Management Committee for the ordering, custody and issuing of goods requisitioned and for the proper management of all goods/stores under his control".

In a similar vein the City of Pietermaritzburg emphasises the inventory function under Section E, Stores and Goods, in its Financial Regulations as reflected hereunder:

> "E.1 CUSTODY AND RECORDS
>
> Normally all stores and materials held for future consumption shall be in the General Stores Depot where they shall be suitably recorded and accounted for. By arrangement with the City Treasurer certain stores and materials may, for good reasons, be held departmentally, in which event all items not required directly shall be recorded and accounted for departmentally to the satisfaction of the City Treasurer".

In the Transvaal, in addition to the Local Government

Ordinance 17 of 1939, Standard Financial By-Laws has been approved for municipalities in terms of the Administrator's Notice No. 927 of 1 November 1967. According to the Standard Financial By-Laws, provision for the inventory function is stressed under Stores and Materials, Sections 24 to 37. Section 28(1) specifically emphasises the inventory function as follows:

> "All stores belonging to the council shall be kept in a place or places controlled by the town treasurer: Provided that such stores as the town treasurer may approve, subject to conditions to be determined by him, be kept by the head of a department in a place under his control".

The City of Pretoria's Financial By-Laws provides for the inventory function under Stores, Materials and Works, and the provisions in all respects are the same as Section 28(1) quoted above:

The Financial Regulations of the City of Johannesburg, provides for the inventory function under Stores and Materials, Section 35(1) as follows:

> "Stocks shall not, except where the City Treasurer is satisfied that special circumstances exist, be carried by or for any department in excess of normal requirements as ascertained by experience".

Orange Free State

The municipalities in the Orange Free State must act within the enabling Ordinance 8 of 1962. Furthermore, details in respect of the inventory function are determined by the respective municipalities, as part of the financial regulation. The City of Welkom provides under Section D Voorrade en Materiaal, paragraph 2 as follows:

> "Alle voorrade en materiaal wat vir toekomstige gebruik bedoel is, word gehou in 'n magasyn onder die beheer van die Stadstesourier wat verantwoordelik is vir periodieke opnames van sodanige voorrade en materiaal welke opnames in elke geval minstens een keer jaar gemaak sal word".

Cape Province

The municipalities in the Cape Province are subject to Local Government Ordinance 20 of 1974. The City of Cape Town provides in its Financial Regulations for the inventory function, under Section 14, Stores and Material, as follows:

> "The City Treasurer, or Head of Department so authorised by the Council, shall be responsible for -
>
> a) the proper management of all stores under his control;
>
> b) the safe custody of all goods and material contained therein;..."

The Financial Standing Orders of the City of Port Elizabeth establishes the inventory function in terms of Section 6, Goods and Materials as follows:

> "(1) All goods and materials belonging to the Council

> and held for future consumption shall be retained in the Purchasing Department. With the approval of the City Treasurer, certain goods and materials may be held by Departments in a sub-store, provided that all items not required immediately shall be recorded and accounted for by such Departments to the satisfaction of the City Treasurer".

The foregoing discussions highlight the fact that in the absence of specific provincial legislation municipal authorities provide for the establishment and administration of the inventory function in terms of financial regulations which are approved by the municipal council. These financial regulations provide a basic guideline for the execution of the inventory function. The scope of these regulations differ from municipality to municipality. Some municipalities may provide brief guidelines whilst others may provide more details in regard to the inventory function. To a large extent the nature and scope of the inventory function is determined by the head of the inventory section. In most municipalities the inventory section falls under the jurisdiction of the city treasurer's department.

2.2 Policy Directives

Once again the extent of policy directives differ from municipality to municipality. Generally, municipalities are expected to detail such policy objectives in a policy manual. However, in actual practice, few South African municipalities

have a policy manual for the inventory function.

The City of Durban has documented a policy and procedure manual which covers both the purchasing and inventory functions. The overall policy in respect of the City's inventory function is to provide a prompt service as cost efficiently as possible (Mac Callam 1990 : interview). In this regard the execution of the inventory function is determined on the basis of the following policies (Materials Management Policies and Procedure Manual 1984 : 1 - 12) :

- Inventory financial control policies;
- Inventory identification and control policies; and
- Inventory management policies.

These specific areas in turn are elaborated on to provide specific objectives. For example, the inventory financial control policies relates to budgeting for the inventory function; the inventory identification and control policies provides guidelines in regard to accounting and custody control; and finally the inventory management policies set out parameters for classification and management of inventory items. These detailed objectives provide suitable guideline and when used in conjunction with procedural prescriptions works effectively for the City of Durban (Mac Callam 1991 : interview).

The retired Director of the Materials Management Department of the City of Durban emphasises the following objectives of the inventory function (Keats 1988 : 1):

- that all goods and equipment ordered and paid for have been received by the inventory section;

- that all stock items are physically checked by independent persons;

- that all stocks in custody are correctly located and that appropriate measures are maintained for their physical control until issued for use;

- that effective measures have been instituted and maintained in respect of the ordering, receiving, checking, examining, storing, issuing and deleting of all stocks;

- that an accurate and complete record is kept of every stock transaction;

- that stocks that are not issued and charged out are fully accounted for; and

- that all worn-out, defective, redundant and surplus stocks are deleted from the records and disposed of.

The aforementioned objectives are, in the main, the most important policy directives that municipal inventory sections should follow. Municipalities authorities should formulate and clearly set out the objectives in a manual. These objectives must be reviewed periodically to ensure their relevancy to the inventory function.

Once the legislative and policy directives have been decided upon, it is then necessary to determine the type of organisational structure suited to the inventory function.

3 ORGANISING

Flinn (1978 : 223) basically discusses the variations of the centralised and decentralised organisational structures used by the inventory section within the municipal context (see chapter six paragraph 4.2).

In the various South African municipalities studied the inventory functions are based on either centralised or decentralised systems with some variations. In all cases the inventory section falls under the jurisdiction of the city treasurer's department.

In municipalities with a small geographical jurisdiction, the obvious benefits of a centralised inventory system are overwhelming. In this respect, many small municipalities in South Africa, inter alia, : Queensburgh, Tongaat, Dundee, Greytown, Simonstown, Vryheid, Kloof, Stanger, Mamelodi, Kimberley and Roodepoort have centralised inventory systems. Flinn (1978 : 223) emphasises that the greater the degree of centralisation of the inventory function, the greater the benefits in respect of improved efficiency and large volume savings.

However, this does not necessarily mean that larger municipalities cannot centralise their inventory function. Although none of the major municipalities in South Africa operate on a totally centralised inventory system, many large municipalities such as Johannesburg and Pretoria have centralised the control of the inventory function. By this it is meant that the inventory sections are decentralised but the control of all stock transactions are administered from a centralised point. This in effect provides a global picture of the inventory function with the concomitant centralisation of its operation and administration. Some of the advantages in the centralisation of the control of the inventory are that it (Flinn 1978 : 224):

- results in the determination and maintenance of a uniform inventory control system;

- facilitates the easy identification of stores and materials for transfer among the various stores within the municipality, thereby providing for the better utilisation of items;

- provides opportunities for the proper utilisation of staff in regard to placement, training, dissemination of information and experience in all phases of the inventory function;

- provides for the centralisation of inventory records which results in better monitoring and greater uniformity in the execution of procedure for receipts, custody issue and deletion of stores and equipment; and

- ensures that authority is delegated by a singular controlling body, usually the city treasurer's department, which provides the necessary guidelines and institutes the necessary control measures to ascertain and ensure that the goals of the inventory function are being attained.

In the major municipalities of Durban, Johannesburg and Pretoria, each of the inventory sections are under the supervision of either a chief storekeeper or a senior storekeeper, depending on the size of the section. The

personnel are supported by a team of assistant storekeepers and general assistants or labourers.

In the City of Johannesburg, the inventory function resorts under the jurisdiction of the City Treasurer's Department and is delegated to the Deputy City Treasurer, who is also responsible for the purchasing function, see Figure 13. The Assistant City Treasurer, Mr. Van der Merwe, has in turn been delegated authority to administer the inventory function for the City of Johannesburg. All the inventory sections are decentralised and in close proximity to user-departments. This system obviously suits the City because of its continued growth and size. As stated before, the City of Johannesburg, has centralised the control of the inventory function which provides unlimited benefits. Each inventory section is under the supervision of a storekeeper or an assistant storekeeper, depending on the size of the stores. These senior inventory personnel are assisted by a team of inventory staff and labourers to provide an ongoing inventory service to all user-departments.

Another city which functions similarly to Johannesburg is Pretoria. A simplistic organisational structure of the inventory section of the Pretoria municipality is illustrated in Figure 14.

From Figure 14 it is evident, that the inventory function at

FIGURE 13

ORGANISATIONAL STRUCTURE OF THE INVENTORY SECTION AT THE CITY OF JOHANNESBURG

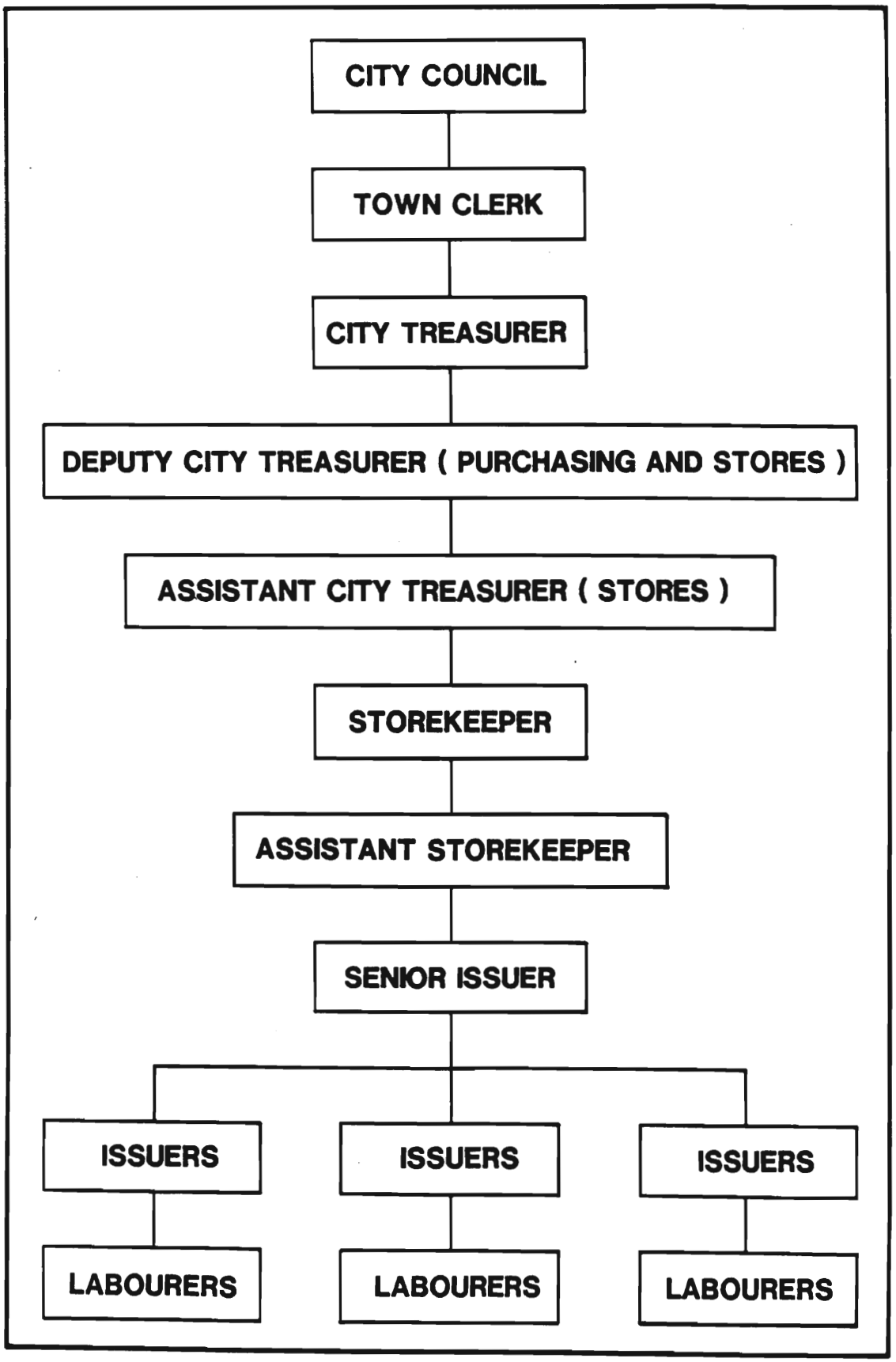
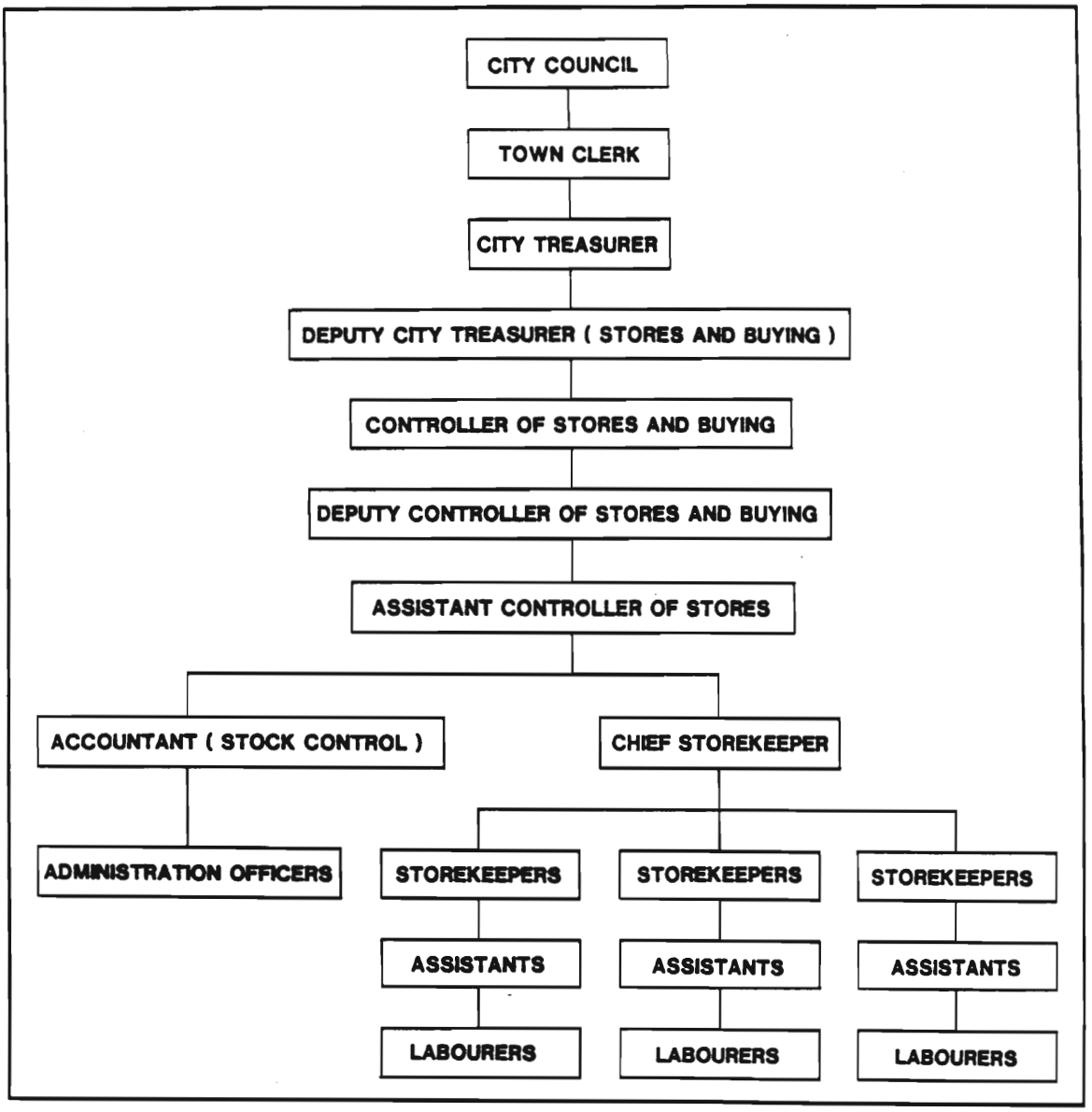


FIGURE 14

ORGANISATIONAL STRUCTURE OF THE INVENTORY SECTION AT THE CITY OF PRETORIA



the City of Pretoria falls under the jurisdiction of the City Treasurer's Department. The responsibility for both the inventory and purchasing function has been delegated to the Deputy City Treasurer who in turn has appointed a Controller of Stores and Buyer to control and co-ordinate the purchasing and inventory functions. The inventory function falls under the specific supervision of an Assistant Controller of Stores. This person is assisted by an Accountant and a Chief Storekeeper. The Accountant and his staff are primarily responsible for the charge out of costs to the various user-departments in relation to budgetary expenditure. The Chief Storekeeper and his team are responsible for the inventory section and its administration in regard to receipts, custody, issues and deletions of all stores and equipment. The inventory sections are decentralised, but like Johannesburg the control is centralised and falls under the Assistant Controller of Stores.

These municipalities highlight the centralised/decentralised system of inventory organisational structures. Other municipalities such as Cape Town and Port Elizabeth operate on decentralised systems. In this regard Cape Town provides an idealistic view of the decentralised inventory system.

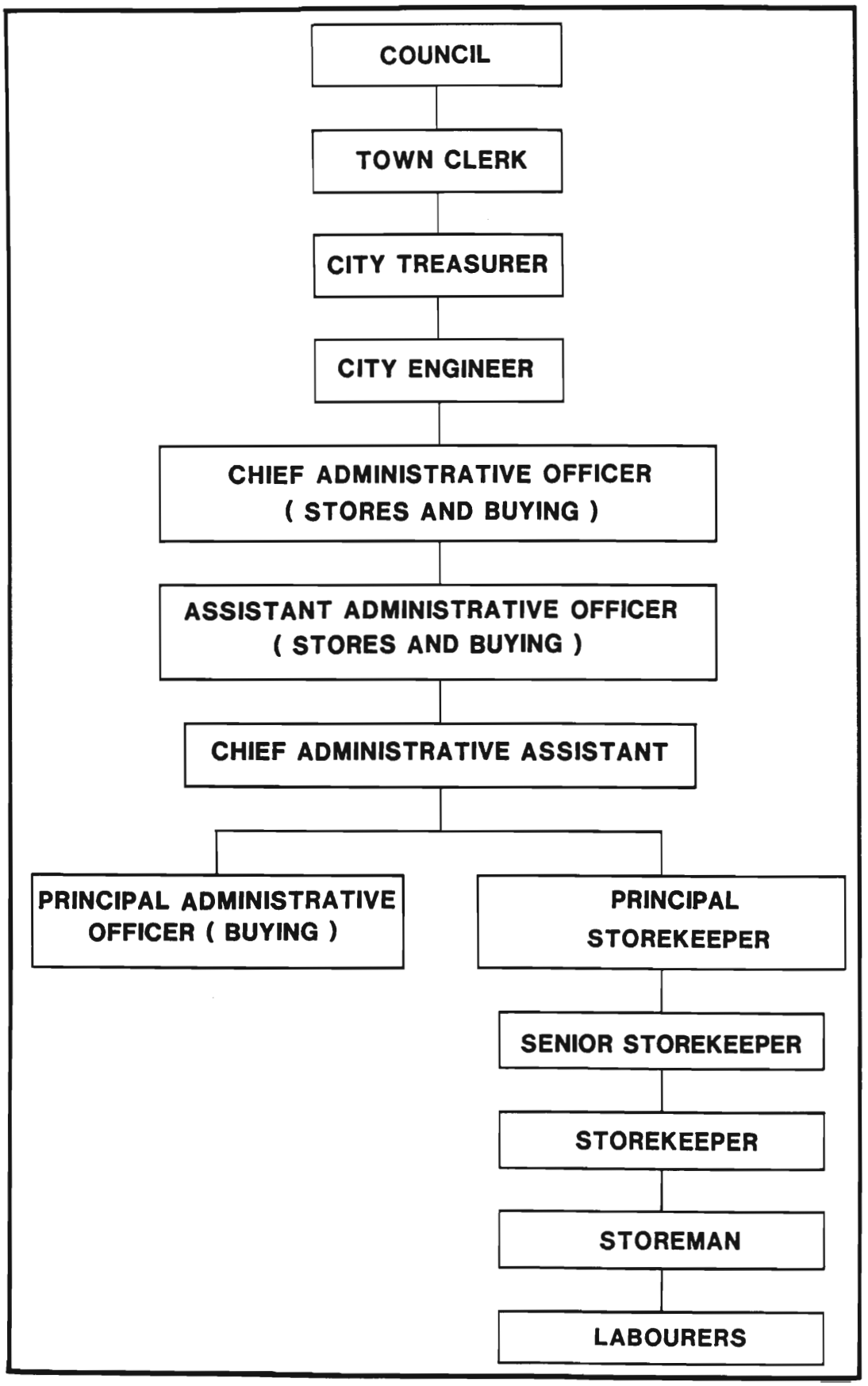
In the City of Cape Town, each of the primary user-departments, namely the City Engineer; City Administrator and City Electrical Engineer are individually responsible for the

administration of their own inventory function, thus ensuring a greater degree of independence. Each user-department has numerous stores sections situated at appropriate geographical locations within the municipality to suit the needs of the departments. A simplistic illustration of the organisational structure of inventory section for the City Engineers Department is shown in Figure 15.

The figure typifies the organisational structure of the inventory function, peculiar to the City Engineer's Department and more especially to the Main Stores at Entabeni. In total the City Engineers Department has 22 stores sections throughout the municipality. The organisational structure will differ from store to store, depending on its size. The large stores, like the Entabeni Stores (reflected in Figure 15), is under the direct supervision of the Principal Storekeeper, who in turn is assisted by senior storekeepers, storekeepers, storemen and labourers. This organisational pattern would be repeated for similar large stores, whilst in the other stores it would be adapted to the relative size of the inventory operation. Cognisance must also be taken of the fact that the primary user-departments are also responsible for the purchasing function as well. Therefore, the organisational structure in Figure 15 reflects the different levels of posts, pertinent both to the purchasing and inventory functions.

FIGURE 15

ORGANISATIONAL STRUCTURE OF THE INVENTORY SECTION
OF THE CITY ENGINEERS DEPARTMENT
AT CITY OF CAPE TOWN



The inventory function in the City of Cape Town is a major operation which is borne out by the fact that the other principal user-departments, that is, the Electrical Engineer and City Administrator both have 10 stores each to administer.

In conclusion, it is necessary to compare the value of centralised and decentralised systems and a combination of both systems. It is evident that municipalities of a small municipal jurisdiction use centralised inventory system because of its potential benefits. A major number of South African municipalities fall into this category.

Most of the larger municipalities may be grouped either into centralised/decentralised system or a totally decentralised one. The cities of Johannesburg, Pretoria and Durban fall into the centralised/decentralised category. This system effectively ensures centralised control whilst the inventory sections itself are decentralised. In other words the inventory sections may be found throughout the municipal area, but control in respect of receipts, custody issues and deletions are executed from a central point. The obvious advantages of this system has been stated (see chapter 6 paragraph 4.2). These municipalities have established numerous main and satellite stores over a period of time. In order to ensure cost effectiveness of the inventory operations, it is necessary to periodically review whether

all the stores sections are in fact necessary. A rationalisation programme which evaluates the necessity of the various satellite stores within the municipal area should be instituted as part of an ongoing evaluation programme of the inventory function.

The totally decentralised system used by the City of Cape Town has stores attached to all user-departments. A primary advantage is the almost immediate response to a request for replenishment of stores and materials required by the user-departments. The cost of maintaining totally decentralised stores for each user-department is an exhorbitant exercise. In discussions with senior inventory personnel indications are that there is a greater need for centralisation of control. This would also ensure the maximum utilisation of stores and equipment. A rationalisation program is also considered necessary especially in view of the numerous satellite stores within the municipality.

4 FINANCING

The inventory function cannot be administered without the necessary finance. Funds are not only necessary to establish new inventory sections but to provide a continuous service of supplying stores and equipment replenishments, on request, to

user-departments within the municipality. The manner in which the inventory function is financed will largely depend on the size of the municipality and the extent of the inventory operations (Mac Callam 1990 : interview).

The organisational arrangements of any inventory section determines the extent of financing required. A centralised inventory section uses less funds than a decentralised one. Within a small South African municipality such as Queensburgh, the inventory function is executed from a centralised inventory section. Financing of the inventory function is possible through an approved budget. All inventory stores and equipment purchased for stock are subject to the availability of funds under the specific allocations in the approved budget (Kinnard 1989 : letter). A large number of the small South African municipalities fall within this category.

However, the financing of the inventory function at the major municipalities of Durban, Cape Town, Johannesburg, Port Elizabeth and Pretoria are slightly more involved. These are well established municipalities which possess large inventory sections catering for the needs of the various user-departments within the municipality. These municipalities operate their inventory sections on both centralised/ decentralised organisational systems or totally decentralised organisational systems. These systems, by the very nature of their structures, require large sums of money to maintain and

to render services to user-departments within their constitutency. The budget still remains the key instrument in the financing of the inventory function at these municipalities.

The municipalities of Durban, Port Elizabeth, and Cape Town, operate their inventory function on the basis of the recovery of inventory costs. This is often referred to as 'on-costs'. Although, the actual percentage of recovery costs differ from municipality to municipality, the basic principles and procedures remain the same. A few of these municipalities shall be examined in respect of the 'on-cost' system applied by their inventory functionaries.

The City of Durban specifies the following objectives in respect of financing of the inventory function (Materials Management Operating Policies and Procedures 1984 : 1 - 12):

> "1.1.1 Minimise inventory investment.
> 1.1.2 Minimise obsolence and holding costs.
> 1.1.3 Achieve user-department service level requirements".

In the pursuit of the aforementioned objectives the City has instituted broad guidelines in the form of "Inventory Financial Control Policies". The above policy directives in respect of the inventory function stipulate the following requirements : (Materials Management Operating Policies and Procedures 1984 : 2 - 12) :

- On an annual basis establish a consolidated inventory budget to control the City's inventory investment by monitoring the total investment in inventory items.

- Departmental inventory budgets will include inventory turnover performance goals, inventory investment levels and the cost of obsolescent inventory stock.

- The consolidated inventory budget is subject to approval of the Management Committee of the City Council.

- Departmental inventory functionaries are responsible for the preparation of monthly budget monitoring reports which explain actual-to-budget variances, provide action plan to correct unfavourable budget variances and update the forecast's year-end performance levels.

- Penalties will be charged to user-departments for unfavourable actual-to-budget inventory turnover performance. The assessment of penalties charged must be approved by the Town Clerk.

The aforementioned aspects are considered essential to ensure that all inventory functionaries perform their functions both

efficiently and effectively. The inventory budget serves as an objective guide which functionaries must try to adhere to. The variations between the budget and actual inventory usage are subject to punitive measures in the form of penalties. This obviously serves as a deterrent for inefficient output. It also reflects on the user-departments performance and serves as a stimulus to perform more satisfactorily.

The City presently operates on an average price system (Mac Callam 1990 : interview). This is determined by adding the total new costs of an item to the value of existing stocks and dividing the total value by the total quantity.

For example

a) EXISTING STOCK

10 of Item X @ R5,00 each = R50,00

Average Price = R5,00

b) NEW STOCK

40 of Item X @ R10,00 each = R400,00

Average Price = R10,00

New Average price is calculated as

R450 ÷ 50 = R9,00

The new average price of R9,00 would now be charged out for an Item X that is issued.

The inventory function is financed by adding a stores charge or an 'on-cost' charge for stock commodities. In the past varying stores charges were levied depending on nature of the items, for example, stores charges for items of the general stock category varied between 4 percent to 9,75 percent for the 1985/1986 financial year (Mac Callam : interview 1990.10.01). Since this variation caused serious inconveniences in calculation and implementation, it has now been decided to levy a single stores charge on all applicable stock issues and non-stock purchases (Mac Callam 1990 : interview). The store charges for major user-departments will not necessarily be the same as this is dependent on the extent of the inventory operations and the type of commodities issued.

The stores charges for the major departments for 1988/89 are as follows (Mac Callam 1990 : interview):

Engineers	6,3%
Electricity	6,5%
Transport	3,8%

General 6,8%

The estimated expenditure covers the following categories:

- salaries, wages and allowances;

- general expenses such as inter alia, telephone charges, stationery, computer services and office and store accommodation;

- repairs and maintenance services, for building, plant and vehicles; and

- capital charges in respect of interest and redemption costs.

The City-wide value of stock purchases made for user-departments in the 1990/91 financial year is estimated at R81,8 million based as follows:

Electricity	:	R57,540,000
City Engineers	:	10,164,000
Transport	:	9,871,000
General	:	4,296,000
Total		R81,871,000

In the City of Johannesburg all stock items which are kept by the various inventory sections within the municipality are costed out on the basis of a moving average price system. This means that when stores are issued to a user-department on request, the prevailing price at the time of issue is charged out to the requisitioning department. All issues are made against a stores requisition form, which reflects the quantity, price and total value of the issue. All requisitions are allocated a costing code number (or job number) to which the value of issues will be charged out by means of a computerised transfer from the stock account of the inventory section to the operating account of the user-department (Diffenthal 1990 : letter). Therefore, unlike other municipalities in South Africa, the City of Johannesburg does not debit user-departments with any additional service or 'on-cost' charges for the commodities issued from stock.

The total cost of the inventory stock maintained by the inventory section is estimated at R21 million based on the following general category of items:

Stationery	: R 300,000
Clothing	: 500,000
Cable, Electric	: 1 100,000
Electrical Goods	: 1 500,000

Spares	:	3 000,000
Plumbing Material	:	3 000,000
Building	:	1 500,000
Medicine supplies		200,000
		21 000,000*

*Based on the nearest R million.

The City of Port Elizabeth uses an inventory system based on the centralised/decentralised concept. With the exception of specialised purchases made by the City Engineers Department, all other inventory items are subject to 'on-cost' charges. All'on-costs'charges in percentages have been computerised. The 'on-costs' charges differ for different commodities. In 1990 the following on-cost percentage charges were applicable (Pretorius 1990 : interview):

- 3% of total cost of all direct orders for routine purchases; and
- 8% of total cost of issues for general, electrical and automotive stores.

The City of Port Elizabeth maintains an inventory stock estimated at R9,8 million based on the following general categories:

- Electrical Cable, switch lamps and equipment	R4 000 000
- Fuels and Lubricants	1 000 000

- Pipes, Valves and Fittings	1 500 000
- Stationery	750 000
- Power Station Spares	1 500 000
- Protective Clothing	600 000
- Paints	300 000
- General Tools and Cleaning Equipment	250 000
Total	R9 800 000

The City of Cape Town executes its inventory function on a totally decentralised system (Macdonald 1990 : interview). The following municipal departments each administer their own inventory function:

- City Engineer;
- City Electrical Engineer;
- City Treasurer;
- City Administrator;
- City Planner; and
- Medical Office of Health.

Under the aforementioned circumstances the operating costs of the inventory function would be excessively high. All the inventory sections operate on the 'on-cost' system. For example, the stationery store controlled by the City Administrator has an 'on-cost' charge of 17 percent. In the same vein, the Entabeni

Stores of City Engineer also applies an 'on-cost' charge for commodities issued. The nature of the items stocked by the City Engineer are, inter alia, building materials, clothing, tools, hardware, paper and plastic products, cleansing chemical and medical supplies. In January 1990, the total value of these stock items was estimated at R7,8 million.

Once financing arrangements have been made, it is necessary to ensure that the inventory organisational structures are manned by appropriately qualified personnel.

5 STAFFING

The inventory functionaries are the cornerstone of the inventory sections throughout the municipalities. Their responsibility is to ensure the efficient and effective execution of the inventory function.

The extent and size of the municipality authority determines, not only the type of inventory section but also the size of the inventory personnel corp.

In a centralised inventory section of a small municipality, there may only be a single person responsible for the inventory function. This is true for the Borough of Queensburgh. Mr.

Kinnaird, Town Clerk of Queensburgh, writes as follows in this regard (1990 : letter):

> "...a stores section operated by an Indian Clerk under the supervision of a Senior Accountant in that department and this official maintains all the stores requirements necessary for our various departments".

In the larger municipalities the inventory personnel corp is much larger. The City of Durban, for example, carries 14 863 inventory items in 28 stores stretching from Phoenix in the north to Chatsworth in the south and in the west to Pinetown (Mac Callam 1990 : interview). This mammoth operation obviously requires personnel who possess the appropriate knowledge and skills to carry out the various activities constituting the inventory functions.

The inventory function, like the purchasing function falls under the jurisdiction of the City Treasurer's Department in South African municipalities. Therefore, in the major municipalities the person responsible for the combined purchasing and inventory function may be the Assistant City Treasurer or Deputy City Treasurer. In turn, these senior personnel delegate their authority to specific functional specialists. A discussion of these inventory personnel and their functions shall be undertaken.

In the City of Port Elizabeth the basic organisational structure

of the main Stores Section reflects a post structure common to most South African municipalities, see Figure 16.

As is evident from Figure 16 the Controller is the person with delegated power to execute the purchasing and inventory functions. Within the context of the inventory function, the Controller relies wholly on the Chief Storekeeper to ensure that the inventory function is being efficiently and effectively administered. The following are the essential functions of the chief storekeeper (Marshall 1990 : interview):

- general supervision of all inventory personnel in the various stores section under his control;

- ensures that all policies and procedures in regard to the inventory function are smoothly executed;

- acts as a liason officer between senior management and inventory personnel;

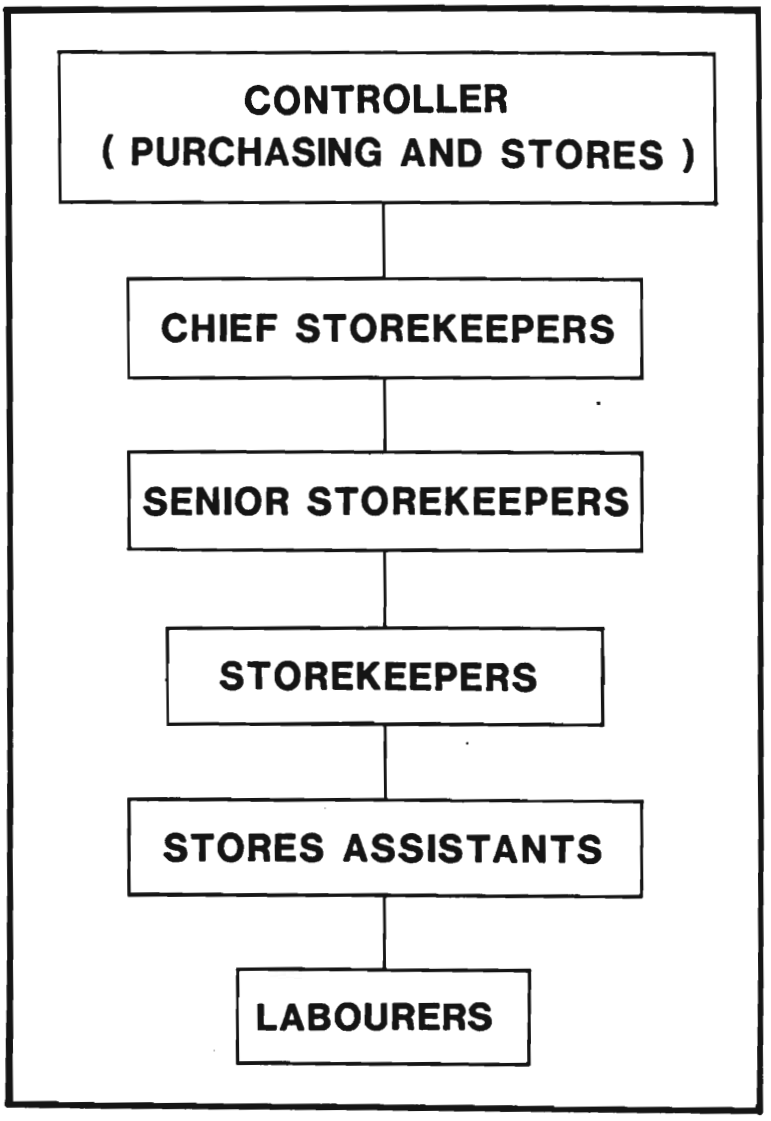
- provides direction, training and advice to inventory functionaries;

- reviews policies and procedures on an on-going basis to ensure validity; and

- evaluates and submits reports on staff performance.

FIGURE 16

POST STRUCTURES OF THE INVENTORY SECTION
AT CITY OF PORT ELIZABETH



The senior storekeeper reports to the chief storekeeper. The senior storekeepers are each responsible for a specific inventory activity. Such personnel may be responsible for receiving, issuing, custody and deletion functions. Generally, these personnel are directly involved with operational personnel and provide supervision and guidance in this regard. The senior storekeeper is concerned with ensuring the accuracy of completing documentation in regard to receipts, issues, custody and deletion activities. In this way he is directly responsible for the record-keeping function of all inventory stocks.

The storekeeper and assistant storekeepers are responsible for specific operational duties, in areas such as, receiving, custody, issues and deletions. They receive requisitions, scrutiny signatures, receive goods, issue goods,ensure safe custody of goods, take stock of goods, submit re-order requests and identify worn-out and obsolete stock for deletion from the inventory records. These personnel would also be concerned with safety precaution as well as the security of stocks.

The labourers are unskilled or semi-skilled workers who are responsible to pack goods, transport goods or unpack goods. They are generally confined to the stores area.

In discussions held with senior inventory functionaries a general contention expressed by them is that their careers do not receive sufficient interest and concern from the municipal council (Marshall 1990 : interview). Furthermore, in their opinion, the municipal council does not appreciate the importance of the inventory function and the vital role played by these sections in contributing to the overall goal of municipal welfare (Pretorius 1990 : interview).

It is important to note that very few inventory functionaries have post matriculation qualifications in inventory or stores administration. Most functionaries have either a standard eight or standard ten school education. There is obviously a need for greater professionalisation of this activity. In this regard, it is necessary for municipal councils to encourage their employees to undertake further job related studies to improve their careers. Moreover, municipal councils should provide incentives for staff to do so.

An interesting trend is the extent to which Black municipalities are sending their staff to obtain firsthand knowledge of the inventory function from the established municipalities (Pretorius 1990 : interview). In this regard, it is generally the White municipalities that provide a fellowship service to Black municipal authorities.

Once the staffing arrangements have been made it is necessary to determine the work procedures used to perform the inventory

function.

6 DETERMINING WORK PROCEDURES

The primary objective of the inventory function is to provide a prompt service to the user-departments, as cost effectively as possible. This can only be achieved with well planned procedures. Andrews (1982 : 121) appropriately writes that procedures are:

> "a series of interdependent, consecutive steps which must be taken towards the achievement of an objective".

The inventory function may only be methodically executed if there are sound procedures to do so.

6.1 Inventory Procedures in Practice

The inventory function may be broken down into the following primary activities for which procedures must be implemented:

- identification and classification of stocks;
- receiving;

- custody;
- issuing;
- inventory control;
- economic order quantity;
- determination of re-order quantity;
- costing; and
- deletions of unservicable, obsolete and redundant items.

6.1.1 Identification and Classification of Stocks

The need for identification of stores is essential to establish the type and range of items to be maintained by the inventory section for utilisation by user-departments. Since stock represents money in kind, it is necessary to store only items which are in constant need by user-departments. In this way money, which could otherwise be invested or used in other areas of need, is not unnecessarily tied up in stocks.

In most of the South African municipalities studied the items which are commonly used by the larger user-departments such as the city engineer, electrical engineer, transport division, city administrator and city health division, are kept in custody in the inventory sections. The nature of the items generally identified fall into the following classification (Taylor 1990 : letter):

- plant spares;
- automotive spares;
- electrical materials;
- building materials;
- protective clothing and uniforms;
- hardware and tools;
- paper and plastic products;
- stationery;
- medical supplies;
- cleansing chemical; and
- miscellaneous maintenance material and equipment.

The aforementioned identification of the class of items used by municipalities in South Africa is by no means exhaustive. It basically represents the major categories of items identified. This range would also differ from municipality to municipality, depending on the size and extent of the municipal operations.

In large cities, such as the municipalities of Durban, Cape Town, Johannesburg, Port Elizabeth and Pretoria, a much larger range of items have been identified for inventory purposes. These may extend from small items such as nuts and bolts to large items of machinery and equipment. These municipalities have, therefore, identified specific inventory sections to carry a certain range

of stores.

In the above regard, the City of Cape Town, has inventory sections carrying specific items common to a particular type of functional or service activity. The City Engineers stores, at Entabeni, stocks the following items (Marshall 1990 : interview):

- clothing;
- paints;
- cement;
- nails;
- toilet paper;
- steel pipes;
- steel;
- metal plates; and
- building material.

Once identification has been finalised, it is then necessary to implement a suitable classification plan. The classification system must appropriately group items of a similar nature so that user access is easily facilitated. In the City of Durban the inventories are classified as follows:

- "A items - Those items representing approximately 75% of the annual rand usage (currently 3% of the items).
- B items - Those items representing approximately 15% of the annual rand usage (currently approximately 7% of the items).
- C items - Those items representing approximately 10% of the annual rand usage (currently approximately 90% of

the items).

- Strategic spare items - Those items - in specified quantities - that are absolutely critical for departmental operation irrespective of ABC classification" (Materials Management Operating Policies and Procedures 1984 : 1 of 6).

The objective of the aforementioned classification plan used by the City of Durban is to

> "prioritise management attention and control to focus first on those few "A" items which account for the bulk of the City's materials cost and inventory before addressing "B" or "C" items which have a lower impact on supply usage and inventory levels". (Materials Management Operating Policies and Procedure 1984 : 1 - 6).

Once the items have been classified a codification system is used to identify each type of stock item held in custody.

At South African municipalities a symbolic system of codification is in use (Marshall 1990 : interview). This is a numerical system which assigns a six to ten digit code number to each item. These numbers reflect classification, sub-classification and item code. Therefore, each type of item will have a specific code number. This number will be reflected on a stock requisition when that item is requested out of the inventory section by a user-department. The system also allows for the creation of codes for new stock items.

In the City of Cape Town a nine digit number is used to identify

items. In the Entabeni Store, the following are a sample of code numbers used for specific items (Cape Town : Printout : E040:2/2/90 : 26):

000 - 6521 - 8 Union, pipe;
002 - 3061 - 8 Towel, guest;
002 - 3183 - 5 Dust feather;
002 - 8281 - 2 Lubricating oil, engineer.

These numbers are referred to as commodity codes.

In the City of Pretoria a similar system is used (Pieterse 1990 : interview). A ten digit code is used to identify stock items. A few items are listed below against their respective code numbers (Pretoria : Printout : SC40 2/1/90 : 1) :

01000 00197 Mats, coir 18"
01000 00235 Wool, steel grade 0, 500 gram rolls
01000 00383 Brushes, scrubbing wing tuft, 300mm
01000 00430 Dusters, feather long handle.

The numerical codification system is well developed in the major cities of Durban, Cape Town, Johannesburg, Port Elizabeth and Pretoria. In these cities the codification system has been computerised. In view of the extent of the inventory operations in the major cities, the storage and retrieval of stock data is facilitated by computerisation. In smaller municipalities, such

as Verulam and Queensburgh, the manual system is being used.

6.1.2 Receiving

The intake of goods and materials is common to all types of industrial and commercial activity both in the public and private sectors (Compton 1970 : 192). Goods may be received from outside suppliers as well as from other stores and user-departments within the municipality. Incoming goods should only be removed if all the necessary documentation has been completed and the receiving officer is satisfied as to quality and condition of the goods received (Compton 1970 : 192).

The receiving procedure either in a small or a large municipality does not differ. The receiving activity is an important part of the inventory function and should be performed in a systematic manner as follows (Alijan 1973 : 14 - 11):

a) Check all packages and weights against the suppliers delivery notes.

b) Observe and record the condition of the package or any evidence of rough or faulty handling with the carriers representative present prior to acceptance of consignment.

If evidence of poor packaging and handling is detected the acceptance is qualified accordingly.

c) Ensure that all the items are in agreement with the supplier's delivery note and the receiving section's copy of the purchase order.

d) Record all the discrepancies in quantity, quality, condition and correctiveness of the items received both on the suppliers delivery note and the stores copy for further appropriate action.

e) Arrange for the detailed inspection and testing of specialised instruments and other similar apparatus.

f) Record the receipt of goods, either completely or partially delivered on the stores copy of the purchase order or on a goods received note.

g) Inform the relevant section as to the delivery and receipt of goods, as well as its quantity, quality and condition.

h) Mark, label and repack, if necessary.

i) Deliver material to proper location either for use or custody.

From observations, discussions and documentations received from numerous South African municipalities, it would appear that the aforementioned fundamentals of the goods receiving procedure are being satisfactorily executed.

In an ideal situation the receiving area should be separated from the general store to obviate confusion between incoming and other goods currently held in stock (Compton 1970 : 5). The receiving bay should be well secured to prevent loss or thefts of goods. Once the items have been verified the goods are then forwarded to the custody section for storage (Ballot 1971 : 179).

In the larger municipalities such as Johannesburg, Pretoria, Cape Town, Port Elizabeth and Durban the receiving section in the large stores are cordoned off into separate bays which are used exclusively for receiving of goods. The much smaller stores in these municipalities do not have separate receiving bays. This is also true of the small South African municipalities, such as Queensburgh, Greytown, Simonstown, Tongaat and Kloof. Many of these municipalities complain of inadequate space as a reason for not establishing separate receiving sections.

An important aspect lacking at many of the smaller municipalities is a formally documented procedure manual for the receiving

function. In this regard such large municipalities as Durban, Cape Town, Johannesburg and Port Elizabeth have issued specific procedural instructions for receiving of goods. The City Council of Pretoria is in the process of developing a manual for receiving and other inventory activities. The Borough of Stanger has a written procedure manual for the receiving function issued by the Treasury Department of the municipality.

The manual is considered important as it ensures uniformity in the performance of the receiving function as well as serving as a learning aid to new incumbents.

6.1.3 Custody

The custody activity is concerned mainly with the arrangement and safe-keeping of stock items. In the inventory sections of the various municipalities studied, this is the task of the storekeeper. According to Mac Callam (1990 : interview) the efficient storage of goods should facilitate the following primary characteristics:

- easy identification of stock and its location in the stores section;
- ready accessibility of stores and materials to the point of custody;
- efficient utilisation of all available space;

- reduce the need for unnecessary handling of stocks; and
- provide easy access for personnel to inspect inventory levels and condition of stock.

Whilst the aforementioned aspects provide a basic guideline, consideration should in addition be given to (Lee & Dobler 1965 : 352):

- minimisation of material deterioration; and
- minimisation of pilferage.

In the South African municipalities studied, the inventory operations are based on both open and closed systems depending on the nature of the commodity.

In the City of Port Elizabeth stocks are maintained 'in-house' (closed system) as well as outside in open spaces (Taylor 1990 :letter). The 'in-house' stocks are generally items which must be protected from deterioration and pilferage (Pretorius 1990 : interview).

The 'in-house' items include stocks such as stationery, clothing, paints, general tools and equipment (Taylor 1990 : letter). The stocks maintained in open stock yards are pipes, electrical cables and building materials (Taylor 1990 : letter).

The aforementioned trend applies to other large municipalities such as Durban, Cape Town, Johannesburg and Pretoria.

The smaller municipalities also use the closed and open systems for custody of stores, but by virtue of their scale of operations are limited to a few. This obviously enhances the control over their stock.

A variety of equipment are used by the municipalities for the custody of stores. The following types of storage equipment are primarily in use:

- bins;
- open shelving;
- closed shelving;
- cabinets;
- racks; and
- stacking boxes.

In addition fork-lift trucks are also used to transport heavy items, for loading, offloading and stacking (Marshall 1990 : interview).

The loss of items in the inventory sections may be due to one or more of the following:

- theft;
- pilferage;
- deterioration of stocks; and
- clerical errors.

Whilst the latter two may be accepted as the normal consequence of inventory operations, the former two could be completely eliminated with improved control measures.

Whereas some municipalities such as Durban, Johannesburg, and Port Elizabeth readily admit stock losses, the City of Cape Town maintains that no losses in stocks have occurred (Marshall 1990 : interview).

The City of Johannesburg indicated that their stock losses are ± 1 percent per annum or to the value of R50,000 (Diffenthal 1990 : letter).

The City of Port Elizabeth reflected that losses constituted 0,05 percent per annum or to the value of R2 000.00, of the total inventory stock held by the City (Taylor 1990 : letter).

Some municipalities indicated that the information pertaining to losses was considered to be classified and therefore could not be divulged (Pretoria Municipality 1990 : letter).

Many senior inventory officials are of the view that it was impossible to eradicate theft, but that good security measures could reduce it to a minimum. Mac Callam (1990 : interview) suggests the following measures to ensure safety of stock :

- storekeepers should visually inspect the store at any time;
- valuable items should always be kept under lock and key;
- access to the stores section should be restricted to authorised personnel only;
- perimeter doors of the stores section should be kept locked;
- analyse the frequent shortages of a specific item and consider appropriate action to remedy situation; and
- at night all stores area should be illuminated by flood lighting.

The Stores Controller and Buyer of the City of Stanger states that the following control measures have been instituted in the custody function (1990 : letter) :

- restricted authorisation (to outside personnel);
- electric fencing along parameters of stores yard;
- restricted access to stores and yard;
- certified documentation for issues of stock; and
- vehicular restrictions.

Mac Callam (1990 : interview) states that, despite the nature of

the control measures instituted to protect the stores, in the final analysis, it is the inventory personnel who must stay continuously alert to all aspects of stores security as part of their daily duties.

Once goods are taken into safe-custody, the issuing function then follows.

6.1.4 Issuing

The issuing function is initiated once the user-department requests for an item from stock. Marshall (1990 : interview) states that the user-departments will evaluate the efficiency of the inventory section on the standard of service provided by them.

The City of Durban lists the following primary regulatory measure in respect of the issuing function in its Materials Management Operating Policies and Procedures Manual (1984 : 1 - 5) :

- Stock items will only be issued to user-departments upon receipt of a completed and authorised stock requisition form.

- Storekeepers will maintain a list of all authorised persons who may sign stock requisition forms, together with a copy of their specimen signatures and authority code.

- Wherever practical and economical refurbishment or salvaged stock should be issued prior to new stock.

The storekeeper is responsible for ensuring that all stock requisitions are complete and appropriately authorised. Furthermore, the items requsted must be picked out of stock and issued to the requisitioner. The storekeeper must ensure that each stock requisition is recorded, either manually or by computerisation (Materials Management Operating Policies and Procedure 1984 : 2 - 5).

The following basic procedural steps in the issuing function have been highlighted by Mr. Mac Callam in the City of Durban (1990 : interview):

a) Completed and authorised requisition is presented to storekeeper bearing the following details:

   - vote : reflects the account to which the cost is to be debited;
   - job number : indicates the task for which items are being requisitioned;
   - stock code : the stock or commodity number of the item

being requested; and

- authorised signatory : the individual who has signed the requisition form is in fact empowered to do so.

b) Check the quantity required. This must be reflected in both numbers and letters.

c) All alterations and amendments must be initialled by the authorising officer.

d) Storekeeper then proceeds to the relevant stores location; removes the quantity of stock required, and immediately records the stock number and the quantity issued in the appropriate columns of the requisition form.

e) Storekeeper then returns to the stores issue counter and double checks that the correct item and quantity has been issued.

f) Recipient's signature and name (in block letters) is obtained before goods are released.

g) Original and file copy of the requisition form is forwarded to the computer terminal operator for the capturing of the stock transaction.

All the South African municipalities studied provide for the issuing function. In a small municipality with a centralised inventory function better control is possible. In this regard numerous small municipalities, inter alia, Queensburgh, Verulam, Isipingo, Tongaat and Kloof, are better able to control the issuing function because the scale of operations are relatively small. The Stanger municipality has a step-by-step procedure established for the issuing function.

The larger municipalities of Durban and Pretoria have procedural manuals in regard to issuing of stock, the other municipalities have either poorly documented procedures or none at all. Consequently, despite claims of small, negligible losses, even these could be prevented with more stringent control of stock issues. Another problem is the attitude of complacency among staff who take everything for granted (Pieterse 1990 : interview). There is a need to rotate staff on a continuous basis so that they remain loyal, dedicated, enthusiastic and alert to their functions. This task ultimately rests with the storekeeper in charge of the issue function. Such a person must be dynamic and provide leadership and direction to the corps of inventory functionaries.

6.1.5 Inventory Control

An important objective of the inventory function is to make available a balanced flow of raw materials, components, tools, equipment and other commodities to the user-department on request to meet their operational requirements (Pretorius 1990 : interview).

The inventory control function is charged with aforementioned task by continuously verifying that receipts and issues are maintained in a manner that still provides adequate balances of stock for user-department needs (Britz 1990 : interview).

Numerous methods of inventory control can be used to ensure adequate stock is available. These are, inter alia, the cyclical ordering, fixed order quantity and the materials requirement planning systems. These systems have been explained in the earlier chapter, (see chapter 6 paragraph 4.5.7).

In nearly all the South African municipalities studied, it was found that the fixed order quantity system was most commonly used. This system is often referred to as the minimum-maximum inventory system. This method of inventory control determines the maximum and minimum limits of an item. Once an item attains a specific minimum quantity, the storekeeper then issues an order for replenishment of stock.

Keats (1988 : 6) aptly describes this as follows:

> "When any balance approaches, or falls below the indicated "minimum" stock a stock replenishment slip/order should be prepared and forwarded to the buying section".

The determination of replenishment of stock could be done either manually or by computer. The manual system entails the use of the 'Kardex System' which provides the description, quantity - maximum and minimum, as well as the stock code and unit of issue. If the system has been computerised, the computer can, by programmed instruction, provide a printout of all items which need to be replenished. The computer can be programmed to issue daily, weekly or monthly statements of stock replenishment items.

Larger municipalities such as Cape Town, Durban, Johannesburg, Port Elizabeth and Pretoria operate on both a manual and computer system. The manual system is the 'Kardex System', which provides a back-up to the computer system. This approach is encouraged as it provides a two-way check and also ensures continuity of operations if there is a break-down of the computer system.

Smaller municipalities by virtue of their size generally use the manual 'Kardex System' to control stock. In this category are, inter alia, municipalities of Queensburgh, Verulam and Kloof.

Mac Callam (1990 : interview) explains that stock verification is the process of physically counting, weighing or otherwise

measuring all items in stock and recording the result.

Mac Callam (1990 : interview) states that there are several other reasons for stock verification as well. In this respect stock verification may be used to (Mac Callam 1990 : interview) :

- verify the accuracy of stock records;
- support value of stock shown in the balance sheet by physical verification;
- disclose possibility of fraud, theft and loss; and
- reveal any weakness in the system of custody and control of stocks.

In the municipalities studied, bin cards are used extensively. The bin card is attached to bin or rack containing a particular stock item. It reflects information such as description of item, code number, unit of issue, quantities received and issued and the balance available. A separate card is used for each item of stock. When stock verification are done, a physical count of the items are compared to the balance available on the bin card. The discrepancy, (if any) that is, either a surplus or a deficiency, is reported to the storekeeper in charge.

Stock verifications may be carried on at different intervals, on a periodic, random or continuous basis. In South African

municipalities one or more of these methods are used.

Some municipalities have incorporated specific guidelines in regard to inventory control in their financial regulation.

In the City of Durban, the Financial Regulation (1990 : 37) specify the following in respect of reporting:

> " - that within one month of the termination of the quarters ending 30 September, 31 December, 31 March and 30 June, the Director, Materials Management Department shall submit to the Departmental Sub-Committee re Materials Management Oversight a report indicating:

(i) the goods (and their respective code numbers) checked during the preceding quarter;

(ii) the results of each check; and

(iii) the value of shortages, surpluses and breakages found to exist on comparison with records of goods".

Furthermore, at the end of each financial year the head of the inventory section must provide a certified schedule to the effect that (Financial Regulations 1990 : 37) :

> "- the schedule has been compared with the balances shown in the records of the Materials Management Department and except for items enumerated, agrees with such balances.
>
> - the items enumerated have been investigated and that the results and the action taken or required is as indicated;
>
> - during the year no purchases for stock replenishment have been made without the full observance of the procedure laid down in the system;
>
> - every item of stock has been physically checked at least once during the financial year concerned".

In the City of Port Elizabeth stocktaking is executed whenever an item is issued. In other words, if there is stock movement on a particular item, that item gets counted and thus verification of stock is done immediately.

In the City of Johannesburg, stocktaking is executed on a weekly basis (Van der Merwe 1990 : interview).

The City of Cape Town verifies stock on a daily issue basis and once every quarter a complete stocktaking is carried out (Marshall 1990 : interview).

The position at the smaller South African municipalities is the same in regard to stock verification.

The reporting of losses and the value of stock on hand is an important prerequisite for annual financial reporting by all South African municipalities.

The guidelines for control of stock are highlighted by the Institute of Municipal Treasurers and Accountants in a booklet called, Guidelines for Standardised Financial Regulations for Local Authorities (March 1987). This booklet provides in term of Section 14, Stores and Materials as follows:

- The Treasurer or the Head of Department shall be responsible for stores administration ensuring that meticulous records are maintained of all stock transactions.

- Unless special circumstances exist, no stock shall be in excess of normal quantities. Minimum and maximum stock levels shall be prescribed by the Treasurer.

- Stock may only be issued on presentation of an authorised requisition.

- Every Head of Department shall once in every financial year carry out a full stocktaking of all stores under his control and reports to the Treasurer the value, quantity and reasons for such discrepancies.

In keeping stocks to an acceptable level both in quantity and value, the economic order quantity model is used by most South African municipalities.

6.1.6 Economic Order Quantity Model

As reflected in chapter 6 paragraph 6.8, the economic order quantity model is used by the storekeeper to administer the inventory function in a manner which ensures that the total inventory costs are kept to a minimum. The model provides for the planned ordering of different stock items with emphasis on cost-effectiveness. In its most basic form the economic order quantity formula balances the costs of carrying inventory stocks with costs of replenishing inventory stocks (ordering costs).

In well established large and small municipalities this model is successfully used where (Mac Callam 1990 : interview):

- the total demand for stock over a particular period of time has been determined in advance;
- stock issues have been evenly distributed over the planning period;
- suppliers lead (delivery) times are known; and
- inventory carrying costs must be fairly stable for the planning period.

Mac Callam (1990 : interview) gives the following example illustrating the principles involved in applying the economic order quantity model:

- Annual use of Item X is 1200 units.
- Ordering costs is R2,00 per order.
- Unit cost for Item X is R20,00.
- Inventory carrying costs is 25 percent of the Rand invested in inventory.

The Economic Order Quantity formula used is:

$$\frac{2 \times \text{Annual Usage} \times \text{Cost of Order}}{\text{Unit Cost} \times \text{Inventory Carrying Cost}}$$

that is $\frac{2 \times 1200 \times 2}{20 \times 0,25}$

$= 31$ units.

Therefore, in view of the aforementioned calculation, 31 units of Item X which represent the economic order quantity, must be purchased. The aforementioned formula is used by the City of Durban (Mac Callam 1990 : interview).

According to Keats (1988 : 15) the economic order quantity model is only a guide. This is reiterated, by Mac Callam (1990 : interview) who further states that the use of the model within the municipal context must consider the following limitations of the formula:

- The various component costs of the formula are often difficult to calculate given the nature and scope of the inventory function.

- The quantity determined by the use of the formula is frequently not available in the supply market owing to products being packaged in fixed quantities. In these instances the economic order quantity must be adapted.

- The economic ordering quantity does not indicate how purchases should be timed.

- The formula cannot be easily adapted to sudden changes in stock demands by users. Consequently, suitable ordering quantities must always be predetermined recognising this limitation.

The economic order quantity model is used to determine the re-order quantity of stock in most South African municipalities.

6.1.7 Determination of Re-order Quantity

In all South African municipalities studied, the determination of re-order quantity depends inter alia on:

- demand of stock item;
- nature of stock; and
- storage facilities.

In most of these municipalities the demand factor is the most prominent reason which determines re-order quantities.

The majority of South African municipalities use the maximum and minimum inventory control system. Once the quantity of a stock item comes to the prescribed minimum level, that particular item is ordered. Within this context the economic order quantity model is often used to determine the quantity of stock which should be ordered.

This procedure may be done either manually or by use of computers (see discussion under Inventory Control paragraph 6.6).

In determination of re-order quantity an acceptable blend between demand and cost must be achieved.

6.1.8 Costing

In this regard Keats (1988 : 13) writes of the municipal experience as follows:

> "As the majority of stocks should turn over at least once a year, the generally favoured method of pricing of stock issues is average price i.e. when new stocks are accepted, the quantity and price thereof are added to the quantity on hand and the respective total value and the price averaged out.
>
> Stocks returned to stores should be credited at the existing average price at the time".

The aforementioned method is used by most South African municipalities. The 'on-cost' system was discussed under Financing (see chapter 7 paragraph 4).

6.1.9 Deletion of Stock Losses, Unserviceable, Obsolete and Redundant Items

A consequence of the inventory function is the fact that stock items may be lost through theft, deterioration and misplacement. Furthermore, stock items may often also become unserviceable, obsolete as well as redundant. In aforementioned cases, it is necessary for stock balances to be adjusted once the appropriate measures for deletion from the inventory record has been satisfied.

In all provincial ordinances of South Africa, specific measures have been specified for the disposal of movable assets. For example, Transvaal Local Government Ordinance 17 of 1939, provides in terms of Section 17 (18) as follows:

> "(a) The council may let, sell or in any other way alienate or dispose of movable asset".

This provision basically covers similar measures applied by other provinces as well.

Within the aforementioned context, South African municipalities at large, have provided measures in their financial regulations for the deletion of stock.

For example, the Financial Regulations (1989 : 37) of the City of Durban specifically provides for shortages, deletion of surpluses and breakages of stock items, as follows:

> "9.8 Treatment of Shortages, Surpluses and Breakages of goods held in Stores
>
> The Departmental Sub-Committee re Materials Management Oversight shall be authorised to approve the write off of any shortages or breakages or to take on charge any surpluses up to a value of R500 in each stock category in each quarter ending 30th September, 31st December, 31st March and 30th June subject to that committee being satisfied with the results of any reasonable investigation to determine the reasons for discrepancies; but shall report to the Management Committee for its consideration any discrepancies in each stock category in excess of the amount along with any recommendations considered necessary relative to the discrepancies".

The Financial Standing Orders of the City of Port Elizabeth provides, in Section 10, as follows:

> "Plant and equipment and other goods and materials shall be deemed to be redundant or obsolete on the authority of the relevant standing committee (of Council), which shall authorise the manner of disposal".

In terms of Section 12 of the Financial Standing Orders of the City of Port Elizabeth specific measures have been determined for the disposal of redundant items as follows:

> "Subject to the Local Authorities (Audit) Ordinance No. 17 of 1938, as amended, the amount and value of any surpluses or shortages in stock revealed in stock-taking shall be reported by the City Treasurer to the Policy and Resources Committee, together with the reasons for discrepancies. Where the stock is not under his control, the City Treasurer may require the responsible Head of Department to furnish him with the said reasons. Any adjustments thereafter must be authorised by the Council, save and except that the City Treasurer may authorise adjustments in stocks and losses not involving negligence or identifiable theft, provided favourable internal audit reports are presented in all cases".

The disposal of stores and equipment may only take place once authority is received from the municipal council, committee or officer authorised to do so.

Generally, obsolete and redundant items are disposed of by:

- public auction;

- public tender; and
- tariff sale.

The City of Durban provides the following procedures for the disposal of stock items (Management Operating Policies and Procedures Manual 1984 : 1-10):

(a) Material and plant returned to the Municipal Supplies Department as redundant, reusable materials or scrap materials, will be disposed of by one of the following methods:

- public auction;
- public tender;and
- tariff sale.

(b) Prior to conducting a public auction or tender, the Disposal Supervisor will prepare a schedule of all returned reusable items for review by the Assistant Controller of Supplies to determine the most profitable method of disposal.
The list will be prepared from receiving documents in the Reusable Materials file.

(c) Vehicles and plant/equipment will not be disposed of prior to receipt of:
- authority of disposal

- certificate to transfer ownership (vehicles only).

(d) Items which can not be economically delivered to the Disposal Section may be disposed of on-site.

(e) Reusable materials will be disposed of in the following priority:
   - return or resale to vendor who originally supplied the material.
   - public tender.
   - public auction or tariff sale.

Once the items have been disposed of the adjustment to the perpetual inventory record must be made to correct the quantity and value of stock.

Forms are indispensable in ensuring that inventory procedures are uniformly executed.

6.2 FORMS USED IN INVENTORY PROCEDURE

Forms are essential to perform the various procedural transactions in the inventory function. There are numerous forms used by South African municipalities; the following are considered most important.

6.2.1 Bin Cards : These are record cards attached to bins or racks and indicate, inter alia, description of commodity, stock code, issues, receipts and balance to date. Each stock item has a bin card. The bin card also reflects the level at which the item should be replenished and provides information for stock purposes, see annexure 18.

6.2.2 Good Received Note : This form is completed on receipt of goods into store. The receiving officer checks the item against the official order in regard to description, quality and quantity of the items before the delivery note or packing slip is signed and the goods and accepted. The storekeeper completes the goods received note on the basis of the signed delivery note. This form is completed by the inventory section to input and capture the stock on the computer. The following information is reflected on this form:

- date;
- order number;
- departments name;
- suppliers name;

- stock code;
- quantity; and
- unit value (price).

See annexure 19.

6.2.3 Requisition

This form must be submitted in triplicate by the requisitioning department for items from stock or to purchase. The document reflects, inter alia, the following information:

- name of requisitioning department;
- description of items;
- stock code;
- quantity;
- value;
- account to be debited;
- authorised signatory for requisition; and
- recipients signature.

See annexures 12, 13 and 14.

6.2.4 Stock Replenishment Order

This form is used by the storekeeper to inform the purchasing office that an item needs to be purchased to replenish stocks. This is normally prepared in duplicate with the original being sent to the purchasing office and the copy being retained by the inventory section.
See annexure 20.

6.2.5 Daily Tally Sheet

This document is used when stocks are delivered from the inventory section to user-departments within the municipality. This is the store-keeper's record of goods being handed to drivers for delivery and for which receipted (signed) carbon copies of the relative requisitions must be returned to the inventory section.
See annexure 21.

6.2.6 Return to Suppliers

This form authorises the storekeeper to account for stocks being returned to the supplier subsequent to the goods having being paid for.
See annexure 22.

6.2.7 Stock Transfers

These forms are completed in duplicate for movement of stock between stores within the municipality. It represents a issue by one and a receipt into another.
See annexure 23.

6.2.8 Notification of New Stock

This document is completed by the storekeeper when a new item is introduced into stock. The description of the item must be comprehensive as possible, but abbreviated for index purposes.
See annexure 24.

Generally,all municipalities in South Africa utilise the aforementioned forms with some variations in format. It is important that these records are systematically maintained and filed for quick and easy reference.

Once procedure have been determined, control measures must be instituted to ensure that the objectives of the inventory function are being achieved as effectively and efficiently as possible.

7 EXERCISING CONTROL

In the early part of this chapter the generic administrative processes of:policy-making, organising, financing, staffing and determining work procedures were discussed. Control, is the final process in the generic administrative link of activities. However, although it is last in the series, control is an important process which entails examination, evaluation and correction to ensure that the goals of the inventory function are being achieved both efficiently and effectively.

The primary question that must be asked is:

- how is the control process executed in the inventory function at South African municipalities?

The nature and scope of the inventory function at municipalities lends itself to the process of control in that it provides an institutionalised framework which can be examined, evaluated and corrected.

The municipal councils, in accordance with provincial ordinances, have determined specific policies for the execution of the inventory function and in the process to achieve specific goals.

Accordingly, policy documents, such as financial

regulations, provide a fundamental guideline which direct the activities constituting the inventory function. Many municipalities have produced policy manuals which provide direction and scope for the establishment and execution of the inventory function.

The organisational structures, hierarchial in nature, covering different organisational types, such as the centralised and decentralised systems, provide for the division of tasks and delegation of authority which are essential measures of control.

The financial component is a critical aspect which provides for the continuity of inventory activities. It embraces personnel remuneration, determines the nature of inventory facilities and the quality of goods and services provided to user-departments on a continuous basis.

The staffing activity ensures that the personnel employed in the inventory sections have the necessary knowledge, skills and attitudes to perform the various activities constituting the inventory function. The improvement of educational qualifications of inventory personnel and the professionalisation of the inventory function are important staffing requirements which must be met.

The determination of procedures gives direction and method to a myraid of inventory transactions that must be carried out by the staff to ensure that the goals of the inventory function are achieved. The compilation of well-written procedure manuals provide for uniformity in execution of the numerous inventory transactions as well as serving as a training aid for new incumbents.

Control is a process which evaluates how cost-effectively the objectives of the inventory function are being achieved.

An important method of ascertaining cost-effectiveness is by determining standards or yardsticks by which the various inventory activities could be measured.

Internal audit is an important method of internal control. In a statement to the Council of the City of Port Elizabeth, the internal audit report states the following in regard to the suitability of the stores record (1989 : letter) :

> "The Purchasing and Supplies Division maintains a sophisticated computerised stock ledger, supported by manual stock records, to control and account for all stock for which it is responsible".

Another pertinent comment in respect of the effective control of sub-stores at the City reads as follows (1989 :

letter):

> "A preliminary check of stocks held in the sub-stores not under the control of Purchasing and Supplies Division has revealed that effective control over such stores appears to be lacking. It is considered a matter of priority that the treatment of such stores be reviewed."

All the major municipal authorities have internal audit sections which perform the internal checking activity. However, the magnitude of the various transactions limits the internal audit section to performing 'sample' checking rather than 'comprehensive' checking.

Besides, internal auditing procedures, external auditing also provides a basis for control. The auditing of all records is a prerequisite in terms of provincial legislations.For example, Natal Local Government Ordinance 25 of 1974, provides in terms of Section 179 as follows:

> "The Provincial Auditor shall prepare and submit annually to the Administrator a signed report on the financial aspects of the work of the local authorities, which the Administrator shall present to the Provincial Council."

In a similar vein, Requirements of Local Authorities (Audit) Ordinance 17 of 1938, provides for the auditing of records of municipal authorities in the Transvaal.

The present arrangement in this regard is that auditing is

undertaken by the Auditor-General or by auditors registered in terms of the Accountants'and Auditors' Act 51 of 1951(Cloete 1989 : 130).The latter aspect is also provided for in provincial legislation, for example, Section 176(1) of the Natal Ordinance 25 of 1974 provides accordingly.

Accordingly, municipal authorities in the other provinces must provide financial reports of all activities to the municipal council after having such reports and statements audited. All discrepancies must be explained.

The Black municipal authorities are subject to auditing practices in terms of the Black Local Authorities Act 102 of 1982 and currently this is undertaken by the Auditor-General or by auditors registered in terms of the Accountants' and Auditors Act 51 of 1951 (Cloete 1989 : 130).

Finally, accountability as a democratic principle requires each inventory personnel, municipal official and political office-bearer to publicly account for every action or inaction. It is then left to the municipal electorate to either accept or reject such actions.

All municipal councils must submit statements and reports of all municipal activities to the executive committee of their provinces, which in turn provides such information to the central government. In the South African unitary system

control is inherent in the fact the municipal authorities are subject to the provincial authorities, which are in turn answerable to the central authority.

8 SUMMARY

It has been established that the inventory function is essential for the continued functioning of a municipal authority and the attainment of municipal welfare.

The inventory function is an integrated part of the field of materials administration. In turn materials administration forms part of municipal financial administration. It is accepted that no activity can be undertaken and no goal achieved without finances.

The inventory function is necessary as it provides a continuous service to user-departments by supplying them with stores and equipment necessary to carry out the functional and related activities expected of a municipality.

Legislative measures at provincial level set out fundamental

goals which municipal authorities must achieve. Within an institutionalised frame of reference, municipal administration sets out to achieve the goal of municipal welfare. It is within this context that the inventory function comes to life. It provides the necessary goods and services to the user-departments within the municipality to attain the primary goal of municipal welfare.

Withn regard to the inventory function the municipal council prescribes specific policies in their financial regulations. Furthermore, specific policy manuals have been written by a few municipalities in regard to the inventory function. Some municipalities work without proper written guidelines with the results that administration of the inventory function is less than satisfactory.

The municipal inventory structure must be a balanced one which considers all the components of organising. The inventory function, is based on a centralised, decentralised or a combination of both systems. The centralised system is often considered to be the best. However, this system can only be effective in a small municipality. Large municipalities, operate on a both centralised as well as the centralised/decentralised systems. It is important to note that even in a decentralised system it is still possible to centralise control. In practice many large municipalities, such as Johannesburg and Pretoria, follow this approach. A

totally decentralised system poses more problems for instituting control measures. Such an approach does not provide for co-ordinated effort and often results in the wastage of funds.

The financing of inventory operations relies heavily on the availability of sufficient funds to ensure the provision of stores and equipment on a continued basis to user-departments. A reduction in capital and operational budgets directly affects the scope of operations of the inventory sections of the municipality. It is important to note that there are various approaches used to link the inventory function to the financing function of municipalities.

Some municipalities have linked the inventory function directly to the financing function. In other words, only if funds are available on the approved budget will the inventory section provide the necessary stores and equipment required by the user-department. A municipality may link these two systems by computerisation.

Another approach is to supply the stores from the inventory section with an 'on-cost' charge. This appears to be the most popular system used but involves extensive accounting procedures and transactions. Many municipalities, especially

the large cities, have costing divisions.

It is however, a necessity for all municipalities to devise an inventory budget which will provide a basic guideline in regard to both costs of operation as well as the expected nature and scope of activities for a specific financial year.

The quality of staff employed to administer the inventory function is crucial to the achievement of its goal as efficiently and effectively as possible. Many staff employed by the inventory sections have minimum qualifications of either a junior certificate (standard eight) or a senior certificate (standard ten). Often inventory staff have come on transfer from the treasury department with no specific experience of the inventory function. Municipalities, at large, have not emphasised the need for specific occupational qualifications of its inventory personnel. There is a need for municipalities to provide incentives to its members to obtain job related qualifications. Few members belong to professional associations.

Procedures provide a uniform method of attaining inventory objectives. Whilst some municipalities have well written procedure manuals, numerous others do not. There are still other municipalities that use fragmented and poorly

formulated documents as procedural references. The need for all municipalities to formulate uniform procedures and to compile written manuals cannot be overemphasised. There are specific primary activities such as receiving, custody, issuing and deletions which constitute the inventory function. All procedures in this regard should be clearly formulated and documented in a manual. The manual must not be a restrictive document, but rather a guide to uniform execution of procedures. It must be open to changes and adaptations if it is to be effective.

The inventory control function uses different approaches to replenish stock, the most popular being the fixed order quantity system which is used by most municipalities. Within this context the re-order quantity is determined by using the economic order quantity model. This is being used primarily by well established municipalities, others are yet to follow in this regard.

Whereas some small municipalities operate only a manual system, the large municipalities operate on both manual and computer system. The computer system serves many functions, but primarily it provides information required within a short period of time, in regard to stock balances, values, and quantities available. The manual "Kardex system" is

used as a back-up system in the event of computer-down time. To rely solely on computers is not the safest and surest method because of the possibility of break-downs. The value and importance of the role of the computer in the inventory function is growing steadily.

The control of the inventory function relates directly to its viability and object achievement. It is important to question the extent to which the inventory function is operating cost-effectively and how efficiently and effectively it is achieving its inventory goals. The use of the generic administrative processes of policy making, organising, financing, determining work procedures and exercising control in itself provide a visible framework for the execution of the control function. Within this context there are a number of control measures, both within and outside the inventory section. An important requirement is that municipalities evaluate the effectiveness of internal control measures and reporting. If this is effectively executed it would provide a sound basis for inventory administration. The role of external control is simplified if internal control is set on a sound footing. The report of external auditors and the submission of reports by municipal councils to the provincial authorities are external measures to ensure control. In the final analysis, each and every inventory functionary, municipal official and municipal councillor must be able to account for his actions

publicly. The ultimate end of these actions are decided by the electorate of each municipality. They either accept the services rendered by the municipal council or reject it. The municipal electorate may either support a municipal council or actively campaign for its replacement.

CHAPTER EIGHT

CONCLUSIONS AND RECOMMENDATIONS

1 CONCLUSIONS

A municipal authority is established primarily to promote the general welfare of society within the municipal environment and in so doing is responsible for the greatest measure of spiritual and material well-being of its citizens. Public administration, as an activity is concerned with the promotion of human welfare and interests. Therefore, municipal authorities, as one category of public institutions are responsible for government and administration within their municipal jurisdiction. This field of endeavour, which is appropriately designated as municipal administration, is a specialised branch of public administration. Municipal administration, therefore, utilises similar infrastructures, processes, activities, attitudes, skills and knowledge as public administration to improve the quality of life of the municipal citizenry. Consequently, like other public institutions, municipal institutions may only achieve their goals if they prescribe to the fundamental norms of public administration.

Municipal authorities are established by law for the purposes of providing specific goods and services for the municipal community to achieve community welfare of an acceptable degree. Municipal administration is a comprehensive and complex field of activity

comprising of several sub-fields of endeavour, such as, personnel and financial administration. Municipal financial administration plays an important role in municipal administration. Municipalities must provide goods and render services with a great deal of circumspection because numerous demands are made on their limited resources. Municipal authorities are heavily reliant on the municipal citizenry to provide a large portion of their income. A vital tool used in the process of sound municipal financial administration is the municipal budget.

Within the scope of municipal financial administration falls the activity of materials administration. The activity of materials administration comprises of three specific processes, namely :

- the generic administrative processes;
- the functional processes; and
- the auxiliary processes.

The generic administrative processes are fundamental to the efficient and effective execution of the functional and auxiliary activities. The generic administrative processes are the enabling functions which determine the nature and scope of the functional and auxiliary processes.

The functional processes of materials administration comprises of:

- the purchasing function; and
- the inventory function.

Within the context of materials administration, the municipal budget plays a fundamental role as it provides the funds for the initiation and execution of materials administration. Essential to the execution of the generic administrative processes and functional processes are the auxiliary processes, comprising of, inter alia, public opinion surveys, electronic data processing and research. These neutral activities provide valuable support to functionaries in the performance of their duties.

Municipal officials must possess the necessary knowledge, skills and attitudes to enable a high degree of proficiency in their work. Also of fundamental importance is the intra-generic phenomena, such as, communication, planning and decision-making which are elements necessary for direction and goal achievement. With increasing technology, several aids, such as computers and word processors assist functionaries in the expeditious execution of their tasks.

The municipal budget provides the funds for the execution of the purchasing and inventory functions. Without the necessary finances purchases for direct consumption and for stock purposes will not be possible.

The budgeting process of South African municipal authorities are subject to overall control by central government, which through the Department of Finance, provides guidelines for expenditure. This global control measure ensures that the ratepayer is not unnecessarily burdened with increases in the cost of goods and services provided by the municipality. Moreover, this form of control ensures that the goals of the central government and the

municipal authority concur to an appreciable degree.

In the budgeting process the major South African municipalities, such as Cape Town, Durban, Johannesburg, Port Elizabeth and Pretoria prescribe to the traditional line-item system with a priority based component being used for determination of capital projects.

The line-item system serves to highlight the inputs without any appreciable view of what is being achieved. The performance budgeting system identifies the relationship between inputs and outputs but does not guarantee efficiency and effectiveness. The budgeting by objectives system, in the main, relates to the achievement of programmes and goals and their alternatives, but is considered intricate and time-consuming to monitor. The zero-base budgeting system principally stresses the importance of justifying each programme anew without reference to previous programmes and appropriations.

With increasing demands and limited resources municipal officials are unanimous that a serious review of their budgeting systems are necessary. In this regard, a bias towards a more zero-base approach is envisaged.

The municipal budget sets out the operational and capital projects which must be executed to achieve the goals of the municipality. In this regard, equipment, plants and other goods and services must be acquired. It is, therefore, incumbent on functionaries responsible for materials administration to render this service as cost effectively as possible. Purchases and

issues from stock can only be made if provisions have been made on the budget. Where no provisions are made, prior approval of the city treasurer must be sought before the goods or services are provided. A centralised budget control is essential for better utilisation and control of financial resources. In South Africa the degree of centralised budgetary control varies from municipality to municipality.

The purchasing function is fundamental to all other activities within the municipality as it provides the necessary supplies and services for its continuity. The purchasing office is a service department which aims at providing the essential goods and services at reasonable costs. The purchasing function of municipalities are established in terms of specific legislation. Since all municipalities are subject to their respective provincial authorities, the provincial ordinances set out the legislative basis for the initiation, establishment and continuity of the municipal purchasing function within the jurisdiction of each province. However, there is no uniformity in the relevant sections of the ordinances pertaining to the purchasing function amongst municipalities in the four provinces. For example, there are different financial limits placed on the value of goods and services purchased on tenders and quotations. Consequently, this results in marked differences in the practices of the purchasing function from municipality to municipality.

Within the general framework of provincial legislation the municipal councils determine financial regulations. Since the administration of the purchasing function is part of materials administration, which is a sub-field of municipal financial

administration, provisions are also made for its implementation. The financial regulations governing the purchasing function differ from municipality to municipality in regard to policies and procedures. Whilst some municipal authorities have a policy and procedure manual, there are numerous others which have not formulated one.

The need for policy and procedure manuals cannot be overemphasised. These must be clearly set out, unambiguously worded and documented for use.

There are various organisational systems used in the purchasing function. These vary from the centralised, decentralised and a combination of these systems. Most municipalities prefer the centralised purchasing system as it is considered to be effective and ensures a greater measure of control. However, in practice most municipalities use the combination of the centralised/ decentralised system which includes the advantages and disadvantages of both systems.

Municipal purchasing officers have generally responded positively to the establishment of a consortium for co-operative municipal purchasing. Such a system is prevalent in the United States of America and the United Kingdom. In effect large volume co-operative purchasing will be of immense benefit to South African municipal authorities. The system can be instituted on a national and regional basis.

The purchasing function cannot be executed without finances. It can only be initiated and performed once money is made available on the municipal budget. Whilst the line-item system is the widely used budgeting system an emphasis towards zero-base system is being favoured. Ideally, an integrated budgeting and purchasing system is envisaged to ensure appropriate checks and balances.

The hallmark of an efficient and effective purchasing office is the calibre of personnel employed to execute the purchasing function. To ensure proper direction and control the purchasing functionaries must possess the proper knowledge, skills and attitudes. Furthermore, these officers should possess the relevant qualifications such as a Diploma in Purchasing and Stores Management offered at many technikons in South Africa. In the South African municipalities studied, few purchasing functionaries had relevant qualifications. Many more come to the purchasing office from the treasury department without appropriate experience. Numerous personnel were not members of professional institutes either locally or overseas. There appears to be a serious neglect on the impact of the purchasing function and its functionaries in the municipal environment. The importance of the purchasing office as a high profile department has not been recognised by the municipal authorities. This should be remedied by giving due recognition to the valuable contribution made by the purchasing office within the municipality.

The determination of work procedures ensures that the various activities constituting the purchasing function are executed to

achieve the goal of the purchasing function. Purchasing methods used by South African municipalities can be grouped into the following :

- purchases on public tender; and
- purchases on quotations.

The tender system is the most extensive system used by municipalities and is widely regarded by purchasing officers as the most appropriate method for municipal purchasing. The value limits for which tenders are invited differ from province to province because differentiated provincial ordinances govern municipal authorities in each province. There should be uniformity in legislation to provide equally for all municipal authorities. All restrictive measures in the application of the tender system should be reviewed to allow for more flexibility in its application. The municipal council should, if necessary, have the authority to waive aside the invitation of tenders under special circumstances.

The other types of purchasing methods used are variations of the quotation system.

In order to ensure that there is uniformity and goal orientation amongst personnel executing the purchasing function, there is an increasing need to set out procedures in a manual for easy reference. With the exception of the cities of Durban and Port Elizabeth, numerous municipalities had poorly formulated procedure manuals or none at all.

Control is exercised both internally and externally. Internally, the generic administrative process play a vital role in enabling and directing the purchasing function and in this way also ensuring a controlling effect. Externally, control is exercised by the auditors, submission of annual reports, by ascertaining how effectively the municipal authority is providing goods and services and whether the municipal citizenry are satisfied with the municipal council and its functioning.

Control of the purchasing function falls under the jurisdiction of the city treasurer, as the materials administration department falls under the municipal finance department. Many senior purchasing personnel are of the view that the purchasing office should be independent and exercise a greater authority in the execution of its function. This may be possible by making the purchasing office report directly to the town clerk, or a special committee of council. This would then place the purchasing office on equal status with the other municipal departments, thereby, providing sufficient authority and power to conduct its activities on an even basis, and thus making purchasing decisions mandatory on all user-departments.

The inventory function is an integrated component of materials administration. It is a necessary activity as it provides a continuous service to user-departments by supplying them with stores and equipment required to carry out the functional and related activities expected of municipal authorities to ensure satisfaction of the citizenry.

The inventory function aims at receiving, issuing and monitoring of all stores and equipment purchased by the municipality as effectively and efficiently as possible. The importance of the inventory function may be viewed in terms of the financial investment it represents. In the execution of the inventory function the generic administrative processes of policy-making, financing, staffing, organising, determining work procedures and exercising control together with the other functional and auxiliary processes, are necessary for optimum efficiency and effectiveness of operation.

Provincial ordinances in South Africa make mention of the purchasing function whilst no section of the ordinances specifically addresses the inventory function. Since the inventory function is dependent on the purchasing function, it follows that adequate provisions should also be made for the receipt, custody, issue and disposal of all stock items. South African municipalities make provision for the administration of the inventory function in the financial regulations which is approved by the municipal council.

The nature and scope of these regulations on the inventory function vary from municipality to municipality. There is need for uniformity in this regard.

A policy manual which details the policy objectives of the inventory function is maintained by very few municipalities in South Africa. The municipalities of Durban and Stanger have detailed policy manuals, whilst others have very sketchy manuals or none at all. The primary objective of the inventory function

is to ensure that there is a continuous provision of standard goods and services to user-departments supplied both timeously and at reasonable costs. A policy manual which is well documented clearly serves the interest of the inventory function and materials administration. It provides personnel with clear guidelines as to nature and scope of the inventory function.

Any organisational structure for the inventory function must be a balanced one considering all the necessary elements of organising. In South African municipalities the inventory structure is based on a centralised, decentralised or a combination of these systems. Although the centralised system is the best, it is appropriately suited to small municipalities. Larger municipalities choose between the totally decentralised system or the combination centralised/decentralised system. The type of organisational structure determines the extent to which control measures can be instituted. The most appropriate system is the centralised/decentralised system, which provides satellite stores, but ensures that all inventory transactions are centralised. In this way control is centralised. The decentralised system without central control often leads to abuse by the user-departments. It is difficult to co-ordinate and often results in stock-piling which is unwarranted as it ties up money.

The financing of the inventory function is dependent on the municipal budget. A reduction in capital and operational budgets directly affects the scope of operations of the inventory function. Various approaches are used to link the financing function to the inventory function at municipalities. The direct

approach ensures that funds are approved on the municipal budget for specific goods and services which are then provided by the inventory section.

The most popular system is the 'on-cost' system which is used by the majority of municipalities. This system provides a 'cost' for all items issued to user-department. The 'on-cost' is determined at the beginning of the financial year and represents a specific percentage for different categories of items. The system involves extensive accounting procedures and transactions. Large cities such as Durban, Cape Town, Johannesburg, Port Elizabeth and Pretoria have established costing divisions to effectively handle this system of costing.

An important feature of financing of the inventory function should be an inventory budget which will provide a basic guideline to both costs of operation as well the expected nature and scope of the inventory function for the ensuing financial year.

The calibre of inventory personnel is central to the efficient and effective execution of the inventory function. Many of the inventory functionaries possess minimum qualifications of either a junior certificate (standard eight) or a senior certificate (standard ten). Many of the inventory staff have treasury experience having come on transfer to the inventory section. It is necessary to emphasise the importance of qualifications and training in the inventory field. Technikons in South African offer diplomas in inventory (stores) administration as well as run special courses of a limited duration. Professionalism of

the inventory functionaries must be encouraged and supported by the municipal authorities. Many municipalities use different types of assessment to evaluate the capability of the inventory functionary. An appropriate system to evaluate inventory personnel is yet to be devised in South African municipalities. Such a system would ensure uniformity in the evaluation process.

Procedures used must be uniform to ensure efficient and effective operation of the inventory function. The inventory function comprises of specific activities, namely, receiving, custody, issuing, and deletions. All procedures in this regard should be clearly formulated. Whilst some municipalities, have clearly documented procedure manuals, others do not. There are still others which use fragmented and poorly formulated documents as procedural references for the inventory function. The need for a well-balanced unambiguously written procedure manual is imperative to the inventory function.

The inventory control function uses different approaches to replenish stock. The most popular method used by South African municipalities is the maximum and minimum inventory system. Within this context the re-order quality of stock is determined by the economic order quantity model. Much of this information is easily obtained through computer systems. Smaller municipalities use the manual 'Kardex System' whilst major municipalities often use both the manual as well as the computer system. The latter method ensures continuity of inventory operations even if there is a break-down of the computer system.

Control is an important evaluatory process in the inventory function. It is important to note to what extent the inventory function is operating cost - effectively and how efficiently it is achieving its inventory goals. The generic administrative approach comprising the six generic administrative processes of, policy-making, organising, financing, staffing, determining work procedures and exercising control provide an institutionalised framework for the execution of the control function. Within this context exists a number of control measures both within and outside the inventory section. Within the inventory section, internal control measures such as stocktaking and reporting should be set on a firm footing. The internal audit division should also play a leading role in this regard. Cognisance must be taken of the fact that external control is simplified if internal control measures are firmly and soundly established. External auditors annually carry out an audit of the inventory function and submit reports on their findings to the municipal council.

In turn the municipal council must report to the provincial authorities and to Parliament. In the final analysis, it is incumbent on all political office-bearers and public officials to defend their actions publicly. Ultimately, the acceptance or rejection of the municipal council and its actions are in the hands of the municipal electorate.

2 RECOMMENDATIONS

The following recommendations are advanced for consideration:

2.1 Impact of Materials Administration

In this regard municipal councils and high-ranking officials must give due regard to the importance of materials administration as one of the activities which is critical to the achievement of municipal goals by :

(i) evaluating the contributions made by these activities to the achievement of municipal goals; and

(ii) taking appropriate steps to ensure that the activities and functionaries are goal orientated.

2.2 Impact of Budgeting

The introduction of the system of zero-base budgeting which has distinct advantages over the other budgeting systems and which facilitates the maximum utilisation of limited resources in the following ways, namely :

- starts anew and requires justification for each request;
- re-examines priorities and considers alternatives at all levels of operation;
- identifies all activities and programmes which have cost benefit implications;

- involves personnel at all levels of activity who are required to carefully consider their priorities and critically appraise existing services with different alternatives, their costs and consequences;
- arranges and ranks priorities so that allocations are made according to needs; and
- serves as a projection document which re-assesses and re-evaluates long and short term considerations.

2.3 Purchasing Function

In this regard cognisance must be taken of the following pertinent issues :

2.3.1 Legislative Measures

There should be uniformity in legislation applicable to the purchasing function at South African municipalities. A study of purchasing practices should be undertaken by the Co-ordinating Committee on Local Government with the intention of establishing uniform and comprehensive legislation on all aspects of the municipal purchasing function.

2.3.2 Policy Directives

These should be clearly formulated and documented in policy manuals emphasising, inter alia, the following :

- defining purchasing authority and policies;

- clarifying and improving relationships with other functions;
- standardising and communicating approved practices;
- promoting supplier understanding and co-operation;
- providing standards for evaluating performance; and
- elevating and improving the purchasing function on a continued basis.

2.3.3 Organising

Organisational structures for the purchasing function should be centralised so that the purchasing office serves as the only official purchasing unit by :

- selecting, appointing and developing specialist purchasing officers in the fields of, inter alia, maintenance, stationery, technical, building, electrical and mechanical supplies and equipment;
- ensuring that the purchasing and negotiating power of the municipality is increased by combined large volume purchases of the various user-departments;
- eliminating duplication and introducing uniform purchasing procedures;
- formulating clearly and concisely the objectives of the purchasing function;
- re-distributing of the purchasing authority to different levels of seniority ranking in the organisational structure of the municipality to enhance and exercise effective control measures.

2.3.4 Financing

A review of the financing process in light of the zero-base budgeting system by :

- determining a process of evaluation and prioritisation of supplies services and equipment;
- linking the budgeting system with the purchasing system to ensure that all purchases are subject to availability of funds on the approved budget.
- emphasising a method of centralised budgetary control to monitor all expenditure by inter alia instituting the following steps :
- computerising the budgeting system;
- centralising the point of budget control; and
- ensuring that all expenditure documents are forwarded through the central point for scrutiny before any financial commitment or confirmation by the user-department.

2.3.5 Staffing

The municipal council must recognise the importance of purchasing personnel and their valued contribution to the municipal purchasing function by :

- promoting the professional status of purchasing personnel;
- providing incentives to all purchasing personnel to obtain recognised qualifications in purchasing;

- encouraging personnel to become members of recognised professional purchasing institutions;
- encouraging personnel to uphold the highest ethical standards in the execution of the purchasing function;
- reviewing personnel remuneration and conditions of service of the purchasing personnel to encourage and promote a highly efficient and effective purchasing team.

2.3.6 Determining Work Procedures

The municipal council must ensure that the implementation of work procedures in the purchasing function contributes effectively and efficiently to the purchasing goals by :

- ensuring uniform purchasing procedures to enhance communication and co-ordination in the purchasing function;
- reviewing purchasing procedures on a continued basis to ensure their relevance within the dynamic purchasing environment;
- setting out all procedures unambiguously in a procedure manual to facilitate the purchase function;
- educating personnel in the user-departments by way of regular meetings and seminars between the purchasing office and user-departments; and
- ensuring that the responsibility for performing each individual step of the purchasing procedure is clearly defined for expeditious execution of the purchasing function.

2.3.7 Exercising Control

Control as an integral process of the purchasing function must ascertain whether the purchasing function is achieving its goals efficiently and effectively by :

- evaluating, reviewing and amending the implementation of the six generic administrative processes of the purchasing function namely :

  * policy-making;
  * organising;
  * financing;
  * staffing;
  * determining work procedures; and
  * exercising control

  to ensure that these processes are optimumly contributing to the attainment of the purchasing goals.

- establishing a system for evaluating the total purchasing effort against a predetermined criteria;
- establishing a system for evaluating supplier performance by rating vendors on the manner in which they complete purchase orders and contracts;
- continually evaluating and implementing changes in the following primary areas of the purchasing function by :

  * finding and developing competent suppliers;
  * securing purchase requirements as the lowest

ultimate price without sacrificing quality;

* standardising on common items;
* maintaining adequate quality standards; and
* achieving harmonious, productive working relationships with other user-departments within the municipality;

- accomplishing the purchasing objectives at the lowest level of operational costs;
- undertaking purchasing research so that the purchasing officer may cope successfully with future materials uncertainties and the demands for greater purchasing efficiency; and
- ensuring that all purchasing personnel abide by the ethical and normative guidelines of public administration.

2.4 Inventory Function

To improve the overall efficiency and effectiveness of the inventory function consideration should be given to the following:

2.4.1 Legislative Measures

Specific legislative measures should be clearly formulated focusing on the inventory function at the municipal level. In this regard a survey of inventory practices of South African municipalities should be undertaken by the Co-

ordinating Committee on Local Government with the purpose of establishing uniform and comprehensive legislation on all aspects of the municipal inventory function.

2.4.2 Policy Directives

Policy directives in regard to the inventory function must be clearly and unambiguously set out in policy manuals focusing on, inter alia, the following :

- defining inventory authority and policies;
- clarifying and improving relationship with other functions;
- standardising and communicating approved practices;
- promoting user-understanding and co-operation;
- providing standards for evaluating performance; and
- elevating and improving the inventory function on an on-going basis.

2.4.3 Organising

Any organisational system used to perform the purchasing function must be based on the components of sound organising, inter alia :

- division of work;
- delegation of authority;
- co-ordination;
- clear channels of communication; and

- control measures.

Organisational structures should either be centralised or a combination of the centralised/decentralised system.

In regard to the above recommendation the size and extent of the municipal operation should be taken into consideration. Small municipalities upto a predetermined grade may effectively operate on a centralised system. Larger municipalities should utilise the centralised/decentralised system.

Both organisational systems must emphasise centralised control which will ensure that all inventory transactions are channelled through a specific monitoring and controlling point.

2.4.4 Financing

The municipal budget plays an important role in the financing of the inventory function. A review of the financing process in light of the zero-base budgeting is necessary to :

- determine and implement a process of evaluation and prioritisation of supplies and equipment which should be purchased and maintained in stock;
- link the budgeting system to the inventory system to ensure that all issues of stock are subject to the availability of funds on the approved budget.

- emphasise the implementation of an inventory budgeting system which provides for the planned utilisation of funds for stock over a specified period of time and which will serve to :

  * reduce the costs of capital invested in stock;
  * lower storage and handling costs;
  * reduce insurance costs (inventories) taxes (for buildings);
  * obtain an estimate of the demand for various stocks and their costs; and
  * maintain ideal stock levels for user-department.

2.4.5 Staffing

The municipal council must take cognisance of the important role the inventory functionaries play within the municipal environment by :

- promoting the professional status of the inventory personnel;
- providing incentives to inventory personnel to obtain recognised qualifications in the inventory function;
- encouraging personnel to become members of recognised professional inventory institutions;
- encouraging personnel to uphold and follow an ethical code of conduct in the execution of the inventory function; and
- reviewing the remuneration and conditions of service package of the inventory functionaries so that well-

qualified personnel are attracted to this specialised field of activity.

2.4.6 Determining Work Procedures

In this regard the municipal council should ensure that the implementation of work procedures contributes efficiently and effectively to the achievement of the goals of the inventory function by :

- establishing uniform inventory procedures to enhance communication and co-ordination in the inventory function;
- reviewing inventory procedures on a continued basis to ascertain their relevance within the changing inventory environment;
- setting all inventory procedures unambiguously in a procedure manual to facilitate the smooth execution of the inventory function;
- educating personnel in the user-departments by way of regular meetings and seminars between the inventory section and user-departments;
- ensuring that the responsibility for performing each individual step of the inventory procedure is clearly delineated for the efficient and effective execution of the inventory function; and
- formulating and distributing an inventory catalogue to all user-departments so that it :

* acts as a source of information on various stock items available in the inventory section and this serves as a communication mode between various departments within the municipality;
* facilitates the selection of suitable stores and spares and other materials;
* serves as an aid in selecting alternative stores, spares and materials by cross indexing stock items that are interchangeable or can be used as substitutes; and
* achieve more reliable control inventories by reducing or eliminating the duplication of stock records.

2.4.7 Exercising Control

Control as an integral process of the inventory function must ascertain whether the inventory goals are being achieved effectively and efficiently by :

- evaluating, review and amending the implementation of the six generic administrative processes of the inventory function, namely :

  * policy-making;
  * organising;
  * financing;
  * staffing;
  * determining work procedures; and
  * exercising control;

to ensure that these processes are optimumly contributing to the achievement of the inventory goals.

- establishing a system for evaluating the total inventory effort against a predetermined criteria;
- continually evaluating and implementing changes in the following primary areas of the inventory function by :

  * ensuring an uninterrupted flow of stores and equipment to the municipal user-departments;
  * maintaining of adequate quality standards in the inventory function;
  * achieving the inventory objectives at the lowest level of operational costs;
  * furthering good relations with user-department within the municipal environment and with supplies outside;
  * undertaking inventory research so that the inventory section may cope with future materials uncertainties and the demands for greater inventory efficiency; and

- ensuring that the inventory functionaries prescribe to and abide by a normative code of conduct.

2.5 Municipal Exchange Programme

Establishing a staff exchange programme among municipalities to :

- provide assistance, knowledge and skills;
- advise and improve existing work procedures;

- strengthen inter-municipality and inter-departmental understanding and co-operation;
- achieve municipal welfare and, thereby, comprehensively and collectively contributing to national welfare.

2.6 Co-operative Municipal Purchasing

The establishment of a co-operative purchasing consortium for municipalities both on a regional and national basis to :

- enable large volume purchases thereby achieving quantity discounts and greater savings;
- provide purchasing expertise by hiring professional purchasing officers to administer the purchasing programmes, and
- provide municipal authorities with procedure and resources to handle short and long term planning and scheduling of goods and services.

The implementation of these recommendations require the co-operation and consideration of all user-departments within the municipalities. Such co-operation and consideration could be improved by, inter alia :

(i) educating the personnel of user-departments and high ranking functionaries of other departments within the municipality on the necessity for adherence to procedures, rules and regulations;

(ii) establishing a committee of inter-departmental and materials administration functionaries to resolve areas of conflict and enhance co-operation;

(iii) requiring all functionaries involved with the execution of the functions constituting materials administration to abide by a prescribed code of conduct so that they :

(a) work in the interests of the municipality and not seek personal advantage;

(b) are trustworthy and do not divulge information of a confidential nature for personal gain that may be to the detriment of the municipality;

(c) execute their functions and tasks according to the rules and regulations laid down by the municipal council; and

(d) serve the municipality and its purpose with confidence, sincerity and to the best of their ability.

The aforementioned recommendations should be viewed as a strategy which reflects the ideal or ultimate goal to enable the activity of materials administration to be executed with due regard to the effective and efficient performance of the generic administrative processes of :

- policy-making;
- organising;
- financing;
- staffing;
- determining work procedures; and

- exercising control

as well as the functional processes, the auxiliary processes and the normative factors of public administration.

The initiation, development and implementation of these recommendations will undoubtedly serve the interests of all municipalities in South Africa.

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2.5 INTERVIEWS

2.5.1 CENTRAL AUTHORITIES

GREEFF GP, Deputy Director : State Tender Board and Procurement Administration, Department of State Expenditure.

NAIDOO SC, Deputy Director : Supplies Division, Administration : House of Delegates.

REDDY SD, Chief Provisioning Officer : Supplies Division, Administration : House of Delegates.

2.5.2 PROVINCIAL AUTHORITIES

NAIDOO R, Senior Provisioning Officer : Roads Department, Natal Provincial Administration.

WIRTH G, Secretary : Regional Tender Board Pietermaritzburg, Natal Provincial Administration.

2.5.3 MUNICIPAL AUTHORITIES

CITY OF CAPE TOWN

MacDONALD R, Assistant Chief Administrative Officer, Buying and Stores, City Engineers Department.

MARSHALL E, Principal Storekeeper : City Engineers Department.

Van ZYL AM, Principal Administrative Assistant, Buying : City Engineers Department.

CITY OF DURBAN

De LANGE AH, Director of Materials Management Department.

KEATS LR, retired Director of Materials Management Department.

MacCALLUM THM, Manager of Materials Management : City Engineers Department.

PEDRICK WG, Financing Officer : City Treasurer's Department.

CITY OF JOHANNESBURG

BOWMAN JM, Chief Professional Officer, Buying.

DIFFENTHAL DA, Deputy City Treasurer, Buying and Stores.

KING B, Professional Officer, Stationery Stores.

VAN DER MERWE AHS, Assistant City Treasurer, Buying and Stores.

CITY OF PORT ELIZABETH

BALDOCK AJ, Chief Buyer, Purchasing & Supplies.

BRITZ SM, Chief Storekeeper, Purchasing & Supplies.

PRETORIUS MC, Controller of Purchasing and Supplies.

TAYLOR JD, Administrative Officer, City Administrative Department.

CITY OF PRETORIA

BRUMMER J, Assistant Controller, Buying.

PIETERSE D, Assistant Controller, Stores.

A N N E X U R E 1

QUESTIONNAIRE ON MATERIALS ADMINISTRATION SENT TO MUNICIPAL AUTHORITIES

University of
Durban-Westville

PRIVATE BAG X54001 DURBAN
4000 SOUTH AFRICA
TELEGRAMS 'UDWEST'
TELEX 6-23228 SA
FAX (031)820-2383/820-2678
☎(031)820-9111

DEPARTMENT OF PUBLIC ADMINISTRATION

The Town Clerk
City/Borough/Town of .....

.....

.....

Sir

INFORMATION PERTAINING TO MATERIALS ADMINISTRATION (MANAGEMENT) AT SOUTH AFRICAN MUNICIPALITIES

The attached questionnaire pertains to the field of materials administration (Management) which inter alia, includes the following primary functions :

- Purchasing;
- Receiving;
- Storing (custody);
- Issuing; and
- Deleting

of stores and equipment used by municipalities.

This area has not been researched previously and consequently the Department of Public Administration supported by the Human Sciences Research Council is collecting and compiling information with the view to pursue research in this field of study. Therefore, it would be appreciated if the questionnaire could be completed. Furthermore, copies of relevant literature, such as rules, regulations, manuals and guides would be most welcome.

Your co-operation in this regard shall be greatly appreciated.

Yours sincerely

.....
S MOODLEY
LECTURER

.....
DR D SING
SENIOR LECTURER

.....
PROF. W A J COETZEE
HEAD OF DEPARTMENT
DEAN : FACULTY OF
COMMERCE & ADMINISTRATION

1989-10-16

QUESTIONAIRE

PLEASE COMPLETE THE FOLLOWING

1. Name of Local Authority

2. Grade

3. Total Budget Per Annum

4. Total Population

Instructions :

- Please indicate answers to questions by placing a cross (X) in the appropriate box or by writing in the space provided.
- Any additional information or comments considered pertinent should be reflected on a separate page.

N B : QUERIES

If any clarification is required please contact :

1. Mr S Moodley : Tel. 820-2389
2. Dr D Sing : Tel. 820-2219
3. Miss P Govender: Tel. 820-2126
   (Secretary)

PART A

PURCHASING FUNCTION

1. What is the legislative basis at municipal level, which is responsible to initiate the purchasing function

Comments : _____

_____

2. Is the purchasing function totally centralised, that is, the responsibility of a single office

☐ Yes
☐ No

Comments : _____

_____

3. Is the purchasing function totally decentralised, that is, the responsibility of numerous offices

☐ Yes
☐ No

Comments : _____

_____

4. Is the purchasing function a mixture of both centralised and decentralised systems

☐ Yes
☐ No

Comments : _____

_____

5. The reason(s) for using the above-stated structure is :

[One or more answers may apply - please place a cross (X) against the relevant item/s only]

		Yes	No
5.1	Lack of expertise in buying		
5.2	Staff shortage		
5.3	Lack of storage space		
5.4	Pressure from user-groups		
5.5	Better control		
5.6	More efficient and effective method		
5.7	Other reasons - specify		

Comments : _____

_____

6. Does the centralisation of the purchasing function have any distinct advantages

☐ Yes
☐ No

Comments : _____

_____

7. Would decentralisation of the purchasing function have any benefits

☐ Yes
☐ No

Comments : _____

_____

8. Would a combination of centralised/decentralised systems be of any value

☐ Yes
☐ No

Comments : _____

_____

9. In your opinion, what system is best suited to the purchasing function and why

Comments : _____

_____

_____

10. What is the total value of purchases made in Rand :

10.1 Per Month : _____

10.2 Per Annum : _____

11. What are the nature of items purchased and how much is spent on each class (approx.)

e.g 11.1 Furniture : R_____
11.2 Stationery : R_____
11.3 Electrical : R_____
11.4 Mechanical : R_____
11.5 Office Equipment : R_____
11.6 Capital Equipment : R_____
11.7 Miscellaneous : R_____
11.8 Others : R_____

3.

12. What methods of purchasing are used (also state percentage):

	X	%
12.1 Formal Bids (tenders)		
12.2 Telephonic Quotations (Negotiation)		
12.3 Negotiate contract for specified periods		
12.4 Cash Order		
12.5 Petty cash		
12.6 Other		

(NB : Enclose specimen copies of working documents please)

Comments : _____

_____

13. For what reasons are the above methods used, are they owing to :

13.1 Time constraints	
13.2 Method is cost effective	
13.3 Personnel Constraints	
13.4 Policy Constraints	
13.5 Other	

Comments : _____

_____

14. If your local authority uses the tender system, please list the advantages and disadvantages of the system

_____
_____
_____
_____
_____
_____
_____
_____
_____
_____

15. What is the basis for tender adjudication

Lowest price which meets specification	
Best quality irrespective of price	
Other reasons	

Comments : _____

_____

4.

16. Who compiles the tender specifications, the Buying Office or the user department

Comments : _____

_____

17. Who is responsible for recommendation of the tender

Comments : _____

_____

18. Who is responsible for approval of the tender

Comments : _____

_____

19. Do you prefer the tender system

☐ Yes
☐ No

Comments : _____

_____

20. Are there any value limits placed on the above method

☐ Yes (please state values)
☐ No

Comments : _____

_____

21. Does the purchasing function prescribe to specific formal rules and regulations

☐ Yes (if yes, enclose copies please)
☐ No

Comments : _____

_____

22. Is the document clear and comprehensive

☐ Yes
☐ No

Comments : _____

_____

5.

23. Can any aspect in your opinion be improved in this document

☐ Yes
☐ No

Comments : _____

_____

24. Illustrate (or enclose a copy of) the organisational structure of the Purchasing Division

Comments : _____

_____

25. What is the relative status afforded to the Head of the Purchasing Division (e.g. equivalent to Town Clerk, Deputy Town Clerk, Treasurer, etc.)

Comments : _____

_____

26. Is it acceptable in terms of the importance of the function

☐ Yes
☐ No

Comments : _____

_____

27. Is there "Job Description" for every post on the organisational structure

☐ Yes (if yes, enclose copies please)
☐ No

Comments : _____

_____

28. Has any effort been made to "Upgrade" the status of the purchasing function recently

☐ Yes
☐ No

Comments : _____

_____

6.

29. Did any change come about as a result of 28

☐ Yes
☐ No

Comments : _____

_____

30. Is the authority and responsibility for procurement vested solely in the Purchasing Division

☐ Yes
☐ No

Comments : _____

_____

31. When various satellite or user-departments purchase, is such transactions ratified by the Purchasing Division

☐ Yes
☐ No

Comments : _____

_____

32. Are there any limits placed on departmental purchases

☐ Yes
☐ No

Comments : _____

_____

33. On what basis is authority for purchasing determined e.g.

- Departmental Prerogative _____
- Rand Volume _____
- Purchasing Expertise _____
- Other _____

Comments : _____

_____

34. Is responsibility for purchase of goods/services definite and clear

☐ Yes
☐ No

Comments : _____

7.

35. What do you think is the best practical method to follow in respect of authority and control of purchases

Comments : _____

_____

_____

36. Do you feel that all purchasing negotiations and decisions should be the sole responsibility of the purchasing section

☐ Yes
☐ No

Comments : _____

_____

37. If the purchasing function is decentralised, do you

37.1 Encourage consultation between the purchasing section and user-department in all areas of purchasing

☐ Yes
☐ No

Comments : _____

_____

37.2 Only in general areas, give examples

☐ Yes
☐ No

Comments : _____

_____

37.3 Only in specialised areas, give examples

☐ Yes
☐ No

Comments : _____

_____

37.4 None at all, user-departments have the necessary expertise

☐ Yes
☐ No

Comments : _____

_____

8.

37.5 Question quality/specifications that appear unreasonable

☐ Yes
☐ No

Comments : _____

_____

37.6 Research purchase requests made by user-departments and suggest alternatives

☐ Yes
☐ No

Comments : _____

_____

38. If your purchasing division has the sole buying responsibility and authority, do user-departments

38.1 Accept the situation gladly

☐ Yes
☐ No

Comments : _____

_____

38.2 Circumvent this authority as often as possible

☐ Yes
☐ No

Comments : _____

_____

38.3 Show total disregard

☐ Yes
☐ No

Comments : _____

_____

39. Are the user-departments co-operative in their relationship with the Purchasing Division

☐ Yes
☐ No

Comments : _____

_____

40. What are some of the common problems encountered in this relationship

1. _____

2. _____

3. _____

Comments : _____

_____

41. Are the user-departments convinced of the Purchasing Division's genuine interest in serving them

☐ Yes
☐ No

Comments : _____

_____

42. Are all purchasing personnel well informed of their responsibilities and relationship to the user-departments

☐ Yes
☐ No

Comments : _____

_____

43. Does the Purchasing Division have a policy and procedure manual

☐ Yes
☐ No

Comments : _____

_____

44. Has this document been approved by Senior Management/Council

☐ Yes
☐ No

Comments : _____

_____

10.

45. Is this manual freely available to user-departments

☐ Yes
☐ No

Comments : _____

_____

46. Is this manual subject to revision

☐ Yes (if yes, how often)
☐ No

Comments : _____

_____

47. Is there effective communication between user-departments and the purchasing division

☐ Yes
☐ No

Comments : _____

48. Are there regular feedback meetings between the purchasing Division and the user-departments

☐ Yes
☐ No

Comments : _____

_____

49. How many persons are employed in the purchasing division

_____

Comments : _____

_____

11.

50. What qualifications do the purchasing personnel possess

	Qualification
50.1 Head of Division	.....
50.2 Senior Buyer	.....
50.3 Buyer	.....
50.4 Storeman	.....
50.5 Clerk	.....
50.6 Other	.....

Comments : _____

_____

51. What experience (including stores staff) do the personnel have, in their respective fields :

51.1 Head of Division	_____
51.2 Senior Buyer	_____
51.3 Buyer	_____
51.4 Storeman	_____
51.5 Clerk	_____
51.6 Other	_____

Comments : _____

_____

52. Is the Division appropriately staffed (balanced structure)

☐ Yes
☐ No

Comments : _____

_____

53. Do the buyers devote their time to buying only

☐ Yes
☐ No

Comments : _____

_____

12.

54. Are they also bogged down by clerical work as well

☐ Yes
☐ No

Comments : _____

_____

55. Are the purchasing personnel members of a recognised purchasing institute

☐ Yes (If yes, name)
☐ No

Comments : _____

_____

56. Do they regularly attend purchasing meetings

☐ Yes
☐ No

Comments : _____

_____

57. Are such meetings useful to the staff

☐ Yes
☐ No

Comments : _____

_____

58. Are the ideas / discussions of practical value to the purchasing staff

☐ Yes
☐ No

Comments : _____

_____

13.

59. Are any efforts being made to increase the level of purchasing expertise by :

- providing bursaries / tuition fees
- offering cash rewards for higher qualifications
- promotion

☐ Yes
☐ No

Comments : _____

_____

60. Do you co-ordinate purchasing needs with other local authorities in your vicinity with a view to achieve savings

☐ Yes
☐ No

Comments : _____

_____

61. Do you think a metropolitan type of purchasing operation would result in savings because of large volume purchases

☐ Yes
☐ No

Comments : _____

_____

62. Would you agree to support a purchasing consortium made of other local authorities with a view to improve purchasing results in as many commodities as possible

☐ Yes
☐ No

Comments : _____

_____

14.

63. Is the purchasing function :

	Yes	No
63.1 Fully computerised		
63.2 Partially computerised		
63.3 Operated manually		

Comments : _____

_____

64. If computerised (fully or partially) has the efficiency of the Division improved

	Yes
	No

Comments : _____

_____

65. If yes/no please state reasons :

1. .....

2. .....

3. .....

4. .....

Additional Comments : _____

_____

66. What aspects of the purchasing function are computerised

		Yes	No
66.1	Ordering		
66.2	Re-ordering		
66.3	Vendor-rating		
66.4	Requisitioning		
66.5	Cataloguing		
66.6	Standard contract purchases		
66.7	Other		

Comments : _____

_____

15.

67. Are security measures built-into the system to prevent malpractices

☐ Yes (If yes, state measures)
☐ No

Comments : _____

_____

68. Is there an audit trail system included in the purchasing system

☐ Yes
☐ No

Comments : _____

_____

69. Have there been any malpractices induced through the computer

☐ Yes
☐ No

Comments : _____

_____

16.

PART B

STORES/INVENTORY FUNCTION

2. RECEIVING

2.1 Is there a separate receiving section

☐ Yes
☐ No

Comments : _____

_____

_____

2.2 Illustrate (or enclose) the organisational structure of the receiving section

2.3 Do the receiving staff follow specific policies and procedures when receiving goods

☐ Yes
☐ No

Comments : _____

_____

_____

2.4 Is there a policy and procedure manual in this regard

☐ Yes
☐ No

Comments : _____

_____

_____

2.5 Could you briefly outline the procedure followed when goods are received

N B : Please include specimen copies of working documents

3. CUSTODY/STORAGE FUNCTION

3.1 Is the custody of all stores centralised

☐ Yes
☐ No

Comments :

3.2 Is it decentralised and held by individual departments

☐ Yes
☐ No

Comments :

3.3 Is the stores division situated in the most convenient location

☐ Yes
☐ No

Comments : _____

_____

_____

3.4 Illustrate or enclose the organisational structure of the Custody/Storage division

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

3.5 Do the staff responsible for the custody function follow specific policies and procedure when storing goods

☐ Yes
☐ No

Comments : _____

_____

_____

3.6 Is there a policy and proceudre manual in this regard

☐ Yes
☐ No

Comments : _____

_____

_____

3.7 List methods of custody (storage) that are used

1. _____

2. _____

3. _____

4. _____

Comments : _____

_____

_____

3.8 Are the storage facilities adequate

☐ Yes
☐ No

Comments : _____

_____

_____

3.9 What are the nature of items held in stock

1. .....

2. .....

3. .....

4. .....

5. .....

6. .....

7. .....

8. .....

3.10 What is the value of each stock item (in broad categories)

1._____ R_____
2._____ R_____
3._____ R_____
4._____ R_____
5._____ R_____
6._____ R_____
7._____ R_____
8._____ R_____

Comments : _____

3.11 Is the custody function :

	Yes	No
3.11.1 Fully computerised		
3.11.2 Partially computerised		
3.11.3 Manually operated		

Comments : _____

_____

_____

3.12 What control measures have been instituted in the custody function

_____

_____

_____

_____

_____

3.13 Is stock-taking executed on :

- weekly basis _____
- monthly basis _____
- annual basis _____
- other _____
- never _____

3.14 Have there been any losses

_____ Yes
_____ No

Comments : _____

_____

_____

_____

_____

3.15 What percentage does this constitute of total stocks. State value as well.

Comments : _____

_____

_____

3.16 Are these losses due to :

		Yes	No
3.16.1	Pilfering		
3.16.2	Theft		
3.16.3	Deterioration of stocks		
3.16.4	Other		

Comments : _____

_____

_____

3.17 What in your view could be done to improve security and reduce losses

Comments : _____

_____

_____

_____

3.18 Relate the procedure followed in respect of the custody function.

_____

_____

_____

_____

_____

3.19 What in your opinion would you consider to be an ideal manner of executing the custody/storage function

_____

_____

_____

_____

_____

_____

4. ISSUES

4.1 Who is responsible for the issuing function?

Comments : _____

_____

4.2 Illustrate (or enclose) an organisational structure of the Issuing Section

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

4.3 Is there an approved policy/procedure manual for issues

☐ Yes
☐ No

Comments : _____

_____

_____

4.4 What control is there over the issuing function e.g. are all issued counter-checked by a Senior Officer

☐ Yes
☐ No

Comments : _____

_____

4.5 Are issues made against approved requisitions

☐ Yes
☐ No

Comments : _____

_____

_____

4.6 Are requisitions fulfilled without question/or are reasons requested for unusual quantities/items

☐ Yes
☐ No

Comments : _____

_____

_____

4.7 Is the issuing function computerised

☐ Yes
☐ No

Comments : _____

_____

_____

4.8 What type of control is maintained if computerised

_____

_____

_____

_____

_____

4.9 Do you think this method is cost effective and efficient

☐ Yes
☐ No

Comments : _____

_____

_____

4.10 Are there any problems with the issuing function

☐ Yes
☐ No

Comments : _____

_____

_____

4.11 What suggestions would you make to improve the issuing function/division

_____

_____

_____

_____

_____

4.12 Briefly relate the manner in which the issuing function is executed from start to finish

_____

_____

_____

_____

_____

_____

_____

_____

_____

N B : PLEASE ENCLOSE SPECIMEN COPIES OF WORKING DOCUMENTS

5. DELETIONS

5.1 Who is responsible for the deletion function

Comments : _____

_____

_____

_____

5.2 Illustrate (or enclose) an organisational structure of the deletions personnel

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

5.3 How often is stock-taking done

5.3.1	Weekly	_____
5.3.2	Monthly	_____
5.3.3	Annually	_____
5.3.4	Other	_____
5.3.5	Never	_____

Comments : _____

_____

_____

_____

5.4 How often is stock deleted from the records

_____

_____

_____

5.5 What reasons are advanced for deletions

5.5.1	Obsolete	____
5.5.2	Redundant	____
5.5.3	Uneconomical to repair	____
5.5.4	Losses eg. deterioration	____
5.5.5	Thefts	____
5.5.6	Other	____

5.6 What values are attached to stock deletions? Are there value limitations?

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

5.7 Who is responsible for deletion of stocks from the stock masters

Comments : _____

_____

_____

5.8 Must prior approval of a higher authority (e.g. Council) be obtained before deletions are effected.

☐ Yes
☐ No

Comments : _____

_____

_____

5.9 If stock is computerised, what security measures are used to ensure unauthorised deletions of stock

_____

_____

_____

5.10 How is deleted stock disposed of :

5.10.1	Public Auction	_____
5.10.2	In-House Sales	_____
5.10.3	Offered as donations	_____
5.10.4	Dumped/Burnt/Buried	_____
5.10.5	Cannabalised	_____
5.10.6	Other	_____

Comments : _____

_____

_____

5.11 Is there an approved policy/procedure manual for deletions

☐ Yes
☐ No

Comments : _____

_____

_____

5.12 Briefly relate how the deletion exercise is executed (from beginning to end)

N B : PLEASE ENCLOSE SPECIMEN COPIES OF WORKING DOCUMENTS

END

I thank you most sincerely for your time and effort.

S MOODLEY
LECTURER
DEPARTMENT OF PUBLIC ADMINISTRATION

---o0o---

A N N E X U R E 2

DEPARTMENT OF FINANCE: CIRCULAR 10739 DATED 6 MARCH 1990: 1990/91 FINANCIAL YEAR: OVERALL CONTROL OVER THE EXPENDITURE OF LOCAL AUTHORITIES

F 2E

DEPARTEMENT van FINANSIES
DEPARTMENT of FINANCE

FINANSIëLE VERHOUDINGS
~~Openbare Finansies x Public Finances~~ FINANCIAL RELATIONS

PRIVAATSAK • PRIVATE BAG X115 • PRETORIA • 0001 • TELEX 350089
TEL • 325-2550 UITBR • EXT 171 FAX • 219580
NAVRAE • ENQUIRIES C van Tonder VERW • REF FS 2/B
DATUM • DATE 1 March 1990

-6 MAR 90 10739

DCT	DCT-A	DCT-F
DCT-ACC	ACT-ADM	ACT-DP
ACT-I	ACT-G	ACT-REV
ACT-H	ACT AUD	ADM
ACT-PF	HO-INS	
SA F		HO-CB
SA-S	CASHIERS	SEC-LIC

TO ALL LOCAL AUTHORITIES

Sir

1990/91 FINANCIAL YEAR : OVERALL CONTROL OVER THE EXPENDITURE OF LOCAL AUTHORITIES

1. Guidelines with regard to the spending of local authorities are prescribed every year by the Minister of Finance in accordance with the Government's fiscal policy. The aim of the overall control measures is to co-ordinate the spending pattern at local government level with that of the central government, and the percentage increase stipulated in this circular letter in respect of the 1990/91 financial year, has been determined accordingly.

2. The Minister of Finance has, on the eve of the State's new financial year, pointed out that the growth in the money supply and the unacceptable high level at which the rate of inflation remains, impede the Government's task to bring about a sound economy for the country. To counteract this unfavourable state of affairs, several purposeful steps have been taken and a measure of recovery in the country's economy is already discernible, albeit not to the extent that restrictive measures can be relaxed.

2.1 The Government has firmly committed itself to the curtailment of public sector spending, and will indeed set an example in containing its expenditure for the 1989/90 financial year to the initial budget objectives. Local authorities, as part of the public sector, similarly have an important role to fulfil.

Consequently, precedence must be given to strict financial discipline in the preparation of the 1990/91 budget and continual budget control during the financial year. A responsibility also rests upon your Council/Committee to determine its expenditure level in accordance with the available revenue and financing sources. In particular, property rates and service charges must be kept within the means of the residents.

2.2 After considering all factors, the Minister has set the maximum permissible increase in the total spending of each local authority for the 1990/91 financial year at 13% above the global limit approved by the Department of Finance for 1989/90.

3. A request is made to your Council/Committee to prepare its 1990/91 budget with due consideration of the permissible percentage increase, as well as the criteria in terms of which expenditure will be evaluated, as detailed in paragraph 4. In addition hereto, the Council for the Co-ordination of Local Government Affairs, at its meeting on 8 December 1989, has identified the following actions to contain local government spending within acceptable limits and to contribute towards the improvement of the country's economy:

3.1 The scrapping of all unnecessary capital projects and the optimal utilization of capital to promote job creation.

3.2 In depth investigations by all local authorities to identify and eliminate unnecessary high standards.

3.3 The purchase of South African manufactured products.

3.4 The acceleration of privatisation to limit local government spending to the minimum.

3.5 The rationalisation of personnel to ensure maximum productivity.

3.6 The implementation of effective management systems.

3.7 The re-evaluation of the necessity of all services rendered by local authorities.

4. The budget must be submitted to the Department of Finance for consideration as soon as possible, for which purpose the attached schedule should be completed and returned together with a copy of your Council/Committee's budget document. Your attention is also drawn to the aspects hereunder and it is important that you are well acquainted with these to ensure that all the relevant information is provided in the application, thus facilitating the finalization thereof without delay.

4.1 GENERAL

All expenditure to be incurred during the 1990/91 financial year is subject to approval, irrespective of the source of finance or whether it has been included in a previous budget.

4.2 **CAPITAL BUDGET**

4.2.1 The capital amount budgeted for normal commitments in 1989/90 (approved by this Department as basic capital) will be used as the basis for the determination of the 13% expenditure limit for 1990/91; in other words, ad hoc expenditure will be excluded for this purpose.

4.2.2 Projects financed from State funds (i.e. by grants, subsidies and loans, except loans from the Local Authorities Loans Fund) are excluded from the limitation, but should nevertheless be indicated separately in your application for ad hoc purposes.

4.2.3 Projects financed from funds provided by a regional services council, will only be considered on an ad hoc basis if they comply with the requirements set out in paragraph 4.2.4.

4.2.4 Essential projects will be considered for ad hoc approval on merit, if -

4.2.4.1 the relevant expenditure is linked to indispensable infrastructural services;

4.2.4.2 the capital expenditure remaining is of fundamental importance for the well-being of the community as a whole;

4.2.4.3 the consequential interest and redemption repayments and other operating costs do not place an unreasonable burden on the residents; and

4.2.4.4 full particulars of the financial implications are given separately in the return (page 4) in respect of each ad hoc project.

4.3 **SPECIAL AND TRUST FUND BUDGET**

The 13% increase also applies to expenditure constituting a direct debit against a reserve or provision fund. For the determination of the upper limit, capital expenditure is ignored in this case, as it is already limited under the capital budget.

4.4 **OPERATING BUDGET**

The current transactions are also limited to a growth of 13% above the approved expenditure level for 1989/90. It is appreciated that unusually rapid development will result in greater demands, but resolute steps should first of all be taken to accommodate additional commitments within the prescribed limit. Only in the most exceptional cases will an excess be considered, on condition that -

4.4.1 it is indicated why a higher expenditure level is unavoidable;

4.4.2 the operating expenditure does not place an exceptional heavy burden on the ratepayers/consumers, based on the particulars in paragraph E of the attached schedule; and

4.4.3 the revenue surplus is sufficient to finance any budgeted deficit.

5. An increase in the approved limits during the course of the financial year will be considered after at least six months have elapsed, but then only in the most exceptional circumstances, on receipt of -

5.1 a progress report on the projects and activities that have commenced by that date;

5.2 particulars of the expected expenditure pattern for the remainder of the financial year; and

5.3 an indication of how the additional expenditure will be financed.

6. In conclusion, I wish to emphasize that the information called for is required to enable the Department of Finance to perform its overall control function over the expenditure of local authorities. The control measures are macro in nature and it remains the responsibility of each local authority to determine its particular priorities and also to incur unforeseen expenditure, provided that the global limits are not exceeded.

7. It would be appreciated if this circular letter could be brought to the attention of your Council/Committee.

Yours faithfully

f. DEPUTY DIRECTOR-GENERAL: FINANCIAL RELATIONS
0026D/

RETURN FOR 1990/91[1)]

Local Authority ..... Grade ....

	BUDGET 1989/90[2)] R	BUDGET 1990/91 R	INCREASE (DECREASE) %
A. CAPITAL BUDGET			
Expenditure			
Basic capital	.....	.....	.....
Ad hoc projects (already approved)			
- State funds[3)]	.....	.....	
- Other (specify)[4)]	.....	.....	
.....	.....	.....	
.....	.....	.....	
New ad hoc projects			
- State funds[3)]		.....	
- Other (specify)[4)]		.....	
.....		.....	
.....		.....	
Total (carry forward to summary D)			.....
Source of finance			
External and internal loans	.....	.....	
Contributions from revenue[5)]	.....	.....	
ontributions from special funds[6)]	.....	.....	
Funds ex Regional Services Council	.....	.....	
Grants and subsidies	.....	.....	
Total			

1) Kindly submit a copy of the budget document.
2) Show the expenditure approved by the Department of Finance.
3) See paragraph 4.2.2 of the circular.
4) See paragraphs 4.2.3 and 4.2.4 of the circular.
5) Must correspond with capital expenditure shown under C on page 2.
6) Must correspond with capital expenditure shown under B on page 2.

	BUDGET 1989/90[2] R	BUDGET 1990/91 R	INCREASE (DECREASE) %
B. SPECIAL AND TRUST FUND BUDGET[7]			
Total expenditure	.....	.....	
Less: Capital expenditure	.....	.....	
Net (carry forward to summary D)			.....
C. OPERATING BUDGET			
Expenditure			
Salaries, wages and allowances	.....	.....	.....
General expenditure			
- Electricity bulk purchases	.....	.....	.....
- Water bulk purchases	.....	.....	.....
- Other	.....	.....	.....
Repairs and maintenance	.....	.....	.....
Interest and redemption	.....	.....	.....
Capital expenditure	.....	.....	.....
Contributions to special funds	.....	.....	.....
Total	.....	.....	.....
Less: Expenditure reallocated	.....	.....	.....
Actual budgeted expenditure[8] (carry forward to summary D)			.....
Income			
Property rates	.....	.....	.....
House and site rental (Black local authorities)	.....	.....	.....
Electricity	.....	.....	.....
Water	.....	.....	.....
Sewerage/sanitation	.....	.....	.....
Refuse removal	.....	.....	.....
Subsidy[8]	.....	.....	
Other	.....	.....	
Surplus (deficit)	.....	.....	

7) See paragraph 4.3 of the circular.
8) See paragraph 4.4 of the circular.

	BUDGET 1989/90[2] R	BUDGET 1990/91 R	INCREASE (DECREASE) %
D. SUMMARY OF EXPENDITURE			
Basic capital expenditure	.....	.....	
Net special and trust funds	.....	.....	
Operating expenditure	.....	.....	
	.....	.....	
Less: Capital ex revenue (duplicated)	.....	.....	
	.....	.....	.....
Add: Ad hoc capital expenditure			
- State funds	.....	.....	
- Other (total)	.....	.....	
Total expenditure			.....

E. MONTHLY ACCOUNT FOR AVERAGE HOUSEHOLD[9]

	JULY 1989[10] R	JULY 1990[11] R	INCREASE /DECREASE R	DIFFERENCE %
Property rates	.....	.....	.....	.....
House and site rental (Black authorities)	.....	.....	.....	.....
Electricity	.....	.....	.....	.....
Water	.....	.....	.....	.....
Sewerage/sanitation	.....	.....	.....	.....
Refuse removal	.....	.....	.....	.....
Other	.....	.....	.....	.....
Total				.....

9) Use as basis: 1000m^2 erf, 150m^2 improvements, 1000 units electricity and 30 kilolitres water.
10) The information furnished in the return for 1989/90 should be given.
11) Increases necessary at a later date to finance the budgeted expenditure must be included.

F. AD HOC PROJECT [12] (Must be completed for each project separately)

Description .....
.....
.....

	R
Expenditure programme	
Expended to 30 June 1990	.....
1990/91 financial year	.....
1991/92 financial year	.....
1992/93 financial year and thereafter	.....
Total cost of project	
Financing of total project cost	
State funds (loans, subsidies, grants)	.....
RSC funds (loans, grants)	.....
Loans - Local Authorities Loans Fund	.....
- Other	.....
Other sources (specify)	
.....	.....
.....	.....
.....	.....
Total	
Annual operating costs after completion of project	
Interest and redemption	.....
Other	.....
Total	

Recovery of operating costs

The household tariff for the relevant service increases as a result of the project cost from ..... to ..... (.....% increase)
Property rates (cents per Rand) increase as a result of the project cost from ..... to ..... (.....% increase)

12) See paragraph 4.2.4 of the circular.

A N N E X U R E 3

CITY OF DURBAN: CITY TREASURER'S DEPARTMENTAL CIRCULAR NO. 83: DRAFT OPERATING ESTIMATES 1990/1991

0097F/sn

CITY TREASURER'S DEPARTMENTAL CIRCULAR

NO 83

TO ALL HEADS OF DEPARTMENTS

DRAFT OPERATING ESTIMATES 1990/1991

Will Heads of Departments please note the following:-

A. ESTIMATE PROCEDURES

In view of the need to finalise the 1990/91 Draft Budget in May this year, it has been necessary that the existing system of estimate preparation be reviewed and streamlined wherever possible.

It is therefore intended that the Walker General Ledger system that became operative with effect from 1989-07-01 will be used wherever practical to assist in the 1990/91 Draft Budget preparation.

The working documents used when the estimates are initially compiled have been redesigned and produced through the Walker system and have been distributed to the Accountants responsible for the various departmental votes.

It is intended that the Approximate Actual figures for the 1989/90 financial year and Estimate figures for the 1990/91 financial year will be based on the costs as at 1990-01-31.

B. DEPARTMENTAL INTERVIEWS

The tentative programme for interviews for the purpose of scrutinising each Department's estimates is attached. Departments will be contacted later to confirm actual dates of interviews.

C. TENTATIVE INCREASES IN SUNDRY ITEMS

To ensure a consistency in approach, guidelines are also attached on percentage increases that should be applied departmentally in compiling the approximate and estimate amounts.

In case of doubt, Departments should contact the Senior Financial Officer (Accounting), Mr W G Pedrick, on extension 2105.

for CITY TREASURER

Encl

1863g/eb

OPERATING ESTIMATES 1990/91

DEPARTMENTAL INTERVIEW PROGRAMME

1. DEPARTMENTAL ACCOUNTANTS will each be responsible for the interviewing of departmental personnel and the compilation of the draft estimates, using the parameters set where necessary, for all votes under their control.

2. OTHER DEPARTMENTS

Date	Principal Accountant (Operating) P Silal	Senior Financial Officer (Accounting) W G Pedrick
FEBRUARY		
12	O & M	LIBRARY
13	MUSEUMS	
14		ASSOC TOWN CLERK
15		
16	FIRE	
19	TREASURER	MARKET
20		
21		M M D
22		
23		POLICE

WGP/sn/1960g

1990/91 DRAFT OPERATING ESTIMATES

PARAMETERS TO BE APPLIED

A. ITEMS FOR WHICH NO INCREASES ARE TO BE PROVIDED

ACCOUNT NUMBER	DESCRIPTION
01 5400	Boot Allowance
01 5600	House Allowance
01 5800	Meal Allowance
01 6000	Telephone Allowance
02 3570	Fuel and Oil
02 9030	Training Fund Levy
02 9080	Transport Levy

B. ITEMS FOR WHICH ADJUSTMENTS WILL NEED TO BE MADE FOR APPROX 1989/90 AS WELL AS FOR ESTIMATES 1990/91

ELECTRICITY (ACCOUNT NUMBER 02/2760)

APPROX 1989/90 - The Original Estimates provided for a 10% increase with effect from 1990-01-01. The actual percentage increase applied, however, was 14% and approximate amounts need to be adjusted for this reason and any variation in consumption.

ESTIMATE 1990/91 - Make provision for a further increase of 14% with effect from 1991-01-01.

WATER (ACCOUNT NUMBER 02/9800)

APPROX 1989/90 - The Original Estimates provided for a 11,25% increase with effect from 1990-03-01 whereas the increase will only be 7,0%. The approximate figures should reduce accordingly and adjustments should be made for changes in consumption patterns.

ESTIMATE 1990/91 - Make provision for a further increase of 7,5% with effect from 1991-03-01.

C. ITEMS FOR WHICH THE FOLLOWING PERCENTAGE INCREASES ARE TO BE APPLIED CONSISTENTLY - ALLOWING FOR ANY CHANGES IN USAGE PATTERNS

ACCOUNT NUMBER	DESCRIPTION	% INCREASE
01/5000 01/5001	Locomotion Allowance	10% w.e.f. 1990-07-01
02/0200 0202 0220	Advertising	11% w.e.f. 1990-03-01 1991-03-01
02/1200	Bus Fares	10% w.e.f. 1990-07-01
02/4490	Laundry Services	13% w.e.f. 1990-05-31 and 1991-05-31
02/6150	Postage & Revenue Stamps	13% w.e.f. 1990-04-01 and 1991-04-01
02/6270 6271	Printing and Stationery	11% w.e.f. 1990-07-01
02/7510	Sanitation Services	20% w.e.f. 1990-07-01
02/7660	Security Services - External	15% w.e.f. 1990-07-01
02/7780	Sewerage	15% w.e.f. 1990-07-01
02/8175	Stores and Materials	11% w.e.f. 1990-07-01
02/8475 to 02/8500	Telephones	13% w.e.f. 1990-04-01 and 1991-04-01

D. OTHER ITEMS

UNIFORMS - Percentage guidelines cannot be given in view of he differing departmental requirements. Care must be taken, however, to ensure to that the latest render

UNEMPLOYMENT INSURANCE - The existing parameters applicable will be used in compiling the new Estimates. Provision will only need to be made for the projected salary increase for the 1990/91 financial year.

DEPARTMENTAL PURCHASES - There are specific items which result in significant expenditure levels which apply only to individual departments eg. Fertiliser, Bulk Chemicals, Furnace Fuel, Office Cleaning Services etc. It is important that the latest tender reports are examined before setting estimates, with copies of these reports being placed in the Estimate working documents, if felt necessary.

A N N E X U R E 4

CITY OF JOHANNESBURG: COVERING LETTER OF TENDER DOCUMENT

CITY OF JOHANNESBURG
City Treasurer's Department

BUYING BRANCH



STAD JOHANNESBURG
Stadstesouriersafdeling

TAK AANKOPE

IMPORTANT NOTICE — BELANGRIKE KENNISGEWING

CLOSING TIME OF TENDERS	No tenders will be considered after closing time of Tenders, i.e. 10h30 on closing date. Please ensure that Tenders under sealed cover and endorsed with the contract number and description are deposited in the tender box before closing time.
SLUITINGSTYD VAN TENDERS	Geen tender sal na die sluitingstyd vir tenders, dit wil sê om 10h30 op die sluitingsdatum, oorweeg word nie. Sorg asseblief dat tenders in 'n verseëlde omslag met die kontraknommer en die beskrywing daarop voor hierdie sluitingsdatum in die tenderbus geplaas word.
OPENING OF TENDERS	The tenders will be opened in public in the vestibule (Main Entrance), Ground Floor, Main Administration Building, Civic Centre, at 11h00 on the closing date.
OOPMAAK VAN TENDERS	Die tenders sal om 11h00 op die sluitingsdatum in die portaal (hoofingang), grondverdieping, Hoofadministrasiegebou, Burgersentrum, oopgemaak word.

CONTRACT NO.
KONTRAK NO. 303 : POWDERED MILK

TENDERS MUST BE ADDRESSED UNDER SEALED COVER TO THE TOWN CLERK AND PLACED IN THE TENDER BOX NOT LATER THAN 10h30 ON 20 FEBRUARY 1990

DIE TENDERS MOET IN 'N VERSEËLDE OMSLAG AAN DIE STADSKLERK GERIG, EN UITERS OM 10h30 OP DIE

Closing Date
Sluitingsdatum 20 FEBRUARY 1990

AT — MAIN ENTRANCE — GROUND FLOOR
MAIN ADMINISTRATION BUILDING
CIVIC CENTRE
BRAAMFONTEIN

IN DIE TENDERBUS GEPLAAS WORD
HOOFINGANG, GRONDVERDIEPING
HOOFADMINISTRASIEGEBOU
BURGERSENTRUM
BRAAMFONTEIN

12/4 02-02-90	The attention of all tenderers is directed to Clause 7 - alternative offers - of the General Conditions of Purchase and Conditions of Tender where applicable. Al die tenderaars moet let op klousule 7 - alternatiewe aanbiedinge - van die Algemene Koopvoorwaardes en Tendervoorwaardes waar dit van toepassing is.

SS/CS 221/C
Dsk. G

A N N E X U R E 5

CITY OF JOHANNESBURG: GENERAL CONDITIONS - PURCHASES AND CONDITIONS OF TENDER: FORM A

FORM "A"

City of Johannesburg

CONTRACT FOR SUPPLY AND DELIVERY OF GOODS

GENERAL CONDITIONS OF PURCHASE AND CONDITIONS OF TENDER

1. DEFINITIONS

Unless Inconsistent with or expressly indicated otherwise by the context—

(a) "Approved" or "Approval" shall mean "approved" or "approval" by the Council's representative defined in the specification.

(b) "Council" shall mean the COUNCIL OF THE CITY OF JOHANNESBURG.

(c) "Contractor" shall mean the tenderer whose tender has been accepted by the Council and shall include the tenderer's legal personal representative, heirs, successors and assigns.

(d) "Contract" shall mean and include the Council's General Conditions of Purchase and Conditions of Tender, form of tender, special conditions of contract, the specification including any schedules, drawings, patterns, samples attached to the specification or any drawings, patterns, samples approved by the Council's representative relative to the contract, and any agreement entered into in terms of the Council's General Conditions of Purchase and Conditions of Tender, hereinafter referred to as "the General Conditions".

(e) "Contract Price(s)" shall mean the price(s) tendered by the contractor and accepted by the Council for the execution of the contract.

(f) "Date of Delivery" shall mean the date stipulated in the contract for the delivery of the goods.

(g) "Date of Tender" shall mean the date and time on which tenders are due to be deposited in terms of the advertisement calling for tenders.

(h) "Delivery" shall mean delivery in compliance with the terms and conditions of the contract at the point of delivery specified in the contract.

(i) "Goods" shall mean the machinery, plant, equipment, apparatus or materials to be supplied under the contract.

(j) "Month" shall mean calendar month.

(k) "Site" shall mean the buildings or ground or any other place in which or on which or over which the goods are to be stored, installed or used.

(l) "Specification" shall mean the specification annexed to these General Conditions.

(m) "Writing" shall include any manuscript, typewritten or printed statement, under or over signature or seal as the case may be.

(n) "Work" or "Works" shall mean and include goods to be provided and work to be done by the contractor under the contract.

2. TENDERER TO SATISFY HIMSELF AS TO CONDITIONS AND CIRCUMSTANCES OF TENDER

The tenderer, by tendering, shall be deemed to have satisfied himself as to all the conditions and circumstances affecting the tender.

3. COMPLETE ACCEPTANCE OF CONDITIONS

(i) The tenderer shall be deemed to know and understand the General Conditions of Purchase and Conditions of tender, of which this clause forms part, and the submission of a tender shall presume complete acceptance of the said General Conditions of Purchase and Conditions of Tender. The non-acceptance or variation of any of these conditions or the inclusion of any other conditions will render the tender liable to rejection.

(ii) Subject to the provisions of the foregoing sub-clause, the tenderer may qualify any one or more of the said conditions; but no qualification of the condition shall if his tender be accepted form part of his contract with the Council unless at the time of tendering he shall have indicated in writing specifically in relation to each and every condition so qualified the number of the condition and the exact extent to which it is qualified. Provided, however, that in any contract to which any special conditions imposed by the Council apply, such special conditions shall be embodied in the specification relating to that contract, and shall be supplementary and additional to any of the General Conditions set out herein. Should any such special conditions conflict with the General Conditions, the special conditions shall apply.

4. ASSIGNMENT

(i) This contract is personal to the contractor and the contractor shall not sub-let, assign or make over the contract or any part thereof, or any share or interest therein, to any other person without the written consent of the Council and on such conditions as it may approve.

(ii) This clause shall not apply to sub-contracts given to regular suppliers of the contractor for materials and minor components relating to the goods to be supplied. The Council reserves the right to require the contractor to submit the names of any such sub-contractors for its approval.

5. DISCREPANCIES

Should there appear to be any discrepancies, ambiguities or want of agreement in description, dimensions, qualities or quantities in the contract, the contractor shall be obliged to refer the matter to the Council's representative for decision before proceeding to execute the contract or part thereof in respect of which the said discrepancies, ambiguities or want of agreement appears to exist.

6. QUALITY AND GUARANTEE

(i) All goods supplied shall be equal in all respects to samples, patterns, or specifications where such are provided.

(ii) Tests and analyses may be made as deemed necessary, and the cost thereof shall be borne by the Council provided it is proved that the goods are of the [illegible]

(iii) The contractor shall not be relieved of his obligations with respect to the sufficiency of the materials and workmanship and the quality of the goods by reason of no objection having been taken thereto by the Council's representative at the time the goods were delivered.

(iv) If at any time, as stipulated in the contract, but not exceeding twelve months after delivery, the Council shall be dissatisfied with the goods or with any part thereof on account of materials being faulty or of inferior quality or workmanship or of bad design, or on account of the goods not being in strict accordance with the contract, the contractor shall immediately remedy the said defect free of cost to the Council. Should the contractor delay remedial work in excess of the time stipulated by the Council's representative, the Council may have such remedial work executed at the contractor's expense. Should the Council decide that the defect is such that it cannot be remedied, the goods may be rejected. Such rejected goods shall be held at the risk and expense of the contractor and shall, on request of the Council, be removed by him immediately on receipt of notification of rejection. The contractor shall be responsible for any loss the Council may sustain by reason of such action as the Council may take in terms of this clause.

(v) The risk in all goods purchased by the Council under the contract shall remain with the contractor until such goods have been delivered to the Council.

(vi) The principal feature of the goods and work are described in the specification but the specification does not purport to indicate every detail of construction or arrangements of goods and work necessary to meet the requirements. Omission from the specification of reference to any part or parts shall not relieve the contractor of his responsibility for carrying out the work as required under the contract.

(vii) If any dispute shall arise between the Council and the contractor in connection with the quality and guarantee of the goods, either party may give the other notice in writing of the existence of such dispute, and the same shall thereupon be referred to the arbitration in South Africa of a person to be mutually agreed upon. The submission shall be deemed to be a submission to arbitration within the meaning of the terms of the arbitration laws in force in the Republic of South Africa.

7. ALTERNATIVES

The tenderer may submit alternatives which, in his opinion, are to the Council's advantage economically and technically.

8. VARIATIONS

In the event of tenders being offered for goods differing or varying from the requirements of the specification all such variations shall be clearly indicated and described in the tender.

9. DEFAULT

Should it appear to the Council that the contractor is not executing the contract in accordance with the true intent and meaning thereof, or that he is refusing or delaying to execute the contract or that he is not carrying on the work at such rate of progress as to ensure delivery by the date of delivery or that the time has expired within which delivery should have taken place or in the event of any other failure or default by the contractor, then and in any of such events the Council may give notice in writing to the contractor to make good the failure or default, and should the contractor fail to comply with the notice within the period specified therein, then and in such case the Council shall, without prejudice to any of its right under the contract, be at liberty forthwith to perform such work as the contractor may have neglected to do, or to take the contract, wholly or in part out of the contractor's hands and order from any other person. The contractor shall be responsible for any loss the Council may sustain by reason of such action as the Council may take in terms of this clause.

10. PATENTS

The contractor shall pay all royalties and expenses and be liable for all claims in respect of the use of patent rights, trade marks or other protected right, and hereby indemnifies the Council against any claims arising therefrom.

11. PACKING

All goods shall be crated, packed or battened securely in such manner as to prevent damage during loading, transport and offloading.

Unless otherwise specified, packing cases and packing materials are included in the contract price, and shall be and remain the property of the Council.

12. PAYMENT

Payment by the Council to the contractor shall be made in accordance with the conditions of payment prescribed in the specification.Where no conditions of payment are prescribed in the specification, payment for goods received and accepted by the Council up to and including the 25th day of each month shall be made during the succeeding month; provided however that all terms of the contract are duly observed and that the relevant invoices are received at the store or department shown on the official Council order under the heading "Charge to Account" not later than the third last working day of the month.

The foregoing will apply to all months except June when all goods delivered and accepted up to and including 30 June must be invoiced and the invoices for these goods must be received not later than the third working day in July.

13. PARTICULARS TO BE SUPPLIED

(i) No tender shall be considered unless it is accompanied by sufficient information to show whether or not the goods offered comply with the specification.

(ii) Tenderers must state the country of origin and the name of the manufacturer of the goods offered. Documentary proof must be produced, if required.

14. FIRM TENDERS

Tenderers may submit firm prices which prices shall be free from all fluctuations. All prices shall be quoted in South African currency and

15. CONTRACT PRICE ADJUSTMENT

(Note – This clause does not apply to tenders where firm prices are quoted.)

(i) For the purpose of this clause –

"Manufacturer" shall mean manufacturer of the goods or his legal representative, heirs, successors and assigns.

"Cost to Tenderer" shall, where the tenderer is not the manufacturer of the goods tendered, have the following meanings: –

(a) Where the Tenderer has based his Tender on a Printed Catalogue or List Price.

"Cost to Tenderer" shall mean the manufacturer's catalogue or list price ruling at the date of tender less any discounts to which the tenderer is entitled, other than any special discount which may be conceded by the manufacturer to the tenderer for cash payment.

(b) Where the Tenderer has based his Tender on a Quotation by the Manufacturer.

"Cost to Tenderer" shall mean the price quoted by the manufacturer to the tenderer less any discounts to which the tenderer is entitled, other than any special discount which may be conceded by the manufacturer to the tenderer for cash payment.

"Rates and Charges" shall mean and include the published official and statutory rates for ocean freight, marine insurance, marine war risk insurance, wharfage, dock dues, landing and delivery charges, customs and import duty and railage rates.

(ii) The tender price(s) stated on the form of tender shall be based on cost to tenderer, rates and charges, and import duties ruling at the date of compilation of the tender, which date shall be as near as possible to the date of tender.

(iii) For the purpose of ascertaining variations, if any, in the contract price in accordance with this clause, rates and charges upon which the tender is based shall be stated in the form of tender in the appropriate spaces provided for theses items. The ruling date(s) of such contract price, rates and charges shall also be stated.

Note – The actual official rates and charges (not the amounts allowed for these items in the tender price) shall be stated in the form of tender.

(iv) If the rates and charges mentioned in (iii) above are not stated in the form of tender, the tender shall be treated as firm and no variation in tender price shall be allowed.

(v) For goods which are to be imported from outside the Republic of South Africa, the tenderer shall state on the form of tender the rate of exchange on which his tender is based, which rate shall be at the rate of exchange ruling at the date of the tender.

(vi) The contract price shall be increased or reduced by the amount of variation between the cost to tenderer upon which the tender was based and the actual cost to the tenderer, such variations to be calculated in the following manner:–

(a) Tender Based on a Printed Catalogue or List Price.

(See definition paragraph (i) (a) of this clause.)

The variation shall be the difference betweeen the list price on which the tender is based and the list price actually charged by the manufacturer, provided that, should it be proved that the cost to tenderer had not been based on the latest available catalogue or list price at the date of tender, the Council shall have the right to elect the list price upon which any variation shall be based. The date and number of the catalogue, list price, letter or other documents used must be stated, for identification purposes, in the form of tender.

(b) Tender Based on a Quotation by the Manufacturer.

(See definition paragraph (i) (b) of this clause.)

(i) Where it is stated in the form of tender that the offer is based upon prices ruling on a certain date, and the items are such that the S.E.I.F.S.A. price adjustment formula may be applied, such formula, as amended from time to time, shall be used to ascertain the amount of variation. Any application for an adjustment of the contract price shall be accompanied by calculations showing how the adjustment has been derived.

(ii) Where the items are such that the S.E.I.F.S.A. price adjustment formula cannot be applied , the variation in price shall be calculated by means of a formula acceptable to the Council's representative.Applications for an adjustment of the contract price shall not be considered unless accompanied by a certificate by the manufacturer giving reasons for the details of the price increase claimed. Pro forma invoices will not be accepted as proof of increased cost. Only those increases in price which are due to alterations in wage rates and statutory cost of living allowances prescribed by regulating measures having the force of law, or to increases in the cost of materials and railage as may be proved by documentary evidence or published index figures, shall be considered in determining the reasonableness of price increases.

(iii) As tenderers are not required to state at the time of tendering the cost to tenderer upon which the tender is based, sufficient information must be given in the form of tender to facilitate identification of the manufacturer's cable or letter which served as the basis of the tender. The successful tenderer may be called upon to produce the relevant documents at any time after the acceptance of his tender.

(c) Where the Tenderer is the Manufacturer

Where it is stated in the form of tender that the offer is based upon costs of materials and wage rates ruling on a certain date, the variation in price shall be calculated by means of the S.E.I.F.S.A. formula or, where the S.E.I.F.S.A. formula cannot be applied, by means of a formula acceptable to the Council's representative. Only those variations in wage rates prescribed by wage regulating measures having the force of law, or increases in the cost of materials as may be proved by documentary evidence or published index figures, shall be considered in determining price variations.

(vii) No claim for increased costs shall be entertained if the contractor is unable to produce the documents showing the prices upon which the tender has been based.

(viii) Any difference between the rates specified in the form of tender in respect of rates and charges and the rates actually paid, shall be for the account of the Council. The contract price adjustment in respect of these items shall in each case be the amount of the increase or reduction in the actual rate multiplied by the appropriate value or tonnage of the consignment of goods as shipped. Relevant official shipping documents, and invoices shall be accepted as proof of values and tonnage.

Tenderers must state whether the exchange rate is adjustable to that ruling at date of shipment of goods or date of payment by the Council. Where tenderer fails to state date on which exchange rate is adjustable, the adjustment shall be based on the exchange rate ruling at date of shipment of goods.

(ix) Where an increase or reduction in cost to tenderer has been allowed, the contract price shall be adjusted by the product of rate and variation in cost to tenderer in respect of every rate or charge which has been based on the value of goods, whether or not such rate or charge has varied since date of tender.

(x) Variations in any factors affecting the contract price other than those referred to above shall be for the contractor's account.

(xi) The contractor shall [illegible]

(xii) Claims for increased costs shall be submitted with the invoice for the goods in respect of which the claim is made, or as soon thereafter as possible. Claims shall not be considered after the date of final payment under the contract unless notice of intention to claim has been given to the Council's representative before such date.

In the event of there being no claim by the contractor for increased costs, the contractor shall not be entitled to full payment under the contract or the return of the guarantee bond before he has submitted to the Council, in his own name or in the name of the manufacturer, a certificate declaring that there have been no adjustments in the cost of manufacture which entitle the Council to a reduction in the contract price as provided for in this clause.

(xiii) For the purpose of ascertaining contract price adjustments the tenderer shall, in addition to the tender price, state on the form of tender the following: -

(a) The rate of exchange on which the tender is based.
(b) Ocean freight rate.
(c) Marine insurance rate.
(d) Marine war risk insurance rate.
(e) Wharfage, dock dues, landing and delivery charges.
(f) Customs and import duty.
(g) Railage rates.

Documents in support of the rates and charges on which the tender is based shall be produced if required.

No subsequent claim by the contractor for adjustment shall be entertained on account of variation in the cost of any of the foregoing items in respect of which the details called for are not properly completed.

(xiv) The Council shall not be responsible for increased costs to the contractor due to negligence on the part of the contractor or manufacturer.

16. SECURITY

The successful tenderer shall, if called upon to do so, deposit with the Council an approved guarantee bond for a sum equal to 10 per cent of the amount of the tender for due performance of the contract, and such bond shall remain in force until the contract has been completed to the satisfaction of the Council's representative.

17. SEQUESTRATION OR SURRENDER OF CONTRACTOR'S ESTATE

In the event of an order being made for the sequestration of the contractor's estate, whether provisional or final, or in the event of an application being made for such order, or in the event of the contractor making application for the surrender of his estate, or if he shall enter into, make or execute any deed of assignment or other composition or arrangement with, or assignment for the benefit of his creditors, or purport to do so, or if the contractor, being a company, shall pass a resolution, or if the Court shall make an order for the liquidation of such company, the Council shall have the right, summarily and without recourse to law, to determine the contract without payment of any compensation to the contractor, and without prejudice to the right of the Council to sue the contractor for any damages sustained by it in consequence of one or other of the aforementioned events.

18. PERIOD FOR WHICH TENDER HOLDS GOOD

The fact of the submission to the Council of a tender shall be deemed to constitute an agreement between the tenderer and the Council whereby such tender shall remain open for acceptance by the Council for a period of two months from the date on which the tenders are, in terms of the advertisement calling for tenders, returnable, during which period the tenderer agrees not to withdraw the same or impair or derogate from its effect.

19. GENERAL

(i) The quantities of all goods offered or delivered are to be the net mass and/or Metric measure.

(ii) All prices shall be quoted in South African currency. Any discount or brokerage allowed to the Council must be stated in the form of tender.

(iii) The lowest or any tender will not necessarily be accepted and the right is reserved to accept the whole or part of any tender.

(iv) Should there be any difference or discrepancy between the prices or particulars contained in the official form of tender and those contained in a covering letter from the tenderer, the prices or particulars contained in the official form of tender shall in all circumstances prevail.

(v) The tender, in a sealed envelope must be submitted on the form of tender and endorsed as indicated on the said form of tender and in the advertisement calling for tenders.

(vi) A separate tender box is provided for the reception of tenders and no tender will be considered which, subsequent to the closing hour for tenders, may be found in another box.

(vii) No tender sent through the post shall be considered unless the tender documents are received by the Council's representative by the date of tender. Proof of posting of tender shall not be accepted as proof of delivery.

20. DELIVERY

(i) Tenderers shall state in their tenders and on the form of tender the minimum time required to fulfil the contract. Delivery shall be made in accordance with the requirements set out in the special conditions of contract or the specification.

(ii) All goods under contract arising from this tender shall be supplied only when ordered upon an official letter or form of order issued by the Council. Delivery shall be made free of all charges.

21. MARKING OF GOODS

All goods shall be clearly marked in the manner stated in the specification.

22. LAW TO APPLY

The contract shall in all respects be construed in accordance with the law of the Republic of South Africa, and any difference that may arise between the Council and the Contractor in regard to the contract shall be settled in the Republic of South Africa.

23. OFFERING OF COMMISSION OR GRATUITY

If a tenderer or contractor, or any person employed by him, is found to have either directly or indirectly offered, promised or given to any Councillor or person in the employ of the Council, any commission, gratuity, gift or other consideration, the Council shall have the right summarily and without recourse to law and without prejudice to any other legal remedy which it may have in

A N N E X U R E 6

CITY OF JOHANNESBURG: CONDITIONS CONCERNING PREFERENCES, CONSIGNMENT OF MATERIALS AND HOURS OF DELIVERY: FORM B

FORM "B"

City of Johannesburg

Conditions Concerning Preferences, Consignment of Material and Hours of Delivery

A. PREFERENCES:

(i) Tenderers claiming preferences must complete the "Certificate of Preferences Claimed by Tenderer" attached. Claims for preferences which are not received by the Council by the time and date of closing of tender, will render the tender liable to rejection on the grounds of being incomplete.

(ii) The Council reserves the right to call for documentary evidence from the tenderer at any time and in such form as the Council may determine, to substantiate any claims or statements made of preferences claimed by the tenderer.

(iii) If as a result of preferences claimed by and allowed to a tenderer, a contract has been awarded to him and it is subsequently shown to the satisfaction of the Council that the preferences claimed by such contractor were too high, the Council may, in addition to any other remedy it may have:

(a) recover from such contractor all costs, losses or damages incurred or sustained by the Council as a result of such award of the contract: or

(b) impose on such contractor a penalty not exceeding five per cent of the value of such contract: or

(c) recover from such contractor all costs, losses or damages, referred to in paragraph (a) and impose on him the penalty referred to in paragraph (b).

B. CONSIGNMENT OF MATERIAL:

The material, if delivered by the South African Transport Services, may be consigned carriage paid in the contractor's name, care of the City Council of Johannesburg, to the place of delivery stipulated, but must not be consigned in the name of the Council.

C. CONSIGNMENT OF MATERIAL TO STORES SITUATED IN THE COLOURED AND ASIAN AND AND BLACK AREAS:

(i) The South African Transport Services will not deliver material to the Black Areas. Any contractor, using the S.A.T.S. as carrier, must have the material consigned care of a local agent or to a local depot from which it may be re-delivered by road to the stores situated in the Coloured and Asian and Black Areas.

(ii) The Council will not be responsible for any demurrage or other charges which may arise from the contractor not complying with the above condition.

D. HOURS OF DELIVERY;

(i) All Council's stores are open for the receipt of goods on week-days from 08h00 to 16h00 but are closed on Saturdays, Sundays and public holidays. In order to reduce the possibility of delivery being tendered by the S.A.T.S. on these closed days, it is suggested that contractors who use the S.A.T.S. as carrier should ensure that all relevant consignment notes are endorsed and all packages labelled as follows:

"NOT TO BE DELIVERED ON SATURDAYS, SUNDAYS OR PUBLIC HOLIDAYS"

(ii) Notwithstanding this, the Council will not be responsible for any re-delivery charges raised by the S.A.T.S.

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A N N E X U R E 7

CITY OF JOHANNESBURG: SPECIAL CONDITIONS AND SPECIFICATION

SPECIAL CONDITIONS AND SPECIFICATION

PRICE:

1.1 All prices must be exclusive of GST.

1.2 Any form of levy or charge such as customs duty, excise duty and import surcharge must be included in the tender price(s).

1.3 Price(s) including levies and charges must be subject to 2,5% brokerage.

1.4 Price(s) must include cost of delivery and off-loading.

1.5 Any settlement discount offered by the tenderer must be stated on the Form of Tender.

SURETY BOND:

2.1 The Surety Bond referred to in Clause 16 of the General Conditions of Purchase and Conditions of Tender, if required, shall be provided within twenty-one days of the date of notification of acceptance of tender. Failure to do so will be regarded as a breach of contract entitling the Council to cancel the contract and claim damages from the Contractor.

2.2 The amount of the Surety Bond will be calculated on the tendered price(s) plus General Sales Tax.

REQUIRED:

3.1 It is expected that the following quantity will be required annualy during the period of the contract:

Item (a) : 1 000 - Low voltage lightning arrestors hanging type.

QUANTITY:

4.1 This quantity which is given in good faith and without commitment to the Council is for the purpose of assessing the amount of the approved guarantee bond to be furnished by the contractor

4.2 The contractor shall be bound to supply whatever quantity the Council actually requires during the period of the contract, irrespective of the extent by which the total quantity ordered may vary from that set out above.

PLACE OF DELIVERY:

5.1 Electricity Store, Heronmere Road, Reuven,

2/...

TIME FOR PLACING OF ORDERS AND RATE OF DELIVERY:

6.1 Orders will be issued by the City Treasurer during the period of one year, alternatively two years, commencing 1 April 1990 stating quantity required and delivery must be made within the time shown on the Form of Tender attached even if the delivery date extends beyond the period for the placing of orders.

PREFERENCES:

7.1 THE ATTENTION

CONSIGNMENT OF MATERIAL:

OF THE TENDERER

IS DRAWN TO THE

AND

CONDITIONS CONTAINED

HOURS OF DELIVERY:

IN FORM "B" ATTACHED

SHIPPING PREFERENCE:

8.1 Where applicable, preference will be given to the shipping of goods imported from Europe, the United Kingdom, the Far East, the United States of America and Canada in vessels owned or operated by a South African company : Provided that this procedure does not result in excessive delays.

Preference will be given, when goods are imported from the places mentioned in column A, to contractors who have used or will use the shipping line mentioned in column B opposite the name of the place in Column A, or a shipping line which is a member of a Conference line listed in column B, or South African registered vessels and any South African registered shipping company:

	A	B
1	Europe and the United Kingdom	Europe/South East Africa Conference Lines
2	Far East	Japan and Hong Kong/South African and Straits Conference

3/...

		3 United States of America and Canada	South African Marine Corp Ltd; Lykes Bros Steamship Co Inc; Moore McCormack Lines Inc/United States Lines; Bank Line Ltd; Christensen Canadian African Lines; Nedlloyd.
SERVICE CONDITIONS:	9.1	Voltage	: 380/220
		Frequency	: 50 cycles per second
		Phases	: 3 phase, 4 wire
		Neutral	: Earthed at transformer
		Altitude	: 1 800 m
		Dust and lightning	: Severe
QUALITY:	10.1	The arrestors must have a rating of 280 V and conform in all respects to the latest issue of SABS 171 Lightning Arrestors, and must preferably bear the SABS approval mark.	
	10.2	The tenderer must state on the attached Technical Data Sheet whether the arrestors offered conform with the SABS specification and if they will bear the SABS mark. If compliance is claimed without the arrestors bearing the mark, documentary evidence of compliance must be submitted.	
TYPE:	11.1	The arrestors must be of the gapped type or alternatively of metal oxide type suitable for outdoor use.	
MOUNTING:	12.1	The arrestors must be supplied complete with a transmission line clamp suitable for accomodating either "Dog" aluminium conductor steel reinforced (diameter 14,15 mm) or 19/2,1 copper conductor (diameter 10,54 mm). The earth side must be provided with a suitable bolt, nut, washer and clamping washer to which the earth lead can be connected.	

4/...

DRAWINGS TO BE SUBMITTED:	13.1	Tenders must be accompanied by drawings, giving overall dimensions and showing clearly the internal construction of the arrestors offered, particularly the connections, arrangement and spacing of air-gaps and the method of proofing.
SAMPLES:	14.1	Samples of the arrestors offered, which will be non-returnable, must be lodged at Room 301, Electricity Department, 1 President Street, Newtown, Johannesburg not later than the time and date of closing of tenders.
	14.2	Each sample must be clearly labelled to show the contract number and the name of the tenderer.
	14.3	Failure to submit samples will render the tender liable to rejection on the grounds of being incomplete.
	14.4	Tender documents must be placed in the tender box as shown on the cover of this document and not included with the samples.
TECHNICAL DATA AND OMISSIONS AND VARIATIONS:	15.1	The attached Technical Data and Omissions and Variations Sheets must be completed by the tenderer. Failure to do so will render the tender liable to rejection on the grounds of being incomplete.
PERIOD FOR WHICH TENDER HOLDS GOOD:	16.1	Notwithstanding Clause 18 of the General Conditions of Purchase and Conditions of Tender, the tenderer in this instance shall be bound by his tender until 31 May 1990.
ACCEPTANCE OF TENDER:	17.1	A valid and binding contract will be concluded at the time that the Council posts a letter of acceptance of this tender to the tenderer by registered post, to the postal address stated on the Form of Tender.
CONTRACT PRICE ADJUSTMENT:	18.1	Notwithstanding Clause 15 (xii) of the General Conditions of Purchase and Conditions of Tender, applications for increases in the contract price(s) will not be considered unless received by the City Treasurer, in writing within three months of the date that the increases are to become effective. Such applications must include all necessary documentary proof in support of the claims failing which the claims may be rejected.

A N N E X U R E 8

CITY OF JOHANNESBURG: TECHNICAL DATA SHEET

TECHNICAL DATA SHEET

(To be completed by the tenderer)

Type of lightning arrestor: _____

Do the arrestors offered conform to SABS 171? *YES/NO

If "Yes" do the arrestors bear the SABS approval mark? *YES/NO

If "Yes" state relevant SABS permit number: _____

If "No" but compliance with SABS specification is claimed, has documentary evidence of compliance been submitted? *YES/NO

CONSTRUCTION

Number of air-gaps: _____

Brief description of non-linear resistor material: _____

Material from which gap spacers are made: _____

Overall dimensions: _____

Are the arrestors of the outdoor type? *YES/NO

Type of corrosion proofing: _____

CHARACTERISTICS

Impulse breakdown voltage: _____

Cut-off voltage: _____

Impedent crest voltage: _____

Maximum rate of discharge: (A) _____

Rate of voltage rise per micro-second for surge tests: _____

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*Delete inapplicable word

Name of tenderer (in full): _____ 6/...

TECHNICAL DATA SHEET (CONTD)

Other Details

Name of tenderer (in full): _____

7/...

A N N E X U R E 9

CITY OF JOHANNESBURG: OMMISSIONS AND VARIATION

OMISSIONS AND VARIATIONS FROM COUNCIL'S SPECIFICATION

(To be completed by the tenderer)

Tenders will be held to be entirely in accordance with the Council's specification except in the respects stated hereunder and the arrestors will be subject to rejection if it is found on delivery that it does not comply with the Council's specification on additional points which have not been approved in writing:

If the tender is in accordance with the Council's specification in all respects, the tenderer must state so here:

Name of tenderer (in full): _____

8/...

A N N E X U R E 10

CITY OF JOHANNESBURG: FORM OF TENDER

FORM OF TENDER

I/We, the undersigned hereby acknowledge myself/ourselves fully conversant with the details and conditions set out in the Special Conditions and Specification and with the General Conditions of Purchase and Conditions of Tender attached and hereby agree to supply, deliver and off-load in accordance therewith:

	PRICE EACH	
	1 Year	2 Years
Item (a) : Low voltage lightning arrestors hanging type at	R_____	R_____

Prices subject to 2,5% brokerage

Prices exclude GST

Settlement discount of _____% for payment within 30 days of date of statement

Maker's name: _____

Brand (if any): _____

Country of manufacture: _____

If of RSA manufacture, state place of manufacture: _____

Time required for delivery from date of issue of specific orders by the City Treasurer : (days) _____

Have samples been submitted as required under this contract? *YES/NO

Has a cut-away section drawing or sketch, which clearly shows the internal construction of the arrestors offered, been submitted with the tender? *YES/NO

*Delete inapplicable word

Name of tenderer (in full): _____

FORM OF TENDER (CONTD)

SHIPPING PREFERENCE

Refer to Clause 8.1 of the Special Conditions and Specification.

Will the goods/materials be imported? *YES/NO

If "YES", from which place? *Europe and the UK/Far East/USA and Canada.

State Shipping Line to be used: _____

_____

*Delete inapplicable words

CONTRACT PRICE ADJUSTMENT

Refer to General Conditions of Purchase and Conditions of Tender, Clauses 14 and 15.

1. Is this a firm price tender? *YES/NO

   *Delete inapplicable word

   NB If neither word is deleted the tender price will be taken to be firm and no adjustment will be allowed, notwithstanding anything to the contrary elsewhere contained.

2. If answer is "NO", details of adjustment in terms of Clause 15 to be stated here:

   _____

   _____

   _____

Name of tenderer (in full): _____

FORM OF TENDER (CONTD)

PAYMENT: NOTWITHSTANDING CLAUSE 12 OF THE GENERAL CONDITIONS OF PURCHASE AND CONDITIONS OF TENDER, PAYMENT WILL NOT BE MADE UNLESS INVOICE(S) AND STATEMENT(S) BEAR THE IDENTICAL NAME TO THAT ON THE FORM OF TENDER. THE TIME FOR SETTLEMENT DISCOUNT WILL APPLY TO STATEMENT(S) AND INVOICE(S) SUBMITTED IN THE CORRECT NAME

PLEASE ALSO NOTE CLAUSE 4 OF THE GENERAL CONDITIONS OF PURCHASE AND CONDITIONS OF TENDER "ASSIGNMENT" IN THIS REGARD

Name of tenderer (in full): _____

Registration number: _____

Business address: _____

Postal address: _____

Telephone number: _____

Fax number: _____

Name of person authorised to sign this tender: _____
(BLOCK LETTERS)

Signature of person authorised to sign this tender: _____

Date : _____1990

As witness: _____

JS/IB

A N N E X U R E 11

CITY OF JOHANNESBURG: CERTIFICATE OF PREFERENCE: JOHANNESBURG

CONTRACT NO _____
(To be Inserted by Tenderer)

CERTIFICATE OF PREFERENCES CLAIMED BY TENDERER

1. Legal provisions.

The attention of tenderers is directed to the provisions of the Regulations Relating To Tender Preferences Applicable To Local Authorities, published under Administrator's Notice 2874 of 27 December 1985, in terms of which provision is made for various preferences.

2. Particulars to be furnished by tenderers.

Tenderers offering goods in respect of which any of the preferences concerned may be claimed and who desire to avail themselves of the preferences allowed, must furnish the particulars required as per paragraph 3 and complete paragraph 5.

3. Preference claimed by tenderer.

(1) In respect of local content (Regulation 2(1)(a))

PREFERENCE CLASSIFICATION	Contract Item Number/ Description of Article	Country of Origin
(a) 1 per cent—if the local content in relation to the tender price is not in excess of 5 per cent.		
(b) 2 per cent—if the local content in relation to the tender price is more than 5 per cent but not in excess of 10 per cent.		
(c) 3 per cent—if the local content in relation to the tender price is more than 10 per cent but not in excess of 20 per cent.		
(d) 4 per cent—if the local content in relation to the tender price is more than 20 per cent but not in excess of 30 per cent.		
(e) 5 per cent—if the local content in relation to the tender price is more than 30 per cent but not in excess of 40 per cent.		
(f) 6 per cent—if the local content in relation to the tender price is more than 40 per cent but not in excess of 50 per cent.		
(g) 7 per cent—if the local content in relation to the tender price is more than 50 per cent but not in excess of 60 per cent.		
(h) 8 per cent—if the local content in relation to the tender price is more than 60 per cent but not in excess of 70 per cent.		

CONTRACT NO. _____
(To be Inserted by Tenderer)

PREFERENCE CLASSIFICATION	Contract Item Number/ Description of Article	Country of Origin
(i) 9 per cent—if the local content in relation to the tender price is more than 70 per cent but not in excess of 80 per cent.		
(j) 10 per cent—if the local content constitutes more than 80 per cent of tender price.		

(2) In respect of goods wholly produced, manufactured or asembled in an industrial deconcentration point, industrial development point or another industrial point as determined by the Decentralisation Board and referred to in Schedule B to the above regulations (Regulation 2(1)(b))

Preference claimed-percentage	Value added-percentage	Contract Item Number/Description of Article	Place Produced Manufactured or Assembled

(Provided that no such preference shall be allowed in the case where the value added is less than 25% of the tender price).

(3) In respect of local goods bearing the mark of the South African Bureau of Standards competing with other goods manufactured in the Republic not bearing such mark (Regulation 2(1)(c))

Preference claimed (2,5 per cent allowed)	Contract Item Number/ Description of Article

(In addition to any preference claimed under 3(1)(a) to 3(1)(j) above)

(4) In respect of imported goods offered from stocks held in the Republic.

Preference claimed (1 per cent allowed)	Contract Item Number/Description of Goods	Land of Origin.

CONTRACT NO. _____
(To be Inserted by Tenderer)

4. Definitions

For the purposes of paragraph 3 -
"cost of materials" means the cost of components, parts or materials which are intended for the production, manufacturing or assembling of the goods tendered for and which are not produced, manufactured or assembled in the factory where the production, manufacturing or assembling of such goods occurs, including freight, landing costs, dock dues, import duties and other import costs of such components, parts or materials and all costs in connection with the handling and transport thereof prior to delivery at that factory;

"Imported goods" means goods which are not local goods;

"local content" means that portion of the tender price of local goods not constituting the cost of materials imported into the Republic.

"local goods" means goods wholly or partly produced, manufactured or assembled in the Republic;

"the Republic" includes a territory which was formerly part of the Republic; and

"Value added" means that portion of the tender price not constituting the cost of materials.

5. I/We certify that costs have been fully and carefully investigated by me/us and that to the best of my/our knowledge, belief and experience the preference claimed is correct.

Name of tenderer (in full): _____
(Company Registration No. _____)

Address: _____

Signature of person authorised to sign statement on behalf of tenderer:

_____

AS WITNESSES:

_____

_____

DATE: _____

Hierdie vorm is ook in Afrikaans verkrybaar.

A N N E X U R E 12

CITY OF JOHANNESBURG: REQUISITION FORM

CITY OF JOHANNESBURG

STORES REQUISITION AND ISSUE VOUCHER

DATE .....

	DEBIT	GENERAL LEDGER	DEPARTMENT	99817
	4 0	4 0 0		

ISSUED FROM STORE | ISSUED TO DEPT /S

JOB | DESCRIPTION | STORE CODE

LINE NO	QUANTITY DEMANDED	DESCRIPTION OF MATERIAL	COMMODITY CODE	UNIT CODE	QUANTITY ISSUED	1/10	ACCOUNTING CODE NUMBER RATE	R/S	OBJECTIVE	SUBJECTIVE	VALUE R	VALUE C	BALANCE
1							0 5						
2							0 5						
3							0 5						
4							0 5						
5							0 5						
6							0 5						
7							0 5						
8							0 5						
9							0 5						

SPECIMEN

93/8869

601

REQUISITIONED BY .....

APPROVED BY .....

GATE CHECKER .....

ISSUED BY .....

RECEIVED BY .....

REC. ON JOB BY .....

A N N E X U R E 13

CITY OF PORT ELIZABETH: REQUISITION FORM

CITY OF PORT ELIZABETH — STORES SECTION

STORES REQUISITION

DEPARTMENT

DIVISION/SECTION

DATE

STORES AND MATERIALS REQUIRED AT

* **PLEASE WRITE CLEARLY AND DESCRIBE YOUR REQUIREMENTS FULLY**

ITEM	QUANTITY	DESCRIPTION
1		
2		
3		
4		
5		
6		
7		

* *The items above must have the chargeable vote against the corresponding items below.*

FOR STORES USE ONLY			
C/C	DATE OF ENTRY	REQUISITION No.	TRANSACTION No.
6 1	D D M M Y Y	61031600	
1	3	9	17 24

ITEM	TO BE COMPLETED BY REQUISITIONING DEPT.		FOR STORES USE ONLY		
	VOTE No.	JOB No.	COMMODITY CODE	QUANTITY ISSUED	NEW STOCK BALANCE
1		0	0		
2		0	0		
3		0	0		
4		0	0		
5		0	0		
6		0	0		
7		0	0		
	25	32	39 47	54	62

I certify that our current estimates provide for this expenditure and that no excess is involved

Signature of officer authorising requisition .....

Name of officer authorising requisition .....
(in capital letters)

Stores received by .....

Date received .....

STORES COMMODITY CODE

CHECKED BY .....

STORES PICKED BY .....

603.

A N N E X U R E 14

CITY OF PRETORIA: REQUISITION FORM

CITY COUNCIL OF PRETORIA STADSRAAD VAN PRETORIA

STORES DEPT./AFD. VOORRADE **R** **Nº 19263**

STOCK REQUISITION/VOORRAAD REKWISISIE

Date / Datum 2/2/90

GS. 1	CBL. 2	ES. 3	Stat. 4	PS. 5	US. 6	BS. 7	BO. 8	SS. 9	Yard 10	R.P.S. 13

QUANTITY / HOEVEELHEID	UNIT / EENHEID	DESCRIPTION / BESKRYWING	ITEM No. / ITEM Nr.
20	Pairs	Boots Dress for Firemen Size 8 Contract B45/89	04/0000C/46/7

Quantity in Stock / Voorraad op Hande: 2

Issue for last 3 months / Uitreikings afgelope 3 maande:

Outstanding Reqs. / Uitstaande Reks. — Quantity / Hoeveelheid

No./Nr.:

No./Nr.:

No./Nr.:

Date / Datum: 2/2/89

Last Order No. / Vorige Bestelling Nr.:

Firm / Firma: D130

File No. / Leer Nr.: B45/89

Average Price / Gemiddelde Prys:

STOREKEEPER/VOORRAAD BEAMPTE

STOCK CONTROL VOORRAAD BEHEER

TENDER / TENDER	QUOTATION / PRYSOPGAWE	CONTRACT / KONTRAK

Order placed on/Bestelling by:

Rate/Prys:

Order No./Bestelling Nr:

Quotation/Tender Ref. No. / Prysopgawe Tender Verw. Nr.:

Date of Order / Datum van Bestelling:

Lamton Pta

A N N E X U R E 15

CITY OF CAPE TOWN: ORDER FORM

CITY OF CAPE TOWN – STAD KAAPSTAD

CITY ENGINEER'S DEPARTMENT

Purchase Order No.
Aankoopbestellingnr.
0071248

Civic Centre
12 Hertzog Boulevard
Cape Town
8001

Burgersentrum
Hertzogboulevard 12
Kaapstad
8001

P.O. Box / Posbus 1694 Cape Town / Kaapstad 8000

PURCHASE ORDER / AANKOOPBESTELLING

To/Aan
MAX ARCUS & SON PTY LTD
P O BOX 3252
CAPE TOWN
8000

COPY

Telephone / Telefoon	Ordering / Bestellings	Payments / Betalings	Telex No. / Teleksnr.	Date / Datum
	210-3440	210-3340	520966 SA	89/11/14

For delivery to:
Vir aflewering aan:
C E NDABENI STORE
25 OUDE MOLEN ROAD
NDABENI

Supplier Code / Leweransier Kode	Branch District Store No. / Tak Distrik/Stoornr.	Order No. / Bestellingnr.
51-935-9	32	0591453

PLEASE SUPPLY THE FOLLOWING GOODS/SERVICES
VOORSIEN ASSEBLIEF DIE VOLGENDE GOEDERE/DIENSTE

Commodity Code / Kommoditeitskode	Quantity / Hoeveelheid	Unit / Eenheid	Unit Price / Eenheidsprys
5110-SC-000-7586-S	25,00	EACH	8,80

CHISEL, COLD, HAND:
TYPE A; FIG 1; CHAMFERED; HARDENED CARBON; CKS 12;
STEEL; 25MM WD X 300MM LG;

Delivery Period (Days) / Aflewerings Periode (Dae)	% Discount / % Korting	G.S.T. / A.V.B.	Delivery Charge / Afleweringstarief	Delivery Unit / Afleweringseenheid
21		EXCL		

Contract Number / Kontraknommer	Authority / Magting	ORDERED BY / BESTEL DEUR:
	DS. 7/11	

Purchase Order No. / Aankoopbestellingnr.

NB: Invoices and other correspondence must be directed to the abovementioned post office box
LW: Fakture en ander korrespondensie moet aan die bogenoemde

Discrepancies in prices stated above must

A N N E X U R E 16

CITY OF JOHANNESBURG: ORDER FORM

City of Johannesburg

OFFICIAL ORDER
INVOICES (IN DUPLICATE)
ENDORSED WITH THIS NUMBER
MUST BE MADE OUT AND
POSTED IMMEDIATELY TO:

CITY OF JOHANNESBURG
STORES BRANCH

H 60980

P.O. BOX 7776 JOHANNESBURG
2000

Stad Johannesburg

AMPTELIKE BESTELLING
FAKTURE (IN DUPLIKAAT)
GEENDOSSEER MET HIERDIE
NOMMER MOET UITGEMAAK
WORD EN ONMIDDELLIK GEPOS
WORD AAN:

DIE STAD JOHANNESBURG
TAK VOORRADE

STORE _____ PAKHUIS

DATE
DATUM _____ 19__

BOUGHT OF
GEKOOP VAN _____

FOR DELIVERY TO
OR COLLECTED BY _____ VIR AFLEWERING NA
OF AFGEHAAL DEUR

AS PER CONTRACT ORDER — VOLGENS KONTRAK BESTELLING

QUANTITY HOEVEELHEID	DESCRIPTION OF MATERIAL BESKRYWING VAN MATERIAAL	PRICE PRYS

MERCHANTS CODE VERSKAFFERSKODE	COMMODITY CODE ARTIKELKODE
BRAND NAME	FABRIKAAT
DELIVERY REQUIRED WITHIN AFLEWERING MOET BINNE _____	DAYS IN TERMS OF CONTRACT/QUOTATION DAE VOLGENS KONTRAK/KWOTASIE GESKIED
AS PER YOUR QUOTATION	VOLGENS U KWOTASIE

PRICES SHOWN MUST BE SUBJECT TO 2,5% BROKERAGE

WHERE GOODS ARE FOR COLLECTION ONLY, ANY ITEM NOT ABLE TO BE SUPPLIED IMMEDIATELY MUST BE CANCELLED. THE ITEM SO CANCELLED WILL BE RE-ORDERED (IF REQUIRED).

DIE AANGETOONDE PRYSE IS ONDERWORPE AAN 2,5% MAKELAARSLOON

AS GOEDERE SLEGS AFGEHAAL MOET WORD, MOET ENIGE ITEM WAT NIE VERSKAF KAN WORD NIE GEKANSELLEER WORD. DIE ITEM WAT ALDUS GEKANSELLEER IS, SAL WEER BESTEL WORD (INDIEN NODIG).

REQUISITIONED BY	AANGEVRA DEUR	THIS DOCUMENT IS NOT VALID UNLESS RUBBER-STAMPED BY BUYING BRANCH/STORE
APPROVED BY	GOEDGEKEUR DEUR	
STORES OFFICER	PAKHUIS-BEAMPTE	HIERDIE DOKUMENT IS NIE GELDIG TENSY DIE TAK AANKOPE/PAKHUIS SE RUBBERSTEMPEL DAAROP VERSKYN NIE.

SEE OVER FOR CONDITIONS OF PURCHASE — KYK AGTER VIR KOOPVOORWAARDES

SPECIMEN

City of Johannesburg

DEPT. REQUISITION – OFFICIAL ORDER – ISSUE VOUCHER – CHARGE OUT – DELIVERY NOTE – GATE PASS – YARD SLIP – COLLECTION ADVICE – PAYMENT AUTHORISATION

Stad Johannesburg

AFD. AANVRAAG – AMPTELIKE BESTELLING – UITREIKINGSBEWYS – OPVRAAG – AFLEWERINGSBRIEF – HEKPAS – TERREINBEWYS – INVORDERINGSBRIEF – BETAALMAGTIGING

JOB NO. TAAK NR.	DESCRIPTION BESKRYWING
BRANCH TAK	
SECTION SEKSIE	

H 60980

DATE
DATUM _____ 19__

ISSUED TO
UITGEREIK AAN _____ DEPT./STORE AFD./PAKHUIS

BRANCH/SECTION
_____ TAK/SEKSIE

GL/DGR GROOTBOEK	DEPT. NO. AFD. NR.	STORE PAKHUIS
400		

COMMODITY CODE ARTIKELKODE	UNIT CODE EENHS. KODE	QUANTITY HOEVEELHEID	RATE TARIEF	B/S	B/S	ACCOUNTING CODE REKENINGKODE OBJECTIVE OBJEKTIEF	ACCOUNTING CODE REKENINGKODE SUBJECTIVE SUBJEKTIEF	VALUE WAARDE R	VALUE WAARDE C
			05						
			05						
			05						
			05						
			05						

THE SIGNATORIES OPPOSITE CERTIFY THAT THE REQUIREMENTS LISTED ARE CLASSIFIED AS –
DIE ONDERTEKENAARS VAN DIE AANVRAAG SERTIFISEER DAT DIE GELYSTE BENODIGHEDE AS VOLG GEKLASSIFISEER IS:–

- ☐ PURCHASE THROUGH BUYING BRANCH
  AANKOPE DEUR TAK AANKOPE
- ☐ EMERGENCY PURCHASE ALREADY AUTHORISED
  DRINGENDE AANKOPE REEDS GOEDGEKEUR
- ☐ VALUE BELOW R50.00
  WAARDE MINDER AS R50.00
- ☐ PLANT AND EQUIPMENT SPARES (SOLE AGENTS)
  MASJIENERIE EN TOERUSTING ONDERDELE (ALLEEN AGENTE)
- ☐ CONTRACT ITEM
  KONTRAK ITEM

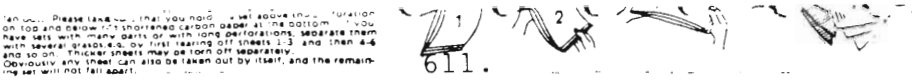
SUPPLIED BY
VERSKAF DEUR

INVOICE VOUCHER NO. FAKTUUR-BEWYSSTUK NR.	DELIVERY NOTE VOUCHER NO. AFLEWERINGSBRIEF BEWYSSTUK NR.	INVOICE NO. FAKTUUR NR.	MONTH PAID MAAND BETAAL

609

A N N E X U R E 17

CITY OF PORT ELIZABETH: ORDER FORM



611.

343182
X 24-3016

R./VERWYS
MNR.

CITY OF
STAD **PORT ELIZABETH**

ORDER NO.
BESTELNR. 552097

STOCK

PURCHASING & SUPPLIES DIVISION - AANKOOP - EN VOORRADE - AFDELING

OFFICIAL ORDER - AMPTELIKE BESTELLING

P.O. BOX 3188 PORT ELIZABETH
POSBUS 6056

SUPPLY AND DELIVER TO:
VERSKAF EN LEWER AAN:

DELIVERY WEEK ENDING:
AFLEWERINGS WEEK EINDIGENDE:

DER/KONTRAK/SPESIFIKASIE NR. CONTRACT/SPECIFICATION NO.

REQUISITION NO.
AANVRAAG NR.

ANTITY VEELHEID	DESCRIPTION - BESKRYWING	PRICE PRYS
	QUERY PRICE DIFFERENCE WITH PURCHASING AND SUPPLIES DIVISION BEFORE EXECUTING THIS ORDER	

Cancelled

For: PURCHASING & SUPPLIES DIVISION
Vir: AANKOOP - EN VOORRADE - AFDELING

THE ORDER NUMBER MUST BE QUOTED ON ALL DOCUMENTS. PRICED INVOICES MUST BE SENT TO THE ABOVE ADDRESS.

DIE BESTELNOMMER MOET OP ALLE DOKUMENTE AANGEBRING WORD. FAKTURE MOET AAN BOGENOEMDE ADRES GESTUUR WORD.

orms

C/C	SUPPLIER'S CODE	ORDER NO.		COMMODITY CODE	QUANTITY
0 5					

1 3	11	18 19	27	33
C/C	SUPPLIER'S CODE	ORDER NO.	COMMODITY CODE	QUANTITY
0 5				

1 3	11	18 19	27	33
C/C	SUPPLIER'S CODE	ORDER NO.	COMMODITY CODE	QUANTITY
0 5				

41	47	53	60
DATE PLACED	CLEARANCE DATE	ESTIMATED COST	

A N N E X U R E 18

CITY OF JOHANNESBURG: BIN CARD

CA-A107

BIN CARD

CARD NO.						MAX.	
	U.O.P.		NO.	YEAR	ITEM	ROL.	
	U.O.I.		CONTRACT NO.			MIN.	

DATE	DOCUMENT NO.	BR	SE/R.N.	DATE	RECEIPTS	ISSUES	STOCK BAL.
19						BAL. B. FWD.	
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							

DESC:

CODE: — 8 0 —

A N N E X U R E 19

CITY OF DURBAN: GOODS RECEIVED NOTE

MUNICIPAL SUPPLIES DEPARTMENT

STORE COPY (STOCK)
ALICE STREET, DURBAN
P.O. Box 644 Phone 29511

2	07	Day	Month	6

Invoice/Order No. SA 08554

DR. TO .....

Number or Quantity		Unit of Issue	COMMODITY CODE	QUANTITY	RATE	AMOUNT	DISCOUNT %	TOTAL
								R

Coded by	Code Checked By	On A/c. of	Contract No.	Ordered against Quotation	Council Authy.	Checked by

Goods Received .....

Date .....

A N N E X U R E 20

CITY OF DURBAN: STOCK REPLENISHMENT ORDER

DURBAN CORPORATION No.

MUNICIPAL SUPPLIES DEPARTMENT

Replenishment Order for ..... Stock

..... 19 .....

UNIT	COMM.	QUANTITY	MATERIAL	FIRM	PRICE

S 061/023
DURBAN CORPORATION

Storekeeper

Actual stock on hand as checked .....

Issues not yet entered on Stock Card .....

Total, being balance as per Stock Card .....

Certified correct and requisition confirmed.

..... 19 ....

SUPERVISING STOREKEEPER

S 061/023
DURBAN CORPORATION

617.

C.

A N N E X U R E 21

CITY OF DURBAN: DAILY TALLY SHEET

D A I L Y T A L L Y S H E E T

DELIVERIES BY POOLED TRANSPORT

Date: .....19....

Requisition No.	NDC No. Vehicle	Requisition No.	NDC No. Vehicle

A N N E X U R E · 22

CITY OF DURBAN: RETURNS TO SUPPLIERS

DURBAN CORPORATION. STORES Department.

ALICE STREET, DURBAN

P.O. Box 644 Phone 29511

Returns to Suppliers / Allowances

		DAY	MONTH	
8	07			4

Cr. by .....

X № 6022

Number or Quantity		Unit of Issue	Commodity Code	QUANTITY	RATE	AMOUNT	TOTAL
						R.	

Dept. Reqn. No.	Stock	M. R. S. No.	Contract No.	Firm's Credit Note No	Council Authority.	Checked by

C.S. 23.

I certify that the amount credited is correct.

.....

CITY STOREKEEPER

FORWARDED TO CITY TREASURER.

A N N E X U R E 23.

CITY OF DURBAN: STOCK TRANSFERS

MUNICIPAL SUPPLIES DEPARTMENT

STORES TRANSFERS (T/4 DEBITS)

Trans.	C/C	Day	Month	Col.15
4	07			6

REF. NO. .....

DATE .....

TO ..... STOCK

C.S. 22 .....

DESCRIPTION OF MATERIAL	UNIT	COMMODITY CODE	QUANTITY	VALUE R	c	QTY.

NOTES:

RECEIVED BY _____

PREPARED BY .....

Signature of Authorising Officer.

MUNICIPAL SUPPLIES DEPARTMENT

STORES TRANSFERS (T/4 CREDITS)

Trans.	C/C	Day	Month	Col.15
4	07			4

REF. NO. .....

DATE .....

FROM ..... STOCK

DESCRIPTION OF MATERIAL	UNIT	COMMODITY CODE	QUANTITY	VALUE R	c

NOTES:

RECEIVED BY _____

PREPARED BY .....

Signature of Authorising Officer.

A N N E X U R E 24

CITY OF DURBAN: NOTIFICATION OF NEW STOCK

MUNICIPAL SUPPLIES DEPARTMENT

NOTIFICATION OF NEW STOCK ITEMS FOR STOCK

Commodity Code	Description	Unit of Issue	Quantity	Value	Average Price

625.

STOREKEEPER

19