



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001 · Tel: (+27 12) 315 5111

Enquiries: J Soobramanian **Ref:** Cir1/2/1/2/1 **Tel:** 315 5336 **Fax:** 315 5343
e-mail: jeyrel.soobramanian@treasury.gov.za

TO : **ACCOUNTING OFFICERS OF ALL NATIONAL DEPARTMENTS AND
CONSTITUTIONAL INSTITUTIONS**

: **HEAD OFFICIALS OF ALL PROVINCIAL TREASURIES**

: **ACCOUNTING AUTHORITIES OF ALL SCHEDULE 3A & 3C PUBLIC
ENTITIES**

SUPPLY CHAIN MANAGEMENT

GUIDELINES ON THE IMPLEMENTATION OF DEMAND MANAGEMENT

1. PURPOSE

1.1 This guide aims to provide accounting officers of departments and constitutional institutions and accounting authorities of public entities listed in Schedule 3A and 3C to the Public Finance Management Act (PFMA), 1999 with a general understanding of the procedures to be followed when implementing demand management.

1.2 Departments, constitutional institutions and Schedule 3A and 3C public entities shall hereafter be referred to as institutions in this circular.

2. OBJECTIVE

2.1 The objective of this guide is to assist institutions with the planning for the procurement of goods, works or services in a pro-active manner and to move away from merely reacting to purchasing requests.

3. INTRODUCTION

- 3.1 Supply Chain Management (SCM) could be described as a function that ensures that goods, works or services are delivered to the right place, in the right quantity, with the right quality, at the right cost and at the right time.
- 3.2 Demand management is the first element of the SCM function. The objective is to ensure that the resources required to fulfill the needs identified in the strategic plan of the institution are delivered at the right time, price and place and that the quantity and quality will satisfy those needs of the user. As part of this element of SCM, a total needs analysis must be undertaken. This analysis must be included as part of the strategic planning process of the institution and will, therefore, incorporate future needs.
- 3.3 It is vital for managers to understand and utilize sound good practice techniques to assist them in their planning, implementation and control activities. As part of the strategic plan of the institution, resources required for the fulfillment of its obligations should be clearly analyzed. This entails a detailed analysis of the goods, works or services required, including how much can be accomplished, how quickly and with what materials, equipment, etc.
- 3.4 When implemented correctly, demand management within SCM forms an integral part of a series of activities that will contribute to achieving the measured goals of the institution by ensuring that goods, works or services are delivered as originally envisaged; with a reliable standard of quality and to the satisfaction of end-users. Correct implementation also ensures that, controls exist for management to detect variances early and rectify them in a planned and orderly manner and to foster a culture of compliance, thereby assisting management achieve its goals and satisfy the executive and general public.

4 STEPS TO BE IMPLEMENTED FOR DEMAND MANAGEMENT

4.1 Participation in the strategic planning process

- 4.1.1 As part of the strategic planning exercise of an institution, the various functions to be executed must be identified. Pursuant thereto, it is necessary to determine the different resources required to execute the identified functions, i.e. human resources

and goods, works or services. These resources must be budgeted for. It is of vital importance to know, even at this stage, the estimated costs of the required resources, including the estimate costs of the required goods, works or services.

4.1.2 Demand management should be co-ordinated by SCM officials of the institution in consultation with end-users. This includes a detailed analysis of the goods, works or services required, such as what should be executed, how quickly and with what materials, resources, equipment, etc. The outcome of this activity should be a detailed planning document that outlines what goods, works or services should be procured, the manner in which they should be procured as well as the timelines to execute the procurement functions.

4.2 **Procurement planning**

4.2.1 Procurement planning should take place during the beginning of the financial year when the institution's strategic plan and budget have been approved. Procurement plans cannot be developed in isolation; it should instead form part of the institution's and other functional strategies. The SCM Unit must perform hand-in-hand with user departments/ directorates in the formulation of procurement plans.

4.3 **Analysis of the goods, works or services required**

4.3.1 During the strategic planning phase of the institution, the goods, works or services required to execute the identified functions are determined. The SCM representative(s) should assist the process in ensuring that the identified goods, works or services are the optimum resources required to achieve the goals and objectives of the institution.

4.3.2 The SCM Unit of the institution must analyze the goods, works or services required and execute, among others, the following:

- (a) List the functions to be executed by the institution;
- (b) Conduct an analysis of the past expenditure as this exercise may, among others, contribute in determining the manner in which the institution fulfilled its needs in the past; and
- (c) Compile a detailed list of the goods, works or services required to execute the functions listed as per sub-paragraph (a) above.

4.4 Planning to obtain the required goods, works or services

4.4.1 Together with the end-user, the SCM Unit should apply strategic sourcing principles to determine the optimum manner in which to acquire the required goods, works or services. This entails, among others, the following:

- (i) Conducting an industry and market analysis of the goods, works or services to be obtained. This must include the determination of a reasonable price for the required goods, works or services;
- (ii) Confirmation that sufficient funds have been allocated for the procurement of the required goods, works or services. If this is not so, the end-user must be informed accordingly. The procurement process should not proceed if funds are not available. Documentary proof must be obtained to substantiate availability of budgetary provisions.
- (iii) Considering the optimum method to satisfy the need, for example whether the procurement should be by means of price quotations, advertised competitive bids; limited bids; procuring the goods, works or services from other institutions (e.g. stationery, printing and related supplies from the Government Printing Works or furniture from the Department of Correctional Services), or on transversal term contracts or *ad hoc* contracts;
- (iv) The frequency of the requirement(s) must be established in order to determine whether it would be cost-effective to arrange a specific term contract for the goods, works or service, if it is not available in terms of a transversal term contract facilitated by the relevant treasury;
- (v) Establishing whether it would be cost-effective to have the goods available as a store item within the institution. Should this be the case, the minimum and maximum storage levels of these items should be determined and managed; and
- (vi) Establishing the lead time required by the potential suppliers to deliver the required goods, works or services after receipt of an official order.

4.5 Compilation of Procurement Plan

4.5.1 Completion of the above activities should result in the compilation of the procurement plan to be implemented by the SCM Unit. This plan should indicate a description of the goods, works or services, the end-user, the contact person representing the end-

user, estimated value, date of submission of specifications, date of advertisement of the bid, closing date of the advertised bid, estimated evaluation time, envisaged date of the Bid Adjudication Committee meeting, envisaged date of issuance of an official order, etc.

4.5.2 An example explaining the procedures to be followed to establish the timeframes when dealing with advertised competitive bids is attached as Annexure A.

4.6 Compilation of a bid register

4.6.1 The SCM Unit should compile a bid register that will manage the procurement process for each requirement. This should be used as a tool to monitor and evaluate the procurement / acquisition process. For all bids in excess of R500 000, the relevant information must be captured in the Template reflecting the Schedule of Procurement Plan in respect of advertised competitive bids, which must be submitted to the relevant treasury by not later than 30 April of each year. The Procurement Plan Template which was issued as part of National Treasury's Instruction Note dated 31 May 2011 on enhancing compliance monitoring and improving transparency and accountability in SCM is attached as Annexure B.

4.6.2 The SCM Unit should on a continuous basis monitor and assess the validity and accuracy of and compliance to the procurement plan.

5 **APPLICABILITY**

This circular applies to all national and provincial departments, constitutional institutions and Schedule 3A and 3C public entities.

6. **DISSEMINATION OF INFORMATION CONTAINED IN THIS CIRCULAR**

6.1 Heads of provincial treasuries are requested to bring the contents of this circular to the attention of accounting officers of their respective provincial departments.

- 6.2 Accounting officers of national and provincial departments are requested to bring the contents of this circular to the attention of accounting authorities of Schedule 3A and 3C public entities reporting to their respective executive authorities.

7. CONTACT INFORMATION

Mr Jeyrel Soobramanian

Director: Norms and Standards

Tel. No: 012 315 5336

E-mail: jeyrel.soobramanian@treasury.gov.za

Jan Breytenbach
JAN BREYTENBACH

CHIEF DIRECTOR: NORMS AND STANDARDS

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EXAMPLE OF THE PROCEDURES TO BE FOLLOWED TO ESTABLISH TIMEFRAMES WHEN DEALING WITH ADVERTISED COMPETITIVE BIDS

Requirement

The institution envisages that a specific commodity has to be delivered at various depots throughout the country during the last two weeks of November. Normally the potential supplier will need six weeks notice for manufacturing prior to the commencement of delivery. The Bid Adjudication Committee (BAC) meetings are scheduled for the third Thursday of every month. Evaluation of bids will take two weeks. Bid Evaluation Committee (BEC) meetings are scheduled for every first Thursday of the month. Reports containing recommendations for awards must be submitted to the secretariat of the BAC six (6) working days prior to the specific BAC meeting. Advertisements for competitive bids are published in the Government Tender Bulletin every Friday. Requests for advertisements must be submitted to the Government Printing Works by the Thursday of the previous week.

Compilation of the procurement plan for this commodity is as follows:

1. Commodity to be delivered between 15 and 30 November;
2. Contractor will require six weeks to manufacture the commodity. Therefore, latest date to issue an official order to the contractor would be 4 October;
3. Date of latest BAC meeting to award the bid – 3rd week in September, i.e. 15 September;
4. Latest date for submission of BEC report containing the recommendation to the BAC secretariat: 7 September;
5. Latest date for BEC meeting to consider and forward recommendations: 1 September;
6. Evaluation process takes two weeks. Latest date for commencement of evaluation process: 19 August;

7. Latest closing date for advertised bids: 18 August;
8. Date of advertisement of the competitive bid (Prescribed advertising period: 19 days) – 29 July;
9. Submission of advertisement to the Government Printing Works: 21 July;
10. Period required to compile specifications and bid documents: 3 weeks: Commence on 1 July;

The schedule is summarized as follows:

Activity	Latest completion date
Compilation of specifications and bid documents	1 July
Submission of Advertisement of bid to Government Printing Works	21 July
Date of advertisement of bid	29 July
Closure of bid	18 August
Commencement of evaluation process	19 August
Date of BEC meeting	1 September
Submission of BEC recommendations to BAC secretariat	7 September
Consideration of report and award of bid by BAC	15 September
Latest date of issuance of order	4 October
Delivery of commodity ordered (to be monitored)	15 – 30 November

A similar exercise should be conducted for each bid in excess of R500 000. The results regarding the envisaged dates of advertising of each bid should thereafter be captured on the Schedule of Procurement Plan in respect of Advertised Competitive Bids (Annexure B), as stipulated in paragraph 4.6 of the circular.

Allowance must be made for extra days in case of unforeseen circumstances.

