



NATIONAL TREASURY

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PRESS RELEASE

New regulations to modernise procurement in municipalities, and to reduce corruption and fraud.

Supply Chain Management Regulations take effect on 1 July 2005

Public Private Partnership Regulations take effect on 1 March 2005

Municipal Investment and Cash Management Regulations take effect on 1 March 2005

The Minister of Finance published in Government Gazette no 26945 on 29 October, for public comment, three draft regulations under the Municipal Finance Management Act that will significantly overhaul:

- the way municipalities procure goods and services (supply chain management);
- engage in public-private partnerships; and
- invest municipal funds,

These reforms will modernise the systems of procuring and managing goods and services, and reduce opportunities for corruption by ensuring greater transparency and accountability in the underlying processes. The reforms will also give effect to black

economic empowerment objectives of government. It will also be possible to set up more uniform procedures between municipalities, making it easier for small businesses to bid for contracts.

The new *supply chain management* regulations will cover the acquisition and disposal of all goods and services by municipalities. It requires councils to approve a transparent policy, and separate the policy-making and implementation processes. It enhances the oversight role of councillors, by ensuring that this role is not comprised, as councillors will no longer be able to participate in the bid and tender committees. Instead, the council must delegate supply chain management powers and duties to the Municipal Manager who is responsible to ensure maximum efficiency and to prevent fraud, corruption, favouritism and unfair practices and is accountable for the implementation of the policy.

New procedures and processes will be implemented requiring open disclosure of any interest a municipal official or potential supplier may have in the acquisition of goods or services. This includes a prohibition on any gifts, rewards, favours or sponsorships offered to a municipality by a supplier in cash or in-kind. All bids must be opened in public and a register kept that is available for public inspection. Unsolicited bids outside this process are generally prohibited unless the National Treasury is consulted. Penalties will be imposed on any person breaching the new regulations.

In order to enhance broad-based black economic empowerment, proposals are under consideration to strengthen current empowerment criteria for the evaluation of bids when goods and services are being acquired.

The new supply chain management regulations will impose three threshold values on all purchases, from 1 July 2005. This will require a public tender to be called for purchases over R120 000, three different written quotations for purchases below R120 000 and three verbal quotations for purchases below R6 000.

Municipalities will also be encouraged to explore new ways to provide much needed services under proposed regulations on *public-private partnerships*, set to take effect on 1

March 2005. The regulations establish a framework for private sector involvement, after considering community opinions and determining economic feasibility, in projects that will benefit communities. These could include joint projects to provide municipal infrastructure for water, sanitation, electrification, offices etc. With the backlog of infrastructure investment at the local level so severe that constrained public finances cannot meet the demand for development, private sector capital can in places fill this gap in a responsible manner.

The proposed *cash management and investment* regulations embody principles that aim to ensure prudent, risk averse investments that maintain security of public funds which may only be placed in credit worthy institutions.

Comments and feedback on the draft *supply chain management, public-private partnership* and *municipal cash management and investment* regulations are to be submitted to the National Treasury by 19 November 2004. Copies are available in Government Gazette 26945 or on www.treasury.gov/mfma.

Should you require further information please contact Ismail Momoniat on 012 315 5165.

Issued by:

National Treasury

2 November 2004