



national treasury

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MEDIA STATEMENT

TREASURY PUBLISHES SUPPLY CHAIN MANAGEMENT REVIEW, FIRST SUCH ASSESSMENT SINCE 2004

National Treasury has today published the supply chain management¹ review, the first major assessment of the system of buying goods and services by the public sector since 2004. Back then government overhauled the supply chain management framework to decentralise procurement decisions to departments (national and provincial), municipalities and public entities.

The review is a culmination of the work done by the Office of the Chief Procurement Officer (OCPO) since its inception and the consultations it has had with various stakeholders.

In 2013/14, the South African public sector spent R500 billion on goods and services and on construction works, an enormous amount of money which when spent wisely and efficiently can be a great force for good:

- It can ensure that those in need receive services, including education and health; that infrastructure such as roads and ports is built and maintained.
- It can also spread wealth to hard-working entrepreneurs who supply goods and services to government and, in doing so, create jobs.
- Even those not directly involved in the supply of goods and services to government can also benefit.

The Review identifies a number of factors that prevent public sector SCM from performing as well as it should:

- Those working in the system do not understand the strategic importance of SCM, specifically the economic and social power of the decisions they make;
- Those working in the system are either inexperienced or under-skilled;

¹ Although section 217 of the Constitution refers to procurement, and procurement and supply chain management are often used inter-changeably in popular discourse, the Review uses procurement to describe the process of implementing a decision to buy, flowing from the pre-tendering process of supply chain management. Supply chain management (SCM) is used to refer to all the processes leading up to procurement and post procurement.

- There's high staff turnover and a lack of motivation;
- There may also be a lack of suitable equipment or information;
- The roles and responsibilities of technical staff and political officer bearers are not clearly defined, but even when they are, the separation of responsibilities is not observed.
- There are few if any consequences for those who, despite support and encouragement, fail to perform at the required level.
- Policies and regulations are often confusing and cumbersome.
- There is also the challenge of finding the best balance between: a) the use of public procurement as a means of development and transformation, and b) the buying goods and services at the best price, in the right qualities, at the right time, and in the right place.

The Review outlines a number of reforms, which when implemented properly, will result in a public sector SCM system that:

- a) complies rigorously with all relevant laws and regulations,
- b) is accountable,
- c) provides value for money; and
- d) ensures good-quality service delivery.

These reforms include: **a)** consolidation of legal instruments applicable to SCM under one piece of legislation similar to the Public Finance Management Act (PFMA) or the Municipal Finance Management Act (MFMA); **b)** Office of Chief Procurement Officer to oversee use of procurement for socio-economic transformation; **c)** changes to SCM documentation to standardize but also allow differentiation depending on product categories; **d)** greater use of strategic sourcing; and **e)** expansion of the list of nationally negotiated SCM contracts.

Other SCM reform measures include:

- Streamlining and standardisation of business processes; removing of unnecessary steps in the SCM process.
- Putting in place a centralised database. This will significantly reduce the administrative burden within the system, as the mandatory administrative documents will only need to be submitted once in a pre-determined period.
- Creating a culture of cooperation between suppliers and the public sector.
- Developing a reporting framework to standardise SCM reporting across the public sector. Accounting officers and authorities will be expected to report on a range of information including procurement plans, tenders to be advertised, tenders awarded, supplier company information, the value of each award and progress in implementing tenders.

- Creating a website for the Office of the Chief Procurement Officer (OCPO) - which will house all SCM information for suppliers and public sector institutions. The website will be an important interactive tool that will allow for easy interaction between suppliers, public institutions and civil society.

As part of the examination of the fragmented legal environment, a review of the Preferential Procurement Policy Framework Act (PPPFA) and its Regulations is underway. Resulting from this, the following measures are explored to ensure that the objectives of Section 217(2)² of the Constitution are met:

- Strengthening the OCPO to ensure that public sector SCM makes maximum contribution to socio-economic transformation;
- Setting national targets for achieving socio-economic objectives;
- Issuing directives describing the socio-economic goals which provinces and municipalities should attain;
- Monitoring progress made in implementing preference measures , as will the manner in which preference targets are set and attained; and
- Monitoring cost premiums related to socio-economic preferential procurement.

Measures to promote preference and socio-economic transformation will be conditional on:

- Being aligned to Section 217(1) of the Constitution³.
- Keeping cost premiums to a minimum.
- A Code of Conduct to be used by procuring institutions and the private sector to ensure sustainability, efficiency, cost-effectiveness and good-quality delivery.

Noting that government's approach to procurement is rules driven, the Review proposes that more intelligent ways be identified to realise value for money, create opportunities and promote beneficial change. These include strategic sourcing which requires that government adopts a differentiated approach that looks at the strategic importance of the purchase as well as the supply market complexity.

Strategic sourcing is closely linked to transversal contracting, which provides a country-wide framework for maximising savings and value through the use of government's bargaining power.

² Subsection (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for -
 (a) categories of preference in the allocation of contracts; and
 (b) the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.

³ When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.

Transversal contracting is an important instrument enabling government at all levels to purchase goods and services from a central list of approved suppliers who have been vetted for cost and quality. The OCPO manages such a list, currently made up of 37 contracts covering more than 8 000 line items with an estimated annual value of over R16 billion.

The list of nationally negotiated contracts will be expanded over the next three years to include:

- **Banking services:** currently, four major banks provide banking services to over 660 government entities. The system is fragmented, with high transaction costs. A feasibility study is underway to assess the cost and benefits of negotiating banking services centrally.
- **ICT infrastructure and services, desktops and laptops:** SITA is implementing a procurement improvement plan to reduce leakage and increase value for government. The OCPO is improving specifications for government's ICT requirements. Expenditure on ICT is R10 billion a year.
- **Professional services and other consultancy services:** a process is underway to procure audit and financial management consulting services centrally. The next phase will involve procuring construction consulting services centrally. Expenditure on consultants is R12 billion annually.
- **Security services, physical security and access control:** government spends R3.5 billion annually on highly fragmented security related services.
- **Air travel and hotel accommodation:** research into travel and accommodation services has been concluded. Information about how these services are to be managed will be released soon. Currently, government spends R5 billion annually on these services.
- **School textbooks and stationery:** research work involving a strategic sourcing methodology is underway for implementation on 1 January 2016
- **Health technology, research:** work has been commenced with to identify opportunities in the health care equipment.
- **Leasing and accommodation:** the Department of Public Works currently manages the property portfolio on behalf of national government. The newly established State Property Management Agency will work out a strategy to manage government's entire property portfolio.
- **Telecommunications:** government spends R2.4 billion on fixed line telephony and R800 million on mobile. Discussion with the mobile industry is underway about how to best to manage government's mobile communications. Research on fixed line telephony is underway.

Copies of the Review are available via this link:

[2015 Public Sector Supply chain management review](#)

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