Mpumalanga Department of Human Settlements[1]

Supply chain management: The chain is holding and we are still welding the links.

Contents

Introduction

In 1998, the Auditor General's Report was big and thick. Now it is thin. We are responding to the issues and making a difference. In asset management there was not one problem identified in the last AG report.

The Constitution of the Republic of South Africa provides that 'everyone has the right to have access to adequate housing'. Since 1994, Government has committed itself to housing access and provision and has engaged inpolicy and implementationprocesses directed at enhancing access to affordable housing. Government inherited a backlog of 1.3 million housing units[2] as a result of past inequity in the provision of housing and spatial development patterns that contributed to the lack of affordable housing in areas of economic opportunity. For many of South Africa's poor, access to housing, or the lack thereof, is seen as an indicator of Government's commitment to the Constitution and the poor.

The responsibility for policies, programmes and projects for housing access and delivery resides in a range of Government Departments in Provinces and at national Government. The effective functioning of these Departments, including the Department of Human Settlements in Mpumalanga, is central to the wider developmental agenda of Government. Given the scale of budgetary resources allocated for housing delivery and access, the ability of Departments to procure relevant good and services (specifically housing and building material) is important. Within this context, supply chain management (SCM) systems and processes have to be effectively managed and responsive to local realities to ensure transparent and accountable use of budgetary resources.

The Mpumalanga Departmentresponsiblefor meeting the housing needs in the Province was the Department Local Government and Housing, until the restructuring of Portfolios that followed the 2009 elections.[3]As a consequence of the national process, the Mpumalanga Department was split and a new provincial Department of Human Settlements was established. In this process, a priority concern, based on past experience, was ensuring that the administration functioned and, given the scale of resources used for housing delivery that its supply and procurement practices function in an optimal manner[4]. This case tells the story of establishing an efficient and effective supply chain management process in the provincial department so as to ensure access to housing in the province[5].

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[2]Mafukidze, J.K.&Hoosen, F (2009) Housing Shortages in South Africa: A Discussion of the After-Effects of Community Participation *Urban Forum* September 2009 downloaded on 30 July 2012:
http://intranet.hsrc.ac.za/research/output/outputDocuments/6006_Mafukidze_Housingshortages.pdf.
[3]General Report on the Provincial Outcomes of Mpumalanga 2008 – 2009 Auditor General of South Africa. Downloaded on 2 August: http://www.agsa.co.za/Reports%20Documents/MPUMALANGA_GEN%20REPORT%20PFMA%202008-09.pdf
[4]The decision to draft a Case Study on Supply Chain Management of the Department of Human Settlements in Mpumalanga emanates from the self-evaluation score the Department achieved on the Management Performance Assessment Tool of the South African Government. A score of four (3) was achieved, therefore suggesting that the Department not only complied with relevant regulations, but was innovative in the manner in which it conducted the Supply Chain Management function.
[5] The contents of the Case Study are primarily based on a Focused Group Interview with key champions in Supply Chain Management in the Department of Human Settlements, 25th July 2012. In addition, the Auditor General Reports for the Province, Treasury guidelines for Supply Chain Management were also consulted.

Locating supply chain management in the department

Ensuring access to housing and housing construction is an expensive process, and requires that a wider range of activities be coordinated across a range of government departments as well as suppliers and contractors. In such a complex environment, there is a propensity for bottlenecks and holdups, all of which result in delayed housing delivery and access. The management of the suppliers, supplies and contractors is therefore of strategic importance to the Mpumalanga Department of Human Settlements.When the new department was established the management of all the elements of Supply Chain Management (SCM) were combined in a single sub-Directorate. Supply ChainManagement ensures that contracting processes and reporting adhere to required standards and that managers in line departments are given the authority to make decisions and transact the work of their departments' mandate within a structured framework of transparency and accountability. In addition, the SCM framework ensures that departments adhere to procurement policy which in South Africa is also aimed at reversing the structural inequity that has traditionally prevailed in terms of providing access to the economy for people from disadvantaged backgrounds, specifically youth, women, disabled persons and black owned business.

The Directorate for SCMin the Mpumalanga Department of Human Settlements has the responsibility of supporting the organisation achieve its vision and mission, which is directed at 'facilitating the creation of integrated sustainable human settlements'.[6] The Departmental mandatewas broadly captured in the Premier's State of the Province address in which he noted that:

> *Integrated human settlements embody our national vision of promoting non-racialism and prosperous communities. It is ….a paradigm shift from the past where people were settled along racial lines and Blacks were placed as far as possible from the areas of economic activity[7].*

The responsibilities of the SCMDirectorate,includes all aspects of demand, acquisition, logistics, and disposal of all goods and services that contribute to the delivery of the Department's mandate. A total of 32 people are employed in the SCM Directorate, out of a total of 363 people that work in the Department. The total budget vote[8] in 2012 for the department was R1.164 billion. Of this total, R 1.063 billion, or 86% is transacted by the SCM Directorate. The SCM directorate has demonstrated a high degree of compliance with the regulatory requirements of SCM as articulated in relevant Treasuryregulations.

The overall regulatory requirement for SCM was introduced by National Treasury under the provisions of the Public Finance Management Act (PFMA)as a strategy to hold Accounting Officers responsible for the manner in which public resources are utilised, whilst at the same time providing for flexibility to respond to local needs[9]. It was introduced to reverse

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[6]   Mpumalanga   Department   of   Human   Settlements.Vision   and   Mission   statement. (http://dhs.mpg.gov.za/About%20Us.html) accessed 27 July 2012.
[7]Premier DD Mabuza, State of the Province Addres, 2009
[8]MEC for Human Settlements Budget Vote speech 2012/2013
[9] For a full description of SCM see: Supply Chain Management: a Guide for Accounting Officers / Authorities available at http://www.treasury.gov.za/divisions/sf/sc/Guidelines/SCM%20Jan900-Guidelines.pdf

a legacy practice of central control over procurement which slowed down delivery and was not responsive to local realities and needs. The supply chain practicein the Department is also guided by Treasury provisions that detail all aspects of the SCM process and the manner in which the regulations could be interpretedin different contexts. The approach and elements within the supply chain process isdiagrammatically reflected in Figure 1.

Figure 1: Treasury requirements for SCM[10]
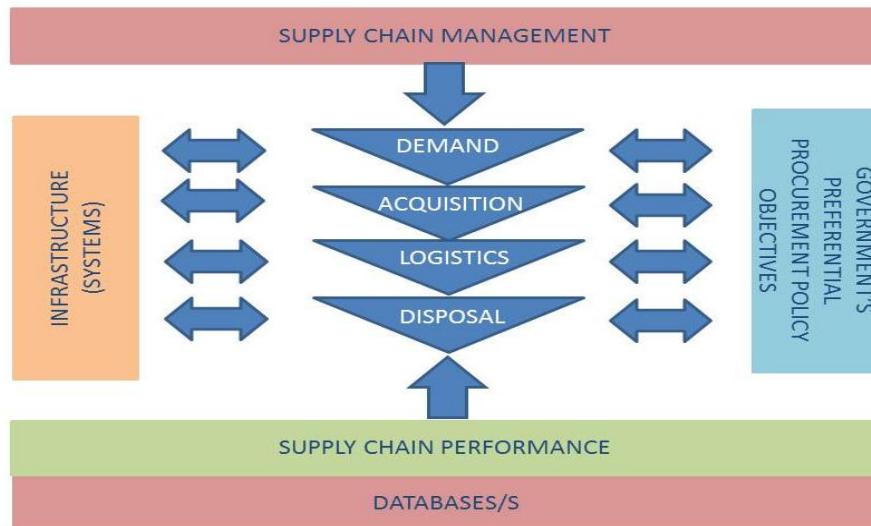
The treasury guidelines define four discrete activities within the broad supply chain process:

1. **Demand Management:** This is the beginning of the supply chain where a needs assessment is done, specifications are precisely determined, requirements are linked to the budget, and the supplying industry is analysed.

2. **Acquisition Management** directs the manner in which the market will be approached, establishes the total cost of ownership of a particular type of asset, ensures that bid documentation is complete, including evaluation criteria, evaluates bids in accordance with published criteria and ensures that proper contract documents are signed.

3. **Logistics Management** sets inventory levels, receives and distributes material, management of stores, warehouse and transport, reviews vendor performance.

4. **Disposal Management** governs obsolescence planning, maintaining a data base of redundant material, inspecting material for potential re-use, determining a disposal strategy, executing the physical disposal process

These functions are carried out using the information systems provided by Treasury (such as the LOGIS and BAS systems), as well as systems developed within the departments.   In addition SCM is executed in a way that ensures that government's policy objectives with regard to procurement are adhered to.

In addition to distinct competency areas, such as demand, acquisition, logistics and disposal, the SCM system is established on clear procurement procedures and a record keeping system directed at ensuring that resources are used in a transparent and

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[10]Supply Chain Management: a guide for accounting officers/authorities (SA National Treasury). February 2004

accountable manner. Understanding how this unfolded within the Department is central to appreciating good practices that have been introduced within SCM.

Building capacity: People fit-for-purpose and able to respond

The turning point in the Department and, in particular, in the manner in which goods and services were procured, was the 2008 Report of the Auditor General (AG) which highlighted a number of problem areas. These related to under-spending of the Department's budget, risk management, internal controls with pertaining to financial reporting and adherence to PFMA regulations.As this report emerged at the point where the Department was being established as separate organisation, this reality provided the leadership of the Department with an opportunity to rethink the previous SCM process. There was at this point a realisation that if the Department was to respond adequately to Auditor General's report or findings of other monitoring reports, there had to be "*…people on the ground that are able to engage with the challenges*". The leadership at the time looked at the AG's report and asked what remedies could be put in place. The most significant of which was having the right people in SCM.

There was a realisation in the Department that many of the challenges that emerged historically and that featured in the Auditor General's Report were simply because the Department did not have enough officials and the SCM would not functional optimally with the current compliment of people. The Department had to increase the number of people in the process. As was noted by an official:

> *I arrived in the department in January of 2008. At the time there was logistics, which was responsible for transport, responsible for assets, responsible for logistics, responsible for disposal management, responsible for facilities management and so on. After my arrival, the management at the time ensured that this was broken up……and all these sections were given proper staff.*

One of the key factors to the department's success has been that where there are posts that are funded, they are filled.Building on the realisation, a key initial step on the road to success was to ensure that the Department had the required capacities to fulfil its obligation. During 2009 added efforts were focused on recruiting individuals and filling all of the relevant positions within SCM. Supporting this activity was a commitment to providing training for those staff that needed capacity building.

Implementing the approach:Monitoring for compliance

The fact that the department had the appropriate staff to respond to identified challenges was not considered enough. Given past challengeswith regard to financial reporting , the processes of SCM require that reporting and reconciliation is undertaken on a regular basis. The case of Asset Management illustrates this. Assets verification has been undertaken on a quarterly basis, and the LOGIS[11]report reconciled on a monthly basis to

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[11]LOGIS is utilised for provisioning, stock control and reporting in compliance with user and legislative requirements

ensure that there an on-going tracking of what is being spent on a monthly basis. This significance of this approach was articulated as follows by an official in the process

> *At the end of the financial year we are able to take those reports which were reconciled and quickly tell how much money was spent. Similarly we are able easily determine how assets have been removed – donated to a school or whatever, and reflect this in the financials.*

A theme that emerged strongly in achieving professional practice in SCMwas compliance with reporting requirements. To achieve this, a Monitoring sub-directorate in Supply Chain was set up within the broader SCM Directorate. This activity wasconsidered to be of key strategic importance as the demand, acquisition, logistics and disposal elements of SCM. The monitoring unit reports to the Supply Chain Director and is seen as an integral part of the unit, and instead of forming the monitoring group as part of the Risk sub-Directorate as is normal practice across other Departments, it was incorporated into SCM.

One official notes their role as follows:

> *Most of their role is to focus on issues of compliance that keeps us on our toes because you have to adhere to the processes that are stipulated. So we have checks and balances in place.*

This was elaborated by an official in the Directorate who noted that

> *The role of the monitoring sub-directorate has a much further reach. They are able to provide reports on all commodities and supplies that are used in the Department of Human Settlements, and can tell where there are internal problems with consumable usage, and provide benchmarks for accepted usage. The unit keeps track of suppliers and contractors and is able to report on whether a supplier delivered the service as stipulated in the terms of reference, to the required level. Their work assists the critical committee work such as bid adjudication in terms of reporting on past practice and the history of a suppliers' work for the Department.*

The Monitoring unit sees its work as proactive as well as reactive, as it makes sure that all individuals in the SCMprocess are aware of what their reporting requirements are, and how to go about procuring and reporting. As noted by an official "…*we pre-conscientize them to what they are meant to do*'.

Linking SCM to risk assessment and strategy development

In addition to developing monitoring and internal audit, the work of risk assessment was incorporatedinto the work of SCM. While not organisationally located within the SCM Directorate, Risk operates within the SCM fold of activities. One of the changes that are being mooted for the future is the possibility of formally bringing Risk into the SCM fold.

In the supply chain management unit, risk assessment and management of these was introduced as part of planning and as a means of ensuring that the Department does not face any surprizes after internal and external audit reports are presented. The work of risk assessment informs strategy development and annual planning cycles, and feeds into

demand and acquisition phases of the department's work.So, on the one hand, the department forecasts risk at the stage of strategy development and annual action plans, through the centralisation of risk assessment to strategy development; and on the other hand, there is a sub-directorate that is monitoring that all elements of the supply chain are adhering to the regulatory and reporting requirements for their particular link in the chain.

These innovations have borne fruit. In the 2010 – 2011 Auditor General's report for Mpumalanga, a number of departments are singled out for non-compliance with supply chain regulation requirements. This did not include the Department of Human Settlements as it complied with the relevant regulations. .

In addition to incorporating risk warning, and then monitoring to the work of SCM, the department in 2009 developed a procedure manual that provides guidance on all aspects of the department's work.Of particular importance in the manual and in the general ethos was payingsuppliers within 30 day period.The value of the manual and a different ethos was noted by an Official as follows:

> *What assists us a lot is that we developed a procedure manual in the department that informed all the processes in the supply chain and finance. It gives the threshold, who is supposed to do what, the process flow, that allocates functions to certain posts and also allocates the turn-around time. If you give a form to somebody – how long should it take? If it takes longer than that, there is a problem. I think that that assisted us a lot. And it helped us to address the problem of 30 days because you could identify all the processes that it goes through and where is the problem in the processes and how to remedy it. It informs the effectiveness of the SCM committees. You have the Specification Committee, Bid Evaluation Committee, Bid Adjudication Committee, the Disposal Committee. They are effective. They have schedules for sitting, and it really helps a lot that they know what it is that is expected from them and time frames that have been allocated [through the procedures manual].*

The manual was developed in 2009 as a response to the issues that had been raised in the Auditor General's report at the time. There is general consensus that while it has been reviewed as recently as 2010, there has until now been no need to fundamentally revise it. It will go through a revision in 2012 to deal with some changes, but it has been able to meet the needs of the financial management of the department at large.

Building an adherence culture and the future

As the SCM Directorate is the custodian of the rules and process it does not make for popularity within the Department. People sometimes have difficulty and don't often react well when it comes to SCM Directorate forcing them to adhere to the rules and follow the correct procedures. One of the involved Officials provided a hypothetical example:

> *For instance, if the MECwanted a car next week, we simply apply the rules. We do not circumvent the processes that have been put in place because of pressure from people.And the Accounting Officer supports us in this.*

The supply chain unit sees its work as central to the Department. As one Official notes:

We take supply chain as the dead centre of the department because everything is coordinated within the unit. Even buying a ball-point pen. Three quotations. But it allows delegated powers according to the price. There is never an opportunity for an end user to make a decision to buy without a decision of the adjudication committee. So we take this unit as the centre. Hence the leadership support to the Unit.

Plans for the future of the SCM Directorate are the organisational incorporation of the Risk sub-Directorate under the SCM banner and the further cementing of SCM functions within the work of the Department. Give the range of legal issues involved, there was also a general perception that the setting up of a legal function would assist in quickly responding to contract issues, before these result in delays in service delivery.

Conclusions: drawing lessons

In the path to success, the Department and, in particular, the SCM Directorate was particularly successful in establishing and affirming its role as being central to the success of the Department. It also, as a result of this approach, succeeded in managing pressures to move beyond established accountability procedures and rules. Of particular relevance to success was the initial approach of ensuring that the Department has the right people and that were capable of performing the tasks expected from them in the SCM system. Linked to this and the overall success was the incorporation of an internal monitoring and risk assessment capability for SCM.

This was particular important as it broadened the framework for ensuring that there is adherence to rules and that public resources are spent in an optimal manner. The SCM Process and Procedures Manual also enabled all responsible people, within the SCM process, to know what is expected of them, what their boundaries are, and how long each aspect of the work required. Through good practice and process innovations, the Department has taken the Treasury SCM framework to a new level. The elements that have been incorporated are reflected in Figure 2 which shows the Treasury conception of the SCM function in grey, with the additional overarching aspects of Risk assessment monitoring, backed up by structured process and procedure protocols.
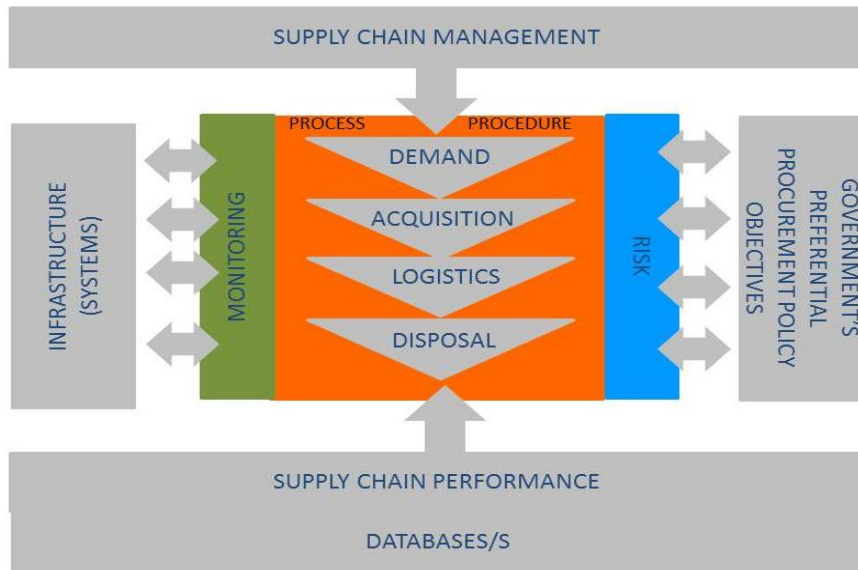
Figure 2:Mpumalanga Department of Human Settlements SCM organisation[12]

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