

Chapter 1

Introduction

1.1 Background and Purpose of the Study

The increasing democratisation of South Africa from 1994 onwards saw far-reaching changes being implemented in order to change society and to eradicate the wrongs of the past. Legislation, which was introduced to give effect to these changes, simultaneously has served as a key driver for modernising governance in South Africa.

The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996) (hereafter referred to as the Constitution) sets out the objectives of local government.¹ These objectives include ensuring the sustainable provision of services to communities and the promotion of economic development. The duty of a municipality to facilitate economic development is reiterated in the description of the developmental duties of a municipality.²

Chapter 13 of the Constitution deals with general financial matters, including procurement.³ When a local authority enters into contracts in order to secure goods or services, it must do so in accordance with a system that is fair, equitable, transparent, competitive and cost-effective. Local authorities may also implement a procurement policy providing for categories of preference in the allocation of contracts and the protection or advancement of persons previously disadvantaged by unfair discrimination. However, national legislation must prescribe a framework within which such a policy may be implemented.

Furthermore, national legislation⁴ must prescribe measures for ensuring both transparency and expenditure control in local government by introducing, amongst others, uniform treasury norms and standards.

To give effect to Section 216 of the Constitution, the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (hereafter referred to as the MFMA) took effect on 1 July 2004, with certain exceptions. In the foreword to the Act, the Minister of Finance

¹ Section 152.

² Section 153.

³ Section 217.

⁴ Section 216.

states that the MFMA aims to modernise financial management practice in order to maximise the capacity of municipalities to deliver services. One of the key objectives of the MFMA is to establish norms and standards regulating supply-chain management (SCM).⁵

Chapter 11 of the MFMA, in its coverage of the SCM, states that each municipality must implement its own SCM policy,⁶ which must be fair, equitable, transparent, competitive and cost-effective, as well as complying with a prescribed regulatory framework.⁷

The National Treasury subsequently promulgated Supply-Chain Management Regulations on 30 May 2005. In terms of these regulations, the following legislation must be adhered to:

- the Preferential Procurement Policy Framework Act (PPPFA), 2000 (Act 5 of 2000);
- the Broad-based Black Economic Empowerment Act (BBBEEA), 2003 (Act 53 of 2003); and
- the Construction Industry Development Board Act, 2000 (Act 38 of 2000).

These regulations give effect to section 217 of the Constitution and provide a framework for SCM by municipalities.

The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) (hereafter referred to as the Systems Act) gave effect to Section 154 of the Constitution, which states that the national and provincial governments must act in a supportive role to municipalities. In terms of Chapter 5 of the Systems Act, municipalities must adopt and implement an integrated development plan (hereafter referred to as the IDP) in line with their developmental and economic upliftment duties.

⁵ Section 2(f).

⁶ Section 111.

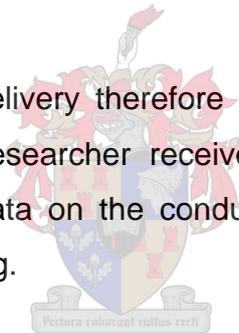
⁷ Section 112.

The IDP⁸ of Matatiele Municipality states that, for local government to become more outcomes-based and in order to achieve successful development planning, the following three actions need to occur:

- *Local Government needs to adopt a more entrepreneurial approach and undertake a mind shift from being merely a service provider.*
- *Stronger networks need to be established between the municipality, donors, and funding sources.*
- *A set of implementable and measurable projects needs to be identified, each with specific outcomes and outputs.*

The vision of the Matatiele Municipality, as described in its IDP, consists of three elements, namely: local economic development (LED); service delivery; and institutional development. The concepts of service delivery and financial management feature prominently in these elements.

The legal framework for service delivery therefore is contained in the abovementioned documents. However, when the researcher received feedback from a customer care questionnaire sent out to obtain data on the conduct and attitude of the municipality's cashiers, the findings were disturbing.



Clients of the Matatiele Municipality are unhappy with municipal service delivery and with the council's performance due to:

- insufficient job creation;
- the lack of creation of economic opportunities for historically disadvantaged individuals;
- the overly long response time taken to resolve queries;
- the inefficiency of the relatively unskilled municipal staff;
- the expensiveness of services; and
- the lack of transparency in the municipality.

Certain actions must, therefore, be implemented to remedy the situation. The Municipality's strategy for achieving its IDP objectives must be addressed. Furthermore,

⁸ Matatiele Municipality, Integrated Development Plan, 1 July 2002 to 30 June 2007.

since the concept of SCM features prominently in new legislation adopted specifically to modernise local government, the process of modernisation itself must also be addressed.

From the above, it can be concluded that national government acknowledges the importance of SCM in the service delivery process. Municipalities must strategically plan the implementation of the enabling legislation. Strategic SCM is, therefore, an important factor in the service delivery process.

Strategic planning is a long-standing concept. More than 3 000 years ago, Solomon⁹ wrote that where there is no vision, the people perish. Thompson and Strickland (2001:3) define strategy and strategic management as follows:

A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully and achieve organizational objectives. The term strategic management refers to the process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy and then, over time, initiating whatever corrective adjustments in the vision, objectives, strategy and execution are deemed appropriate.

Kaplan and Norton (2004) state that an organisation's strategic statement describes how it intends to create value for its shareholders, customers and employees. Wixley and Everingham (2002:10) state that strategic planning includes deciding what business the company should be in, who its customers are, and how success will be measured.

From the above, it can be deduced that strategic management is a process whereby organisations determine what they are currently doing and what they should be doing in future to position the organisation more positively.

SCM is a new concept in the South African public sector. The MFMA only came into effect on 1 July 2004 and the relevant SCM regulations were only promulgated on 30 May 2005. SCM is therefore still a new field of study in the South African local government sphere. In terms of the MFMA, municipal managers, as accounting officers, must embrace the responsibility for introducing SCM into their respective local authorities. The development

⁹ Proverbs, Chapter 29, Verse 18.

of a strategic SCM plan is therefore inevitable if Matatiele Municipality wants to achieve its IDP objectives.

The proposed study will focus on strategic management, SCM, the linking of the two concepts in strategic SCM, applicable legislation and the current status quo of Matatiele Municipality.

1.2 Research Problem and Objectives

The National Treasury of South Africa has recognised SCM as one of the key financial management reform focus areas. Municipal managers, as accounting officers of municipalities, are responsible, and accountable to their councils, for the implementation of SCM. The problem is that the SCM Regulations are so new to local government that their particular relevance to the different municipalities is as yet unknown. The Regulations are being phased in over a 12-month period, thereby giving municipalities an opportunity to draft and adopt their own locally administered SCM policies. No guide or model therefore exists that can be adapted to suit the Matatiele Municipality. The research question is therefore: *“What should a Strategic SCM Model for Matatiele Municipality look like?”* The objective is to develop a strategy that the executive authority of Matatiele Municipality can implement in order to improve its service delivery.



1.3 Research Design and Methodology

An empirical qualitative study will be undertaken, comprising the following four elements:

- the literature review
- an assessment of Krakow Municipality in Poland and VUNA Award finalists in KwaZulu-Natal
- an analysis of the status quo at Matatiele Municipality
- an interpretation of the above three elements

Data on the subjects of SCM and strategic management will be collected by means of a literature study. The assessment of Krakow Municipality and the VUNA Award finalists will be done by means of personal and telephonic interviews. The status quo will be analysed

by means of studying financial statements, budget documents, and minutes of the Matatiele Municipality, as well as by observing current planning and SCM practices.

1.4 Acronyms and Abbreviations Used in the Current Study

The following acronyms and abbreviations are used in the study:

ABET	– adult basic education and training
BBBEEA	– Broad-based Black Economic Empowerment Act, 2003 (Act 53 of 2003)
BEE	– black economic empowerment
BSC	– balanced scorecard
CBD	– central business district
CDW	– Community Development Worker
CFO	– Chief Financial Officer
Constitution	– Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)
Demarcation Act	– Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998)
EU	– European Union
HDI	– historically disadvantaged individual
ICT	– information and communication technology
IDP	– integrated development plan
IT	– information technology
KPI	– key performance indicator
LED	– local economic development
LLF	– Local Labour Forum
Matatiele Municipality	– KZ5(a)3 as established in terms of Notice 5563 dated 19 September 2000 in terms of the Demarcation Act
MEC	– Member of the Executive Committee
MFMA	– Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)
NGO	– non-governmental organisation
PAIA	– Promotion of Access to Information Act, 2000 (Act 2 of 2000)
PAJA	– Promotion of Administrative Justice Act, 2000 (Act 3 of 2000)
PC	– personal computer

PDI	– previously disadvantaged individual
PPPFA	– Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000)
PPP	– public–private partnership
RIS	– regional innovation strategy
SARS	– South African Revenue Services
SCM	– supply-chain management
SCOR	– supply-chain operations reference
SITA	– State Information Technology Agency
SMME	– small, micro and medium-sized enterprise
Structures Act	– Local Government: Municipal Structures Act, 1998 (Act 117 of 1998)
Systems Act	– Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
VAT	– value-added tax
WPTPS	– White Paper on Transforming Public Service Delivery

1.5 Outline of Chapters

The framework of the study, outlined in terms of the specific chapters, is set out below:



1.5.1 Chapter 1: Introduction

Chapter 1 describes the background and purpose of the current study, states the research problem and objectives involved and outlines the research design and methodology of the study. After the key concepts have been defined, an outline of the chapters is given.

1.5.2 Chapter 2: Theoretical Framework

Chapter 2 analyses the theory regarding strategic management and SCM. Regarding strategic management, the research will focus on the forming of a vision; the setting of objectives; the crafting of a strategy; the implementation and execution of a strategy; and the making of corrective adjustments. Regarding SCM, the research will focus on defining SCM; unpacking the strategic SCM

process; exploring SCM integration; investigating customer service; and describing the link between strategic planning and SCM.

1.5.3 *Chapter 3: Legislative Requirements*

The legislation requirements regarding SCM in South Africa will be discussed. The discussion will focus on the following legislation: the Constitution; the Structures Act; the Systems Act; the MFMA and the MFMA SCM Regulations; the PPPFA and its regulation of the BBBEEA; the “Batho Pele” principles; and the Financial Regulations of the Matatiele Municipality.

1.5.4 *Chapter 4: Comparative Studies*

Chapter 4 discusses the investigation into the implementation of SCM in other towns. The researcher’s interview with the Director: Budget of the Krakow Municipality that took place on his visit to the city of Krakow in Poland is discussed in this chapter. Lastly, the views held by certain VUNA Award¹⁰ finalists in KwaZulu-Natal on SCM are given.

1.5.5 *Chapter 5: Analysing Strategic Supply-Chain Management by the Matatiele Municipality*

Chapter 5 describes Matatiele Municipality’s strategic focus and alignment of resources in terms of Kaplan and Norton’s (2001) model of a strategy-focused organisation.

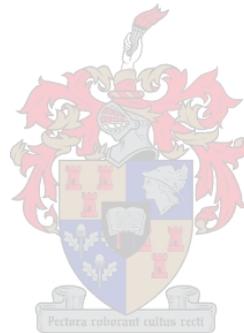
1.5.6 *Chapter 6: Findings on Supply-Chain Management by Matatiele Municipality*

A gap analysis between the theory relating to SCM and the current status quo of Matatiele Municipality is described in Chapter 6.

¹⁰ The VUNA Award identifies and rewards municipalities with superior development planning practices. See paragraph 4.3 of this study for more detail on this reward.

1.5.7 Chapter 7: Recommendations and Conclusion

After making recommendations on how to remedy the situation, the conclusion is stated in Chapter 7.



Chapter 2

Theoretical Framework

2.1 Introduction

The remark is often made that the world is getting smaller or that the world consists of a single global village. The reason for this statement is that technology has made it possible for two people to communicate in real time, despite their being in two totally different parts of the world. Cellular and satellite telephones enable communication with those in the most remote locations, such as the peaks of Mount Everest and Kilimanjaro. Satellite television broadcasting enables people to watch sports matches live, despite their being on the other side of the globe. Others follow the progression of war on other continents by means of mass media broadcasts. A person can travel by aeroplane and be in another continent within hours, compared with the weeks by boat that intercontinental travel took in the past.

The above-mentioned realities force institutions competing with one another to think innovatively and to compete in the international arena. Business processes must therefore change in order to enable businesses to survive in an ever-changing environment. Local businesses must compete globally, because trade is no longer hemmed in by national boundaries. Citizens nowadays demand the same quick response from government institutions as that which they are used to from the private sector.

Keeping the above in mind, Chapter 2 briefly describes the concepts of strategic management, strategy mapping, and SCM. The purpose of the strategic management and strategic mapping subsections is not to repeat or summarise the volumes of literature on these constructs, but to provide an overview of aspects that will be of relevance in terms of the research question that this thesis asks. Seeing that SCM had its origins in the area of business management, strategic management and strategy mapping are also predominantly explored from a business perspective. The local authority application of such thinking will be explored in later chapters.

2.2 Strategic Management

Strategic management is explored below in terms of its definition, relative importance, and process.

2.2.1 Definition

An institution's strategy is its game plan, which management implements in order to obtain a market share, conduct its business, satisfy customers and achieve its objectives. Initiatives and approaches that an institution takes while conducting its business form part of the institution's strategy (Thompson & Strickland, 2001:17). According to Russouw, Le Roux and Groenewald (2003:2), strategic management can be seen as a tool to be used to bridge the gap between the present state and the future objectives. Decisions must be made and actions taken and implemented in order to achieve an organisation's objectives. Thompson (1995:7) defines strategic management as the process by which institutions establish their purpose, objectives and most wanted levels of achievements; choose which actions must be taken to achieve the objectives within an acceptable timescale; implement the actions in an ever-changing milieu; and measure the resultant development and outcomes.

According to Cronje, Du Toit, Motlatla and Marais (2004:140), strategic management revolves around planning, which has three dimensions: firstly, the determination dimension whereby an organisation must determine what it wants to achieve by when; secondly, the decision-making dimension in which actions that need to be taken are decided on, requiring opting for specific methods by which to reach the objectives; and, thirdly, the future dimension, according to which proactive steps must be implemented in order to achieve the set objectives by a specified future date despite any untoward pressures imposed by an ever-changing environment.

2.2.2 The importance of strategic management

Strategic management gives direction to an organisation. Objectives, and action steps by which to achieve them, are determined in terms of strategic management, which also indicates whether the organisation is acting appropriately. Strategic management promotes co-ordination between different functional units of an organisation, because all those who work according to such principles work towards the same objectives. Managers are also forced to look to the future, in terms of such management, in order to identify imminent threats and to be able to assess how best to implement steps to avoid them. Strategic management also ensures that cohesion exists between functional units and employees of an organisation, as all employees come to know what the goals of the

organisation are and all activities are aligned to achieve the identified goals. In this way, the stability of the organisation is promoted (Cronje *et al.*, 2004:140; Russouw *et al.*, 2003:3; Thompson & Strickland, 2001:28).

Bean (1993:6) states that organisations that lack strategic guidance simply survive on a day- to-day basis, which results in a staggering amount of unfulfilled potential. The management of such organisations then responds to affliction in a reactive individual way, rather than making the transition in a strategic way that requires proactive teamwork. Accordingly, the implementation of strategic management principles in such organisations will ultimately result in greater leverage for the organisations concerned.

David (1998:13) agrees that an organisation becomes more proactive by way of strategic management, enabling it to initiate and influence, rather than to respond to activities that cause changes to its environment. Management and employees should, accordingly, become involved in the strategic management process, which will improve communication at all organisational levels and create a feeling of cohesion throughout the organisation. All concerned will then buy into the process and feel included in it, if their views and input are given due consideration.

Thune and House (cited in Comerford & Callaghan, 1990:6) proved that formal planners perform better than informal planners, while Burt (cited in Comerford & Callaghan, 1990:6) concluded that the higher the quality of planning, the better the performance achieved.

Our discussion so far indicates that strategic management improves an organisation's effectiveness and efficiency, and should ultimately lead to enhanced customer satisfaction and value creation.

2.2.3 The strategy-making and implementation process

Thompson and Strickland (2001:6) describe the strategy-making and implementation process in which the forming of the organisation's vision, the setting of objectives, the crafting of a strategy, the implementing, as well as the executing, of strategy and performance evaluation, and the initiation of corrective steps are all interrelated managerial tasks. Although Cronje *et al.* (2004:142) make no mention of a vision, they portray the process of strategic management as being one of formulating objectives,

choosing the right plan, implementing the plan and exercising control, including revising objectives and plans. According to Russouw *et al.* (2003:4), the strategic management process consists of two phases: the formulation phase and the implementation phase. Strategic planning takes place during the formulation phase, while organising, leading and control are performed during the implementation phase.

The above-mentioned literature describes strategic management in terms of a range of concepts, which all lead to the same result. The process of strategic management will now be described in greater detail under the headings: forming a strategic vision; setting objectives; crafting a strategy; implementing and executing the strategy; and making corrective adjustments. The five tasks listed here are illustrated schematically in Figure 2.1, which is discussed in greater detail below.

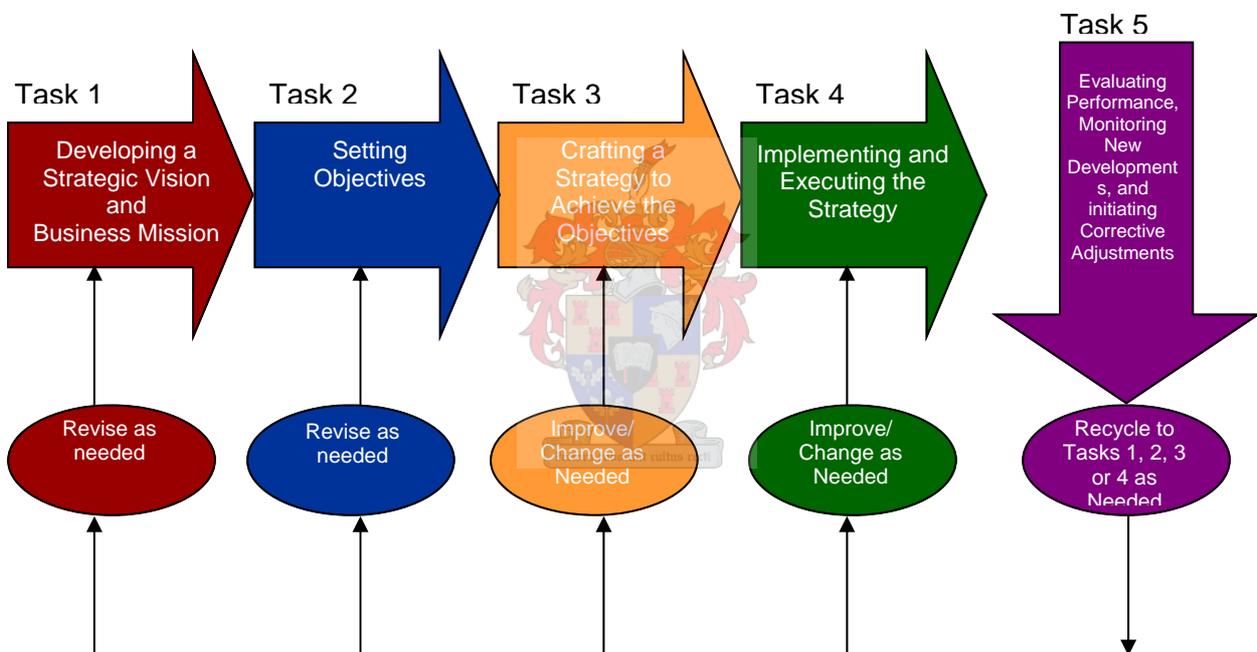


Figure 2.1 THE FIVE TASKS OF STRATEGIC MANAGEMENT

Source: Thompson & Strickland (2001:7).

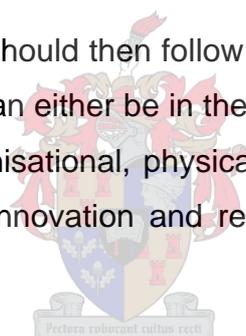
2.2.3.1 Forming a strategic vision

No business undertaking or organisation can continue to operate into the future if it does not know what it wants to achieve. Every businessperson has a dream about the objectives he/she wishes to achieve at a future date before he/she starts trading. This dream is the vision of the organisation (Thompson & Strickland, 1995, cited in Russouw *et al.*, 2003:15; Thompson & Strickland, 2001:6).

The strategic vision of an organisation is therefore management's opinions and conclusions regarding the organisation's long-term direction, customer focus and business strategy. The differences between a strategic vision and a mission statement lie in what we *want to be* as opposed to what we *need to do*. The vision is, therefore, about the future status, while the mission is about the business activities that enable the organisation to attain that status (Thompson & Strickland, 2001:32).

According to Russouw *et al.* (2003:54), an organisation must have a general understanding of the external environment before it can develop its vision and mission statements. The customers; the markets; the surrounding society; the public sector; the competition; and the economy are six external environmental elements that all have an effect on any organisation. Opportunities and threats that an organisation must face are determined by its analysis of the external environment.

An internal environmental analysis should then follow in order to identify the organisation's strengths and weaknesses, which can either be in the form of tangible or intangible assets. Tangible assets are financial, organisational, physical and technological resources, while intangible assets refer to human, innovation and reputational resources (Hitt, Ireland & Hoskinson, 2003:83).



Thompson and Strickland (2001:130) argue that the value chain analysis treats the organisational processes as the basis for analysing both internal strengths and weaknesses. The value-chain approach is divided into two main categories: primary activities and supporting activities. Primary activities consist of inbound logistics, operations, outbound logistics, marketing and sales, and service, while supporting activities consist of general administration, human resource management, research, procurement, and technology and systems development. These two methods generate the information required for a SWOT analysis, in which S stands for strengths; W for weaknesses; O for opportunities; and T for threats.

2.2.3.2 Setting objectives

According to Thompson and Strickland (2001:42), the strategic vision needs to be converted into specific performance targets, results and outcomes which the organisation

wishes to achieve. Managers at all levels, in each functional unit, must set objectives and manage performance.

Objectives provide all employees in the organisation with a sense of being guided and achieving harmony, by means of the assistance that they provide with planning. Everybody who knows the objectives of their organisation knows what is expected of them individually, as part of a functional unit and as part of the entire organisation. Such knowledge helps to inspire and motivate the staff, especially if their achievements are linked to incentives. The responsibility for reaching objectives must clearly be assigned to specific individuals. The remuneration system of the organisation must be integrated with the objectives set in order to encourage the employees to reach both the organisation's and their own objectives. Objectives can be determined by means of a hierarchical, or top-down, approach, according to which management sets the objectives for the subordinates, or by means of a management by objectives, or bottom-up, approach according to which both management and subordinates consider objectives jointly (Cronje *et al.*, 2004:148).

Financial and strategic performance must be measured continually. If a company does not deliver satisfactory financial results, shareholders will not continue to invest in its shares. Similarly, if a company does not improve its market share, product quality or customer service, it will not increase its competitiveness or business position, resulting in a perceived inability to produce satisfactory financial results (Thompson & Strickland, 2001:43).

According to Russouw *et al.* (2003:2), objectives must be set after scanning the environment. Such objectives must be in line with the mission statement.

2.2.3.3 Formulating a strategy

Thompson and Strickland (2001:48) state that strategies are management's answers to how objectives must be achieved and to how to pursue the organisation's vision and mission. Strategy-making relates to how to accomplish targets and beat rivals, as well as to how the company vision can become a reality.

In formulating a strategy, due consideration must be given to a variety of action plans in order to facilitate selection of the action plan that will most likely lead to the achievement of

the organisation's objectives. If the chosen plan does not accomplish the objectives, an alternative plan must be developed and implemented by management. While developing an alternative action plan, the influence of external factors – such as economic trends and legislation; the strong and weak points of the organisation; and the cost of such an alternative plan – must be compared against the advantages that could be attained by it (Cronje *et al.*, 2004:150).

Russouw *et al.* (2003:99) classify strategies into two groups: generic or competitive strategies, and grand or business strategies. A generic strategy has a narrower scope than a grand strategy and is the core idea on which an organisation bases its future activities.

Porter's five generic strategies are described as follows by Thompson and Strickland (2001:150):

1. A *low-cost provider strategy* is the overall low-cost provider of goods and services and is attractive to a wide spectrum of clients.
2. A *broad differentiation strategy* serves to differentiate the company's products from those of its competitors in such a way that they should appeal to a wide spectrum of buyers.
3. A *best-cost provider strategy* ensures the provision of products with good to excellent characteristics at a more cost-effective price than those provided by the competitors concerned.
4. A *focused strategy based on lower cost* ensures that products are produced at a lower cost than are those of competitors who meet the needs of small groups of clients.
5. A *focused strategy based on differentiation* offers products with customised features that facilitate the performance of tasks better than do similar products of rivals, are offered to a small group of clients.

The above-mentioned five generic strategies stake out different market positions, as shown in Figure 2.2.

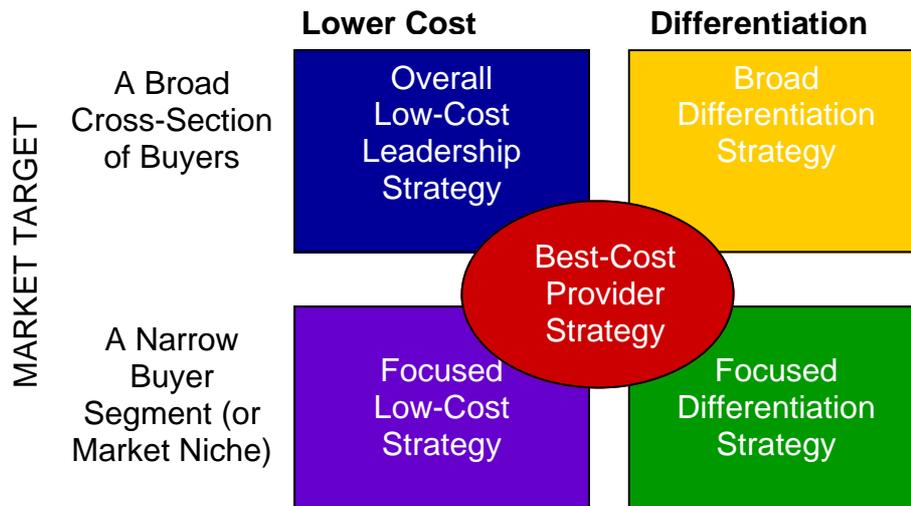


Figure 2.2 TYPES OF COMPETITIVE ADVANTAGE

Source: Adapted from Porter (1980).

Grand or business strategies are based on generic strategies and provide direction for strategic actions. They form the basis of synchronised efforts that are directed towards realising the long-term objectives of an organisation.

2.2.3.4 Implementing and executing a strategy

Comerford and Callaghan (1990:195) state that strategies can only be implemented through and by people in keeping with the way in which human resources are co-ordinated hierarchically and laterally through the assigning of responsibilities. The choice of the organisational structure is contingent upon strategic thrusts, environmental circumstances and complexities emerging from growth.

Strategy implementation entails the establishment of policies and annual objectives, as well as the allocation of resources. Annual objectives are essential for the implementation of strategies, as they form the basis for allocating resources; serve as the primary device for evaluating managers; are the major instrument for monitoring progress towards reaching long-term objectives and assist in the establishment of priorities at all levels in an organisation (David, 1998:216).

Kaplan and Norton (2001:2) state that the concept of creating value has moved from the arena of tangible assets to that of the intangible. Employees' intangible capabilities, knowledge and relationships create competitive advantage, making it necessary to link business units, support units and employees to the devising of an appropriate strategy. Processes, systems and a language for communicating strategy assist organisations with the implementation of strategy.

The need to measure future performance developed over time, with strategies having to be measured. The annual financial statements of an organisation indicate its financial performance over a certain period of time, as well as its financial position at a certain date in time. However, financial statements only indicate past financial performance and do not provide any basis for measuring and managing value created by means of improving an organisation's capabilities in regard to intangible assets. According to Kaplan and Norton (1996:viii), this shortcoming led to the expansion of the Analog Devices' corporate scorecard into the balanced scorecard (hereafter referred to as the BSC).

The BSC complements financial measures of past performance with measures of the drivers of future performance. An organisation's vision and strategy informs the objectives and measures organisational performance from four perspectives, namely: financial, customer, internal business process, and learning. (Kaplan & Norton, 1996:2)

Olve, Petri, Roy and Roy (2003:3) argue that the BSC is not just another performance report combining financial and non-financial metrics, but actually provides management with the following:

- The scorecard is balanced: the four perspectives aim to provide a complete description of what one needs to know about the business.
- The scorecard reflects both internal and external aspects of the business.
- The scorecard is linked by means of cause–effect assumptions. It reflects on how strong these linkages are, what time delays they involve, and how certain the business can be about them in the face of external competition and change.

Olve *et al.* (2003:4) use the four perspectives proposed by Kaplan and Norton (2001) to compile a basic scorecard, as can be seen in Figure 2.3.

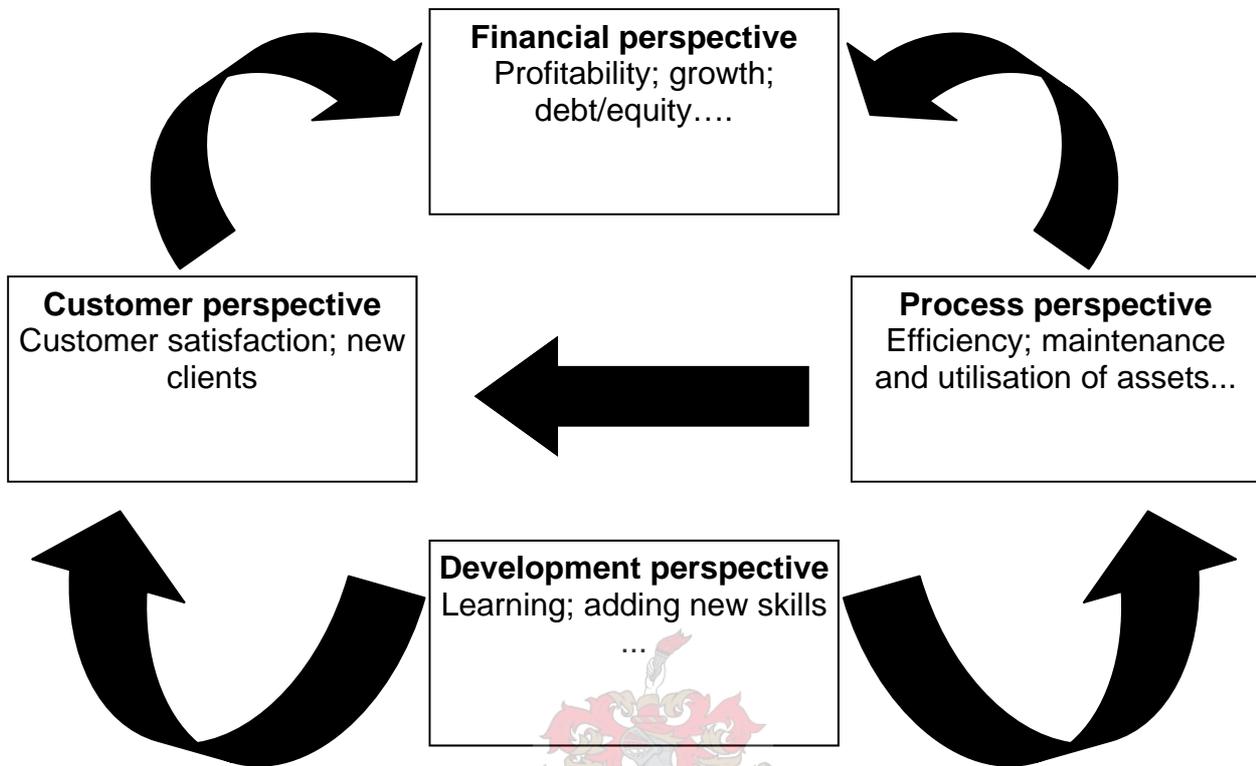
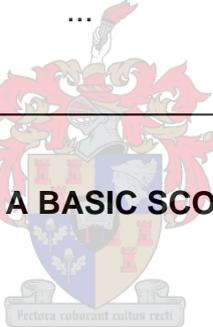


Figure 2.3 A BASIC SCORECARD

Source: Olve *et al.* (2003).



Kaplan and Norton (2001:1) state that a study of 275 portfolio managers revealed that the ability to execute strategy appeared to be more important than the strategy itself. Corporate valuations are shaped primarily by the implementation of strategy. Adherence to five common principles was observed at companies that achieved strategic focus and alignment of resources. The principles are recognised as characterising a strategy-focused organisation, as illustrated in Figure 2.4.

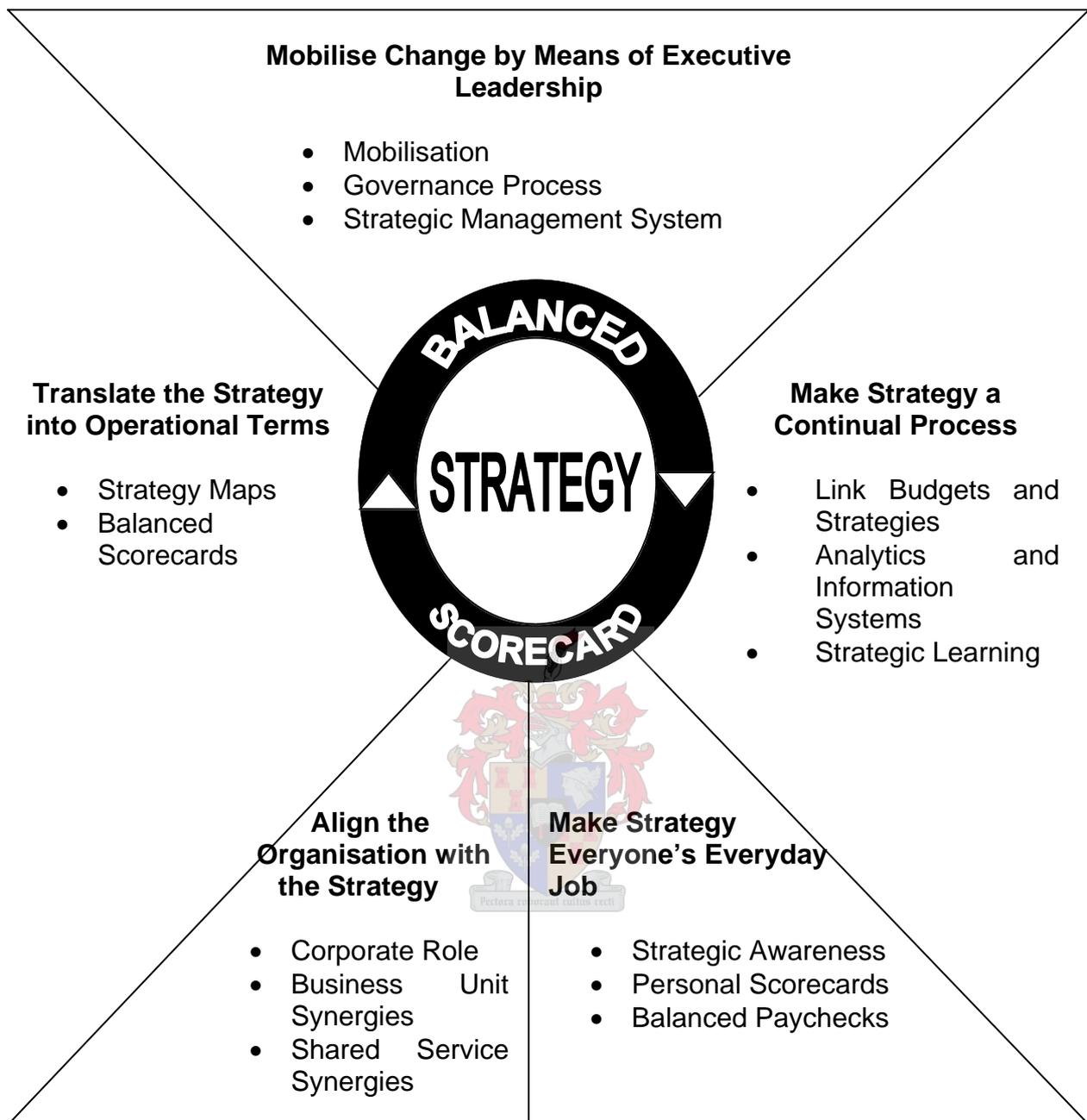


Figure 2.4 THE PRINCIPLES OF A STRATEGY-FOCUSED ORGANISATION

Source: Kaplan & Norton (2001).

Principle 1: Translate the Strategy into Operational Terms

In order to achieve their desired results, companies must capitalise on their existing both tangible and intangible capabilities and assets. A BSC should act as the recipe for unleashing the capabilities and assets hidden within an organisation. In order to be successful, all employees in the organisation must be engaged with the activities included in the BSC. The BSC design will always start by asking the question, “*What is the*

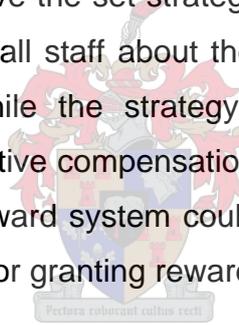
strategy?” This has led to the development of strategy maps, which are further described in subsection 2.2.3.4.1.

Principle 2: Align the organisation to the strategy

An organisation normally consists of multiple departments and units, each with its own strategy. To become an organisation that performs well, the individual strategies should be linked and integrated. Breaking through the barrier created by the different segments of the organisation opens the way to introduction of strategically aligned themes and priorities across all organisational units.

Principle 3: Make strategy everyone’s everyday job

The implementation of strategies calls for a contribution from everyone in the organisation. All employees must understand the strategies, and must use their daily inputs cohesively in unison with one another to achieve the set strategies. The BSC is a tool that facilitates communicating with and educating all staff about the new strategies. Personnel may set their own personal objectives, while the strategy and scorecard are communicated holistically from the top down. Incentive compensation may be added to the BSC. A team- or individual-based performance reward system could be introduced by way of using unit or division scorecards as the basis for granting rewards.



Principle 4: Make strategy a continual process

A regularly scheduled management meeting could be arranged to evaluate performance in terms of the plan, to analyse variances and to take corrective steps. Without discussion, the implementation is much less likely to succeed. Some organisations use a “double-loop” process, according to which regular stocktaking takes place and tactical and strategic management are integrated. Three elements must be kept in mind during implementation:

- a) The strategy and the budget process should be linked, with the BSC becoming the tool for evaluation of investments and initiatives. Two kinds of budgets emerge: a strategic budget and an operational budget. In this way the BSC is able to protect long-term initiatives from short-term underperformance. Similarly, the budgetary process should protect long-term initiatives from performing only in the short term.

- b) A system of management meetings should be directed at consideration of the strategic progress, in terms of which more senior personnel will be able to provide inputs into the strategy. Their input should further be supported by means of open reporting of their performance.
- c) A process for learning and adapting to the requirements of the strategy should be introduced. The BSC can initially be used as a hypothesis relating to strategy. The hypothesis can be tested when the BSC is implemented and feedback is received about the progress attained. The objective should be to glean ideas from the feedback provided by staff. In this way, strategy should develop a continual presence instead of merely being regarded as an annual process.

Principle 5: Mobilise change by means of executive leadership

Kaplan and Norton (2001:15) have argued that active participation and ownership deliver the best results. Strategy should be an integral part of daily functioning and teamwork, in which co-ordination should play an important role. Strategy must be looked at continuously, with performance being regularly tested against targeted outcomes. The leaders should be enthusiastic and energetic enough to be able to bring about change and to ensure implementation of the strategy. The BSC is a “change” programme, requiring the mobilisation of all involved to ensure that they gain momentum. Thereafter, the focus must be on controlling, resulting in the eventual emergence of a strategic management system, encompassing a new culture, new values, new structures and a new system of managing.

Kaplan and Norton (2001:9) introduced strategy maps to assist with the implementation of relevant strategies. They believe that an organisation’s strategy of how future value will be created should form the focus of the measurement system. Therefore, those few parameters that represent the organisation’s strategy regarding long-term value creation must be measured by the organisation.

A comprehensive description of strategy is required in order for executives to be able to communicate the said strategy amongst themselves, as well as to other employees. Understanding of strategy must be shared in order to create alignment around it. New strategies for coping with the ever-changing environment of global competition, advanced technology and competitive advantage derived from intangible assets cannot be

implemented without such alignment. The BSC is a tool for implementing an organisation's strategy, allowing executives to view their strategic measures as cause-and-effect linkages between objectives. Such linkages can be represented by means of a strategy map.

A strategy map provides a standardised way for describing a strategy that facilitates the institution and management of objectives and actions. The strategy map provides the link required between crafting and executing a strategy. Figure 2.5 illustrates an example of a basic strategy map.

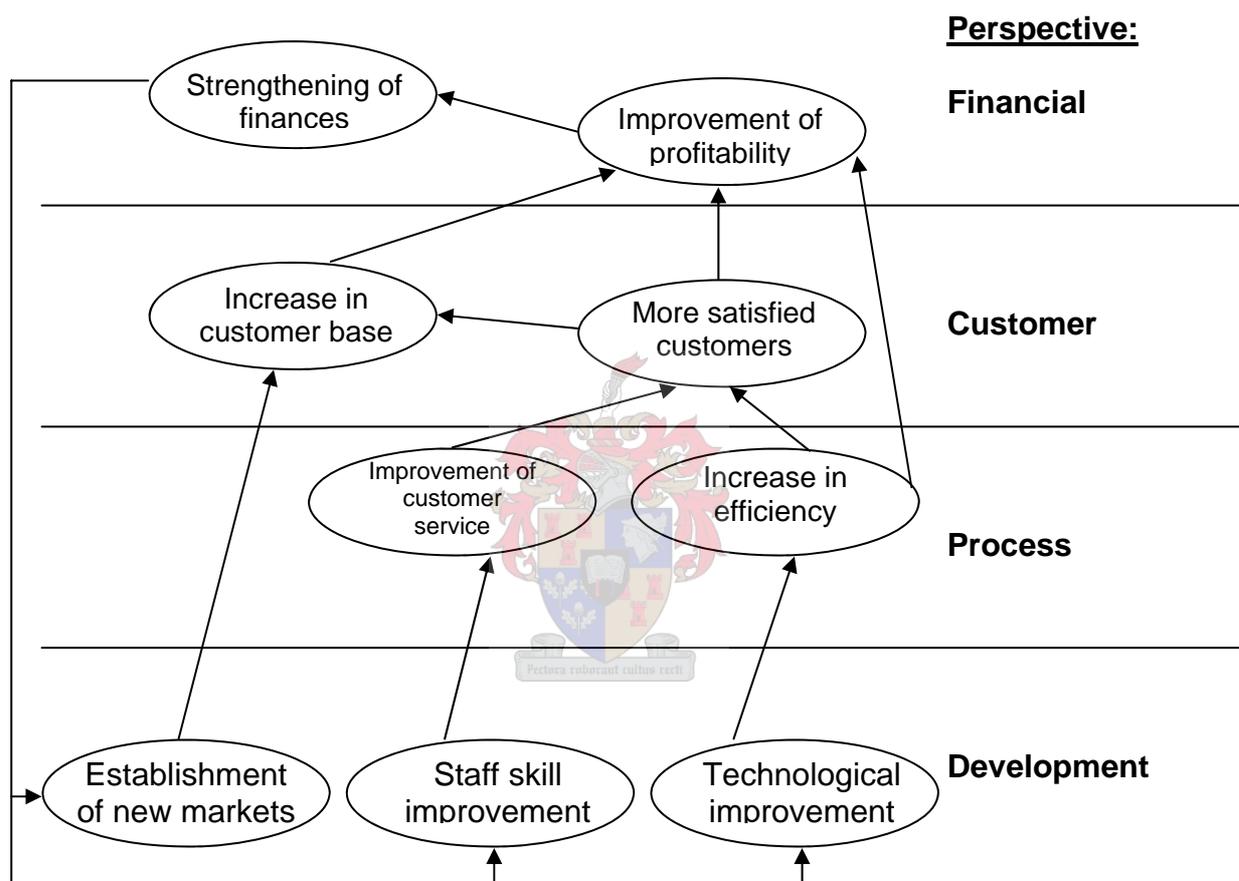


Figure 2.5 A BASIC STRATEGY MAP

Source: Olve *et al.* (2003).

2.2.3.5 Making corrective adjustments

In order to enable managers to monitor progress and institute prompt corrective action, accurate information must be supplied timeously. Modern-day managers find it challenging to ensure that their subordinates' actions stay within acceptable bounds and that the organisation is not exposed to excessive risk. Adequate controls must be implemented by managers to ensure that they protect their organisations from unwelcome surprises. Employees' initiatives must not be undermined by having too many rules and regulations.

However, clear boundaries on behavior must be established. Regular meetings must be held with staff to review information; to evaluate progress and performance; to restate expectations; and to deliberate the next action steps (Thompson & Strickland, 2001:393).

2.3 Supply-Chain Management (SCM)

SCM is explored below in terms of its definition, the strategic SCM process, supply chain integration, and customer service.

2.3.1 Definition

The supply chain includes all activities related to the moving of commodities, from the raw material stage through to the product used by the end user. All internal procedures, such as warehousing and all those relating to logistics, manufacturing and delivery form part of the supply chain, including the processes performed by role-players outside the organisation, such as suppliers, distributors, manufacturers, transport companies and information technology (IT) service providers. Value is added with each procedure or process performed both internally and externally, starting with obtaining raw material until the final service or product is delivered to the user. Each role-player is therefore a link in this chain, of which the value added has to be evaluated. If an analysis of values added reveals that a process adds less value than what it costs to perform, elimination of that process must be considered, unless a new strategy for increasing value can be introduced (Nieman & Bennett, 2002:16). The entire supply-chain process has led to Kotler (2000:13) stating that competition no longer exists between independent businesses, but, rather, it exists between networks of businesses trying to deliver the most cost-efficient products or services to clients in order to satisfy their needs as fully as possible.

SCM, therefore, consists of the integration of linkages of suppliers, customers and internal processes into a network aimed at performing specific procedures or processes that will lead to the creation of products and services of optimised value in order to satisfy customer demands (Hugo, Badenhorst-Weiss & Van Biljon, 2004:3). The following illustrations further describe the supply-chain and SCM concepts. Figure 2.6 shows an example of the supply chain, while Figure 2.7 shows the integrated supply chain.

Logistics management is primarily concerned with optimizing the flows within the organisation whilst supply chain management recognizes that internal integration by itself is not enough.

Different organisations include different processes and activities in the supply chain, because they have different structures and customers' demands differ. All planning, sourcing, manufacturing and delivery processes are included in SCM (Hugo *et al.*, 2004:9).

According to Hugo *et al.* (2004:200), key logistical activities contribute to logistics management's objectives, which, in turn, promote the supply-chain objectives. Logistical activities identified in South African literature, as cited in Hugo *et al.* (2004:205), are given in Table 2.1. The activities themselves will not be described in this study.

Table 2.1 LOGISTICAL ACTIVITIES

Customer service	Parts and service support
Demand forecasting	Plant and warehouse location
Inventory management	Procurement
Logistics communication	Reverse logistics
Materials handling	Traffic and transportation
Order processing	Warehousing and storage
Packaging	

2.3.2 The strategic SCM process

According to Hugo *et al.* (2004:23), instead of individual organisations continuing to compete on their own, nowadays supply chains compete against one another. The mutual strengths of all organisations involved in the supply chain are applied to focusing on creating value for customers in such a way that the supply chain as a whole outperforms other supply chains. Techniques for adding competitive strategy by means of SCM are indicated in Table 2.2.

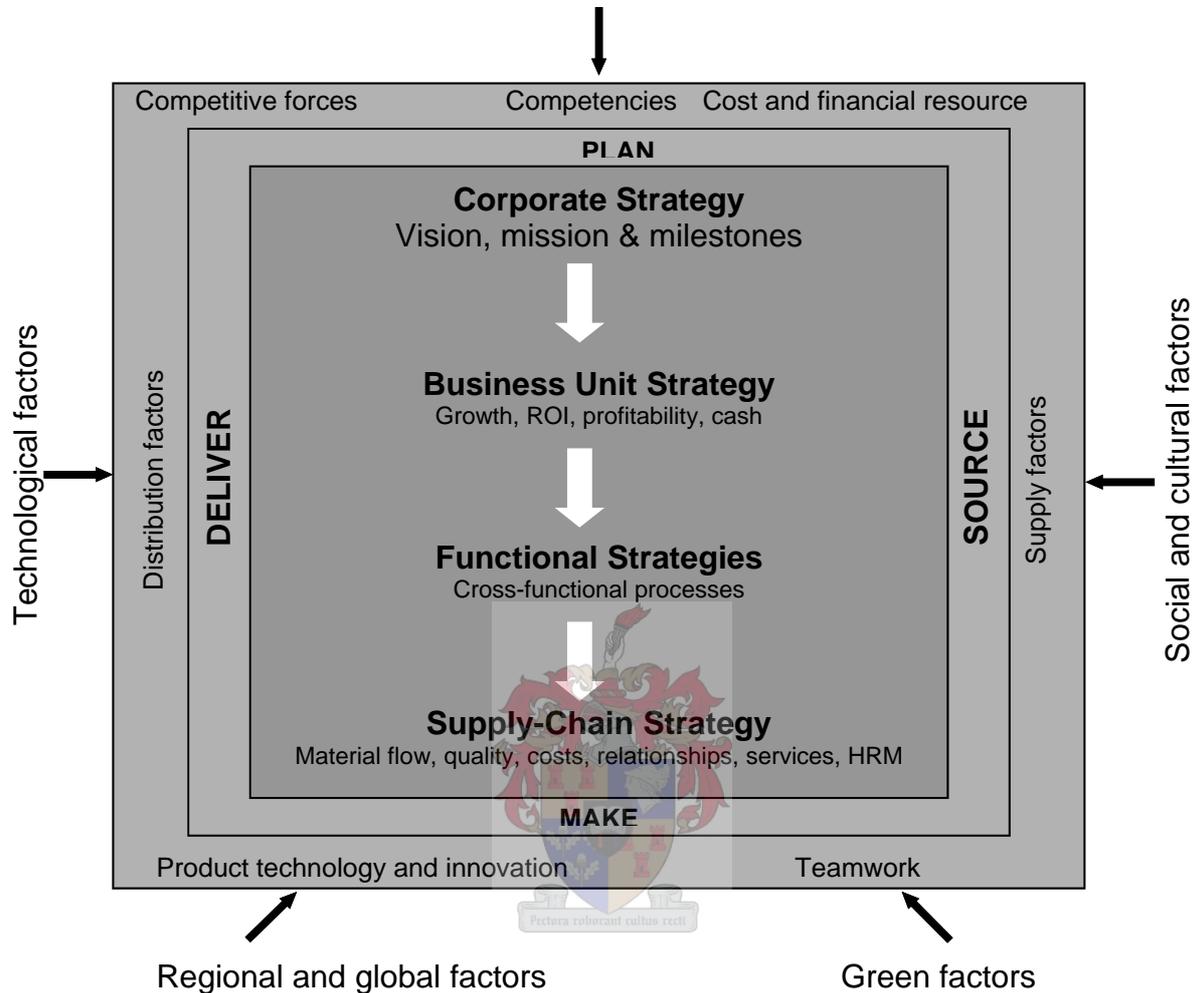
Table 2.2 TECHNIQUES FOR ADDING COMPETITIVE STRATEGY BY MEANS OF SCM

Technique	Description
Create a cost advantage	Cost must be reduced throughout the pipeline by means of a trade-off and sharing of costs and risks by supply-chain partners. Extended supply chains have a greater opportunity for reducing cost.
Focus on value adding	Waste elimination must be the aim of all activities throughout the supply-chain pipeline.
Deliver superior customer service	Customised products and services, which are provided in a cost-effective and efficient way, are demanded by customers.
Design for flexibility	Sudden market and demand changes require a flexible supply-chain and logistics system. A flexible supply chain will be able to develop and supply customised goods and services swiftly.
Innovate	Processes must improve continuously to keep pace with technological developments. Constant innovation will provide a supply chain with a sustained source of competitive advance.
Create a productivity and efficiency advantage	The pipeline must be so lean and efficient that it provides all members of the supply chain and the chain itself with a competitive advantage.

Hugo *et al.* (2004:30) provide a model for strategic SCM, which is illustrated in Table 2.3.

Table 2.3 STRATEGIC SUPPLY CHAIN MODEL

Political, legal and economic factors



Source: Hugo *et al.* (2004).

The outer perimeter of the strategic SCM model illustrates the external environmental pressures that impact on the organisation and its strategic processes. The internal and supply-chain environment form the next level of pressure. The impact of such pressure must be considered when the organisation designs its business model around the four strategic processes of plan, source, make and deliver that have been popularised in the supply-chain operations reference (SCOR) model during its development by the Supply Chain Council.¹¹ The four processes continuously add value when integrated with the processes of other firms that also form part of the supply chain. The format of the plan,

¹¹ The Supply Chain Council was founded in 1996 by PRTM & AMR Research with the aim of developing, maintaining, communicating, and supporting SCOR, as well as in order to create, advance, test, and validate supply-chain process standards and the resultant standard process (<http://supply-chain.org/page.ww?section=About+Us&name=About+US>).

source, make and deliver processes will determine the strategic management process of the firm. The square in the centre of the model shows the sequence of the strategic development process. The strategic management process starts with the creating of the corporate strategy, which, in turn, provides the platform for all related business strategies. Business processes are managed by means of cross-functional teams, each with its own focus area and strategy. The supply-chain strategy is formed when the activities of each functional team are integrated with those of suppliers and customers.

Poirier (2004:7) states that the supply-chain process is evolutionary. Firms pass through one level at a time on this pathway, and they themselves determine whether further progress is justified. The evolutionary process is summarised in Table 2.4.

Table 2.4 THE EVOLUTIONARY PROCESS OF SCM

Level	Process	Description
1	Internal/functional	Focuses on sourcing and logistics, while concentrating on internal needs and business unit efficiency. Organisational synergies are neglected.
2	Internal/cross-functional	Focuses on internal excellence and on starting intra-enterprise integration.
3	External network formation	Focuses on the customer by means of collaboration with selected partners.
4	External value chain	Focuses on the consumer by means of forming partnerships with other concerns in order to establish inter-enterprise synchronisation.
5	Full network connectivity	Focuses on other technology as the value chain enabler in order to achieve network optimisation.

2.3.3 Supply chain integration

Different supply-chain integration options are explored below in terms of cross-functional integration, cross-organisational integration, and supply community integration.

2.3.3.1 Cross-functional integration

Functional management is moving towards cross-functional process management. With functional management, business functions, such as finance and procurement, are organised as separate and independent business activities, with well-defined boundaries and specific tasks. With cross-functional process management, business processes are managed and synchronised as part of a total system. Particular processes are managed by a cross-functional management team instead of by one individual functional manager. All business activities of the entire organisation are integrated into continuous process flows (Christopher, 1998:231).

According to Hugo *et al.* (2004:69), customer needs are met in a more focused manner in a cross-functional integrated organisation, because rapid response systems will be developed, thereby enabling the organisation to react more quickly to demand changes than it could previously do. Complex problems can be dealt with more effectively, because an increase in synergy and creativity is achieved during decision-making as a result of the team structuring that allows for the application of a variety of skills. In a cross-functional integrated organisation, inter-functional conflict will be eliminated and consensus more easily reached. Problems, activities, processes, linkages and solutions are shared amongst team members, resulting in team members obtaining new skills and learning about other disciplines.

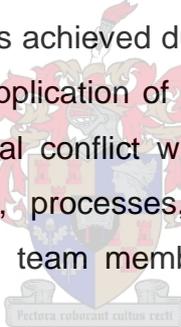


Figure 2.8 shows a traditional functional organisation structure that is extremely hierarchical, vertically organised, and not conducive to the implementation of SCM. Figure 2.9 shows an example of a cross-functional process structure that is conducive to the implementation of SCM.

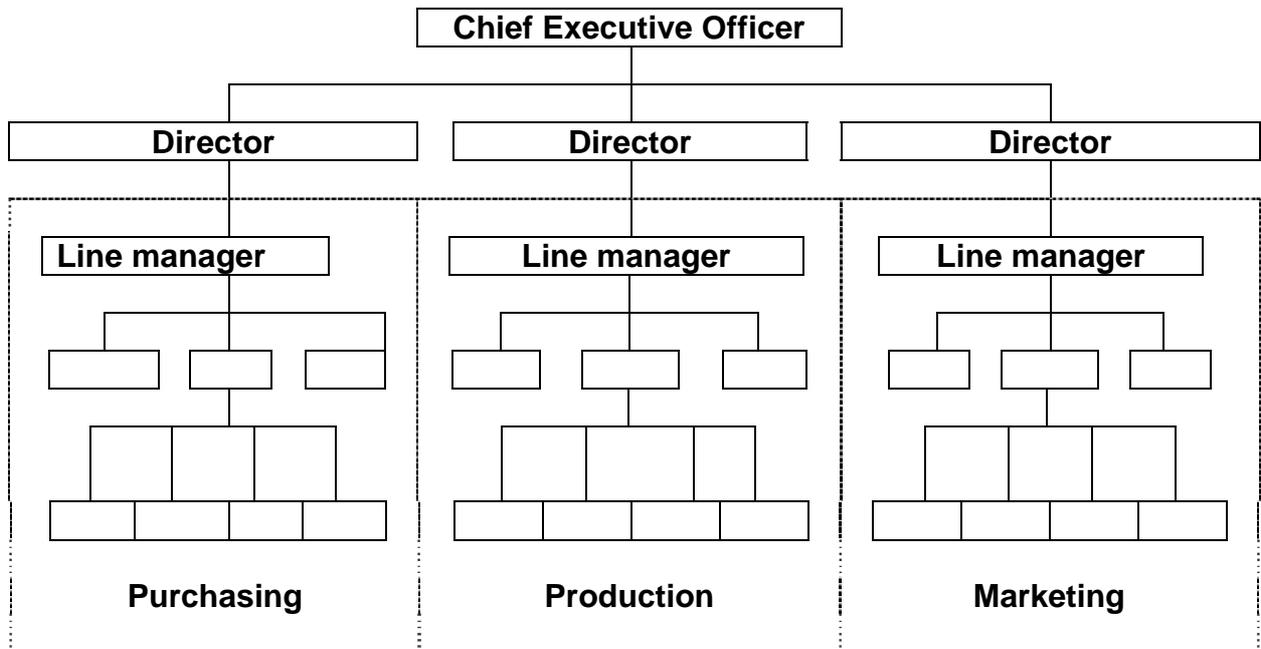


Figure 2. 8 A TRADITIONAL FUNCTIONAL ORGANISATION STRUCTURE

Source: Hugo *et al.* (2004).

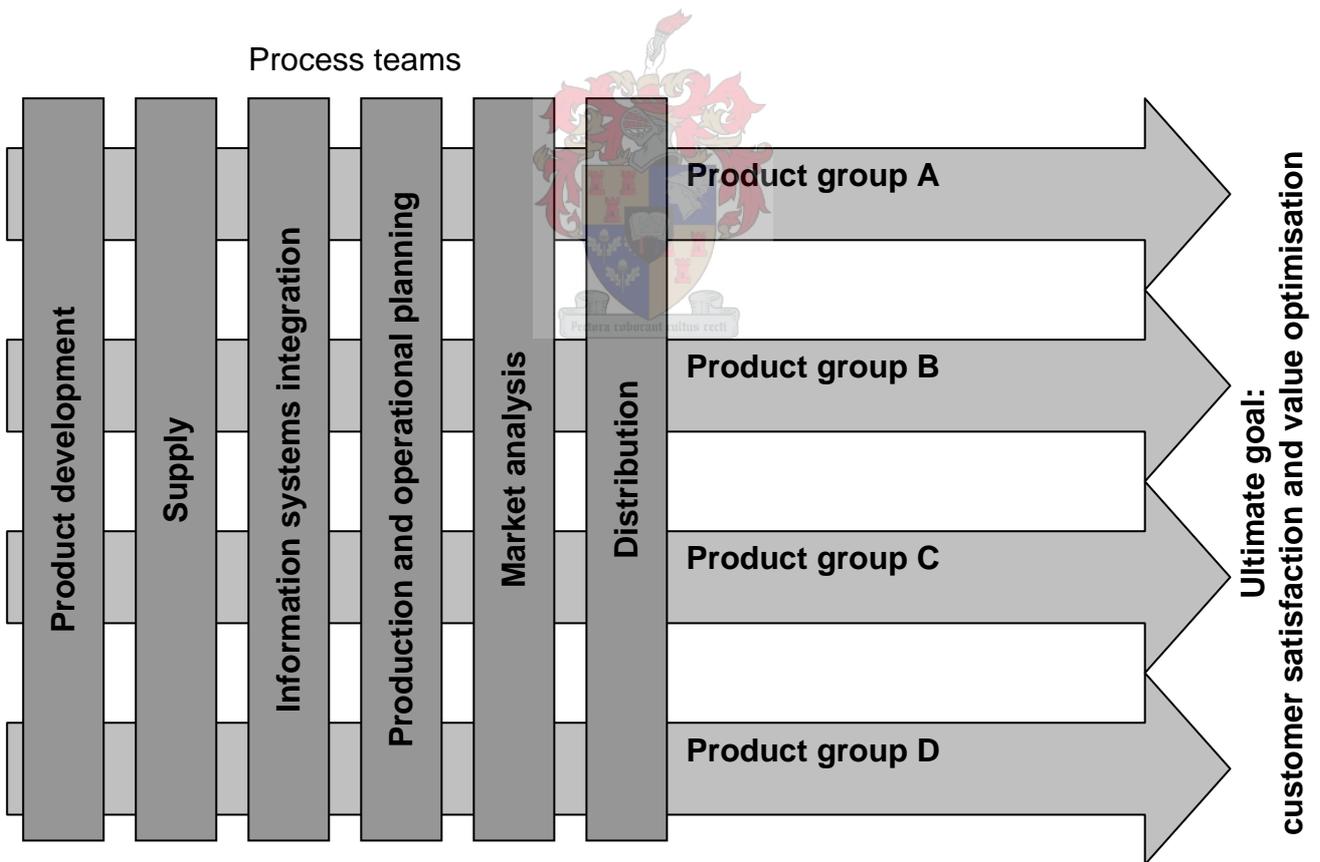


Figure 2. 9 A CROSS-FUNCTIONAL PROCESS-INTEGRATED ORGANISATION

Source: Hugo *et al.* (2004).

Mentzer (2004:7) is of the opinion that cross-functional integration is important for achieving a competitive advantage in terms of reduced cycle time, new product success and profitability. Integration is enhanced by certain factors, such as commitment amongst staff from different functional areas and common objectives.

2.3.3.2 Cross-organisational integration

Cross-organisational integration focuses on the integration of supplier and customer network processes. Traditionally, cost information, product development and design and strategic planning were not shared between partners of a supply chain. However, with cross-organisational integration, boundaries of firms are eliminated and a seamless integration with the organisation's suppliers and customers is achieved. Changes and instabilities that may occur in the organisation's environment are now faced by means of collaborating with both upstream and downstream partners in the supply chain. Suppliers and customers are represented in the cross-functional management teams.

Cross-organisational integration has advantages for both the organisation and the supply chain. The sharing of information and access to environment changes enables everybody concerned to react more quickly. Duplicate and wasteful actions that exist in the supplier and customer processes can be identified and eliminated early, resulting in lower operational costs for all supply-chain partners involved, which, in turn, improves competitiveness (Hugo *et al.*, 2004:71).

Figure 2.10 shows how the extended cross-functional process teams forms cross-organisational teams.

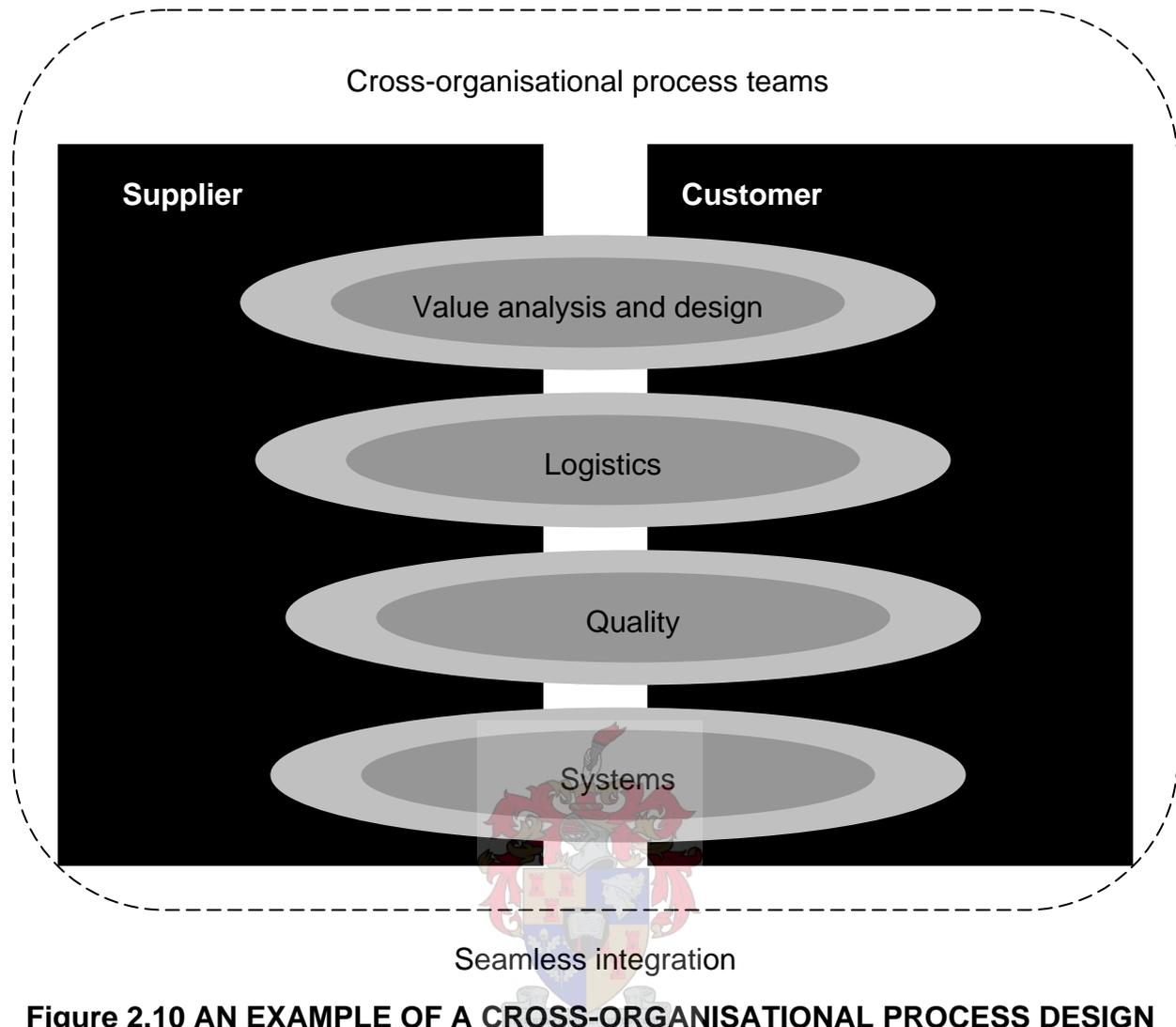


Figure 2.10 AN EXAMPLE OF A CROSS-ORGANISATIONAL PROCESS DESIGN

Source: Hugo *et al.* (2004).

2.3.3.3 Supply-chain community integration

A number of different supply chains can form a network, in which the different supply chains share the logistics infrastructure, such as warehouse space and transport capacity. Such logistical sharing adds value both to the individual firm's supply chain, as well as for the customer, because costs are reduced by doing so. According to Fox (cited in Hugo *et al.*, 2004:71), a supply-chain community is a *“value added network of firms that share process, service and goals and who has mastered supply chain operations”*.

According to Hugo *et al.* (2004:71), traditional supply-and-distribution channels can be bypassed within a supply-chain community. Real-time information is transferred by means of network-centric electronic commerce for the benefit of all members. Industries in

developing countries utilise supply-chain communities for competing in global markets and for surviving against global competition. The integration of supply-chain communities leads to the transformation of supply chains, assists with the flow of information and eventually results in the supply chain becoming leaner and more compressed.

2.3.4 Customer service

According to Hugo *et al.* (2004:117), the major objectives of SCM consist of optimising shareholder and customer value. All activities in the supply chain must, therefore, be geared to adding value, which will ultimately result in improved customer service. Kaplan and Norton (2004:13) state that an organisation's intangible assets have become decisive for sustainable value creation. They classified intangible assets into the three categories described in Table 2.5. If measured separately, none of these intangible assets has value. The value of these assets derives from their ability to help the organisation implement its strategy. If organisations integrate cross-organisationally, huge value can be unlocked for all process activities from the partners' intangible assets.

Table 2.5 INTANGIBLE ASSETS

Category	Description
Human capital	Employees' skills, talent, and knowledge
Information capital	Databases, information systems, networks, and technology infrastructure.
Organisational capital	Culture, leadership, employee alignment, teamwork, and knowledge management

Source: Kaplan & Norton (2004).

Mentzer (2004:15) concludes that customer behavior will only lead to actions that improve supply-chain performance if the services offered create value for customers. Customer services must, therefore, be managed strategically and supply-chain activities must be developed that are viewed as important by the customers concerned. He describes the twelve drivers by means of which an organisation may be able to achieve a competitive advantage. The twelve drivers consist of the following principles:

(a) Co-ordinate the traditional business functions

The organisation in the supply chain that can best perform a business function must perform this function for the whole chain. However, inter-functional

integration within an organisation must be achieved before functions can be integrated cross-organisationally.

- (b) ***Collaborate with supply-chain partners on non-core competency functions***
Organisations must identify and manage their core functions and outsource non-core functions.
- (c) ***Look for supply-chain synergies***
Synergies can result from performing only core functions, while non-core functions are outsourced. Possible synergies must be sought out, identified and managed.
- (d) ***Appreciate that not all customers are created equal***
Some customers are more critical of a company's success than are others. No service should be provided to customers who distance an organisation from serving its critical customers.
- (e) ***Identify and manage the supply-chain flow cycles***
Information about product, service, and customers flows up and down the supply chain. This information must be managed to ensure the viability of the supply chain. The timing of financial flows between partners is critical, while forecasting and planning for demand will determine whether customer needs will be satisfied.
- (f) ***Manage demand (not just the forecast) in the supply chain***
The end-use customer determines the true demand for the product or service that flows through the supply chain. Only a company that directly serves the end user is affected by independent demand. The other companies in the supply chain experience derived demand and should be managed differently.
- (g) ***Substitute information for assets***
The cost of IT is currently decreasing, while that of logistics and human resources is increasing. The increasing availability of information should be used to eliminate other, more expensive assets.

- (h) ***Appreciate that systems are templates to be laid over processes***
 Procedures, regulations, and staff involved in the accomplishment of any task are essential components of the process. No computer package exists that can overcome poorly thought-out processes.
- (i) ***Appreciate that not all products are created equal***
 Efforts should concentrate on the most profitable products.
- (j) ***Make yourself easy to do business with***
 The market share and profitability generally increase if companies that create value satisfy their customers' needs. A company's processes should make it easy for customers to do business.
- (k) ***Do not let tactics overshadow strategy***
 Short-term tactics should not take preference over long-term strategies. Setting and meeting long-term objectives is just as important as is setting and meeting short-term objectives.
- (l) ***Ensure that supply-chain strategies and reward structures are aligned***
 "What gets measured get rewarded and what gets rewarded gets done" (Mentzer & Bienstock, 1998, cited in Mentzer, 2004:27). Company employees should be rewarded in a manner consistent with SCM strategies.

2.4 The Link between Strategic Planning and SCM

SCM cannot be separated from the strategic planning process. During a strategic planning exercise, an organisation decides whether it will form an active partner in a supply chain or whether it will face global challenges alone. Cohen and Roussel (2005:10) are of the opinion that a supply chain must be viewed as a strategic asset before SCM can be implemented successfully.

The supply-chain strategies normally focus on optimising shareholder value and customer value. On the other hand, due to the cross-organisational boundaries of the supply chain, supply-chain objectives should clearly be included in the strategic planning processes of the firm, as well as those of constituent organisations of the supply chain.

Thus, planning for the supply chain also implies planning collaboratively with the external environment, which consists of customers, suppliers and other role-players in the supply chain (Hugo *et al.*, 2004:16).

2.5 Summary

In order to remain viable, organisations competing with one another need to think innovatively and must be sufficiently flexible in order to cater for changes in customer behavior, as well as other environmental changes. IT makes information available in real time, which must be managed in order to create value for customers. Organisations should seek ways in which continuously to add value to their products and services, with the objective of optimising customer value. In this chapter, a brief description of strategic management and SCM was given. SCM has been defined as the integration of linkages of suppliers, customers, and internal processes into a network aimed at performing procedures and processes that will lead to satisfying customer demands. Not only will the integration of internal processes be challenging for municipalities, but also the integration of internal processes with those of suppliers will be most challenging and will require some innovative thinking by management and the leadership. The elimination of processes that do not add value will, inevitably, face a certain amount of resistance, due to its undercutting of any tendency towards empire-building. The tendency of South African municipalities to confuse logistical management with SCM when designing processes to implement the latter is further explored in Chapters 4 and 5.

Chapter 3

Legislative Requirements

3.1 Introduction

The democratisation of South Africa in 1994 saw the country moving from a Westminster parliamentary state to a constitutional state. In a constitutional state, the constitution of the country is supreme, and all legislation enacted must give effect to a relevant section of the constitution. Any piece of legislation can be challenged in the Constitutional Court and, if found to be inconsistent with the constitution, will either be declared null and void or else be referred back to the legislator for reconsideration.

The Preamble to the Constitution states that the elected representatives of the peoples of South Africa adopt the Constitution as the supreme law of the Republic. This supremacy is enacted by section 2 of the Constitution. Section 2 further requires fulfilment of the Constitution's obligations. South African legislators are therefore obliged to give effect to the requirements of the Constitution. The need for them to do so is echoed by section 237, which requires constitutional obligations to be performed diligently and without delay.

Various acts have been promulgated since 1994 to give effect to the requirements and/or obligations of the Constitution. Developmental government, the efficient use of scarce resources and sound financial governance are all directly linked to strategic planning and SCM. In this chapter, the legislative requirements for SCM in South Africa will be discussed.

3.2 Legislative Requirements

Legislative requirements for SCM in South Africa will be explored below in terms of: the Constitution; the Structures Act; the Systems Act; the MFMA; the SCM Regulations; the PPPFA; the BBBEEA; the PAJA; the PAIA; the "Batho Pele" Principles; and the Financial Regulations of the Matatiele Municipality.

3.2.1 The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)

The Constitution clearly states that governance by all spheres of government must be transparent and accountable. Starting from section 1(d), it emphasises this requirement when it states that South Africa must have a democratic multi-party system aimed at ensuring accountability and openness.

In terms of sections 32 and 33, everyone has the right to access to information and to administrative action that is lawful, reasonable and procedurally fair. The direct application of this proviso to SCM will be further discussed in paragraphs 3.2.8 and 3.2.9 below.

All spheres of government are required to provide effective, transparent, accountable and coherent government in terms of section 41(1)(c). In order to be effective, proper planning must be done. To be transparent and accountable, correct and acceptable procedures, including regular reporting, must be implemented and executed. For government to be coherent requires proper planning, good communication and co-operation between all spheres of government.

Chapter 7 deals with local government. Section 151(3) gives municipalities the right to govern their own affairs on their own initiative, subject to the dictates of national and provincial legislation. The objectives of local government are described in section 152 and the developmental duties of municipalities in section 153. Section 156(2) gives municipalities the right to make by-laws that enable them to administer their affairs effectively. Section 160 regulates the internal procedures of municipalities. In terms of section 160(10)(d), municipal councils are granted the authority to employ sufficient staff to effectively perform their multiplicity of functions. Municipal Councils, therefore, have the right to determine their own staff requirements as they see fit in order to enhance service delivery. Sections 160(4)(b) and 162(3) reinforce the principles of transparency, accountability and openness, as they require that by-laws, prior to promulgation, be published for public comment, as well as be accessible to the public.

Chapter 10 deals with public administration and sets the basic values and principles considered necessary for governing the dealings of public administration. Section 195 addresses such issues as the efficient, economic and effective use of resources; a

development orientation; accountability; transparency; accurate information; and the cultivation of sound human resources management.

Section 215 of Chapter 13 states that municipal budgets must promote the effective financial management of the economy, transparency and accountability. In terms of section 217, the municipal procurement system must be fair, equitable, transparent, competitive and cost-effective.

From the above, it is clear that a municipality must conduct all its affairs effectively, transparently and openly, including the way in which SCM and its related by-laws, policies and procedures are compiled and executed. If not, residents have recourse to the courts to have grievances attended to and possibly to have council resolutions overturned.

3.2.2 The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998)

The Structures Act gives effect to section 155 of the Constitution and provides a framework for the establishment, structure and functions of municipalities.

Schedule 5 to the Act consists of a Code of Conduct for Municipal Councillors, which aims to ensure that councillors fulfil their obligations to their communities. In terms of the Code of Conduct, councillors must declare their interests held in companies, close corporations, trust, partnerships, directorships, in property and various other matters. Councillors may also not use their position and privileges for private gain. Councillors may also not request, solicit or accept any reward or gift for voting in a certain manner or for persuading the council to exercise any power or function. All the elements stipulated in the Code of Conduct should be included in a municipality's SCM policy in order to ensure accountability and transparency.

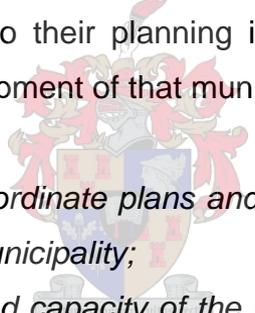
3.2.3 The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)

The Systems Act gives effect to Section 154 of the Constitution. The aims of the Systems Act include providing for the core principles, mechanisms and processes that are necessary to enable municipalities to move towards the social and economic upliftment of local communities; to provide for the way in which municipal powers and functions are exercised and performed; to establish a simple and enabling framework for the core

processes of planning, performance management, resource mobilisation and organisational change that underpin the notion of developmental local government; to empower the poor and to put policies in place that take the needs of the poor into account by providing a framework for the provision of service delivery agreements.

The Systems Act therefore acknowledges that the new system of local government requires an efficient, effective and transparent local public administration that ensures financially and economically viable municipalities. The Systems Act also strives to develop a strong system of local government capable of exercising its powers and functions.

Chapter 5 of the Systems Act deals with integrated development planning. Section 23 of Chapter 5 states that a municipality must undertake developmentally-orientated planning, in order to ensure that it adheres to sections 152 and 153 of the Constitution. Liaison and consultation between all spheres of government and affected municipalities is required to give effect to the principles of co-operative government, as required by the Constitution. Municipalities must therefore not do their planning in isolation. Each municipality must adopt a strategic plan for the development of that municipality. The plan must:

- 
- (a) *link, integrate and co-ordinate plans and take into account proposals for the development of the municipality;*
 - (b) *align the resources and capacity of the municipality with the implementation of the plan;*
 - (c) *form the policy framework and general basis on which annual budgets must be based;*
 - (d) *comply with the provisions of this Chapter; and*
 - (e) *be compatible with national and provincial development plans and planning requirements binding on the municipality in terms of legislation.*

Section 26 addresses the content of IDPs. The municipal long-term development vision, operational strategies and a financial plan must be reflected in the IDP. The IDP process is further explored in subsection 5.2.1 of this study.

Schedule 2 of the Systems Act comprises a Code of Conduct for Municipal Staff Members. In terms of the Code of Conduct, no staff member may use his/her position for personal gain either for himself or for his immediate family. Staff may also not request, solicit or

accept rewards of gifts for making representation to council or for persuading the council to exercise any power or duty.

The above elements should be contained in a municipality's SCM policy in order to prevent corruption.

3.2.4 The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)

The MFMA gives effect to Section 216 of the Constitution and aims to assist municipalities with maximising their capacity to deliver services. The MFMA has replaced the previously existing antiquated system of local government finance, which focused on rules and procedures rather than on sound outcomes. The MFMA, therefore, supplements conventional procedural rules with a performance-based system focusing on outputs, outcomes and measurable objectives. The Act differentiates between the role of councillors and officials, by making the executive mayor or committee responsible for policy and outcomes, while making the municipal manager and senior officials responsible for implementation and outputs. The separation of responsibilities between councillors and officials is important for sound governance, as well as being in line with modern practices of effective public management. The MFMA, therefore, allows managers to manage, as well as making them more accountable.

Chapter 11 of the MFMA deals with the procurement of goods and services by a municipality. The chapter is divided into two parts. While Part 1 covers SCM, Part 2 covers public-private partnerships (PPPs).

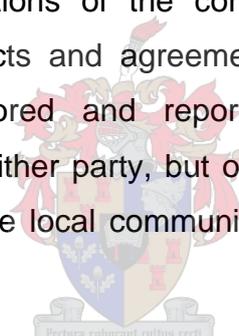
Part 1: Supply-chain management (SCM)

SCM, in terms of the MFMA, applies to the procurement of goods and services, the disposal of unwanted goods and the selection of contractors to supply services to a municipality or municipal entity. Stipulations of the Act do not apply in instances where a municipality or municipal entity contracts with another government department.

Each municipality and municipal entity must have and implement an SCM policy. This policy must be fair, equitable, transparent, competitive and cost-effective and comply with the prescribed regulatory framework.

A municipality or municipal entity is not obliged to consider an unsolicited bid outside its normal bidding or tender process. If the municipality or municipal entity decides to consider an unsolicited bid, it may do so only in accordance with the prescribed framework. The municipal manager must implement the SCM policy and must ensure that proper mechanisms are in place to minimise fraud, corruption, favouritism and unfair or irregular practices. If a tender other than that recommended is approved, the municipal manager must advise the Auditor-General, the National Treasury and the relevant provincial treasury in writing of the reasons for the decision.

Contracts or agreements procured through the SCM policy must be in writing, and must stipulate certain terms and conditions of the contract or agreement. The municipal manager must ensure that contracts and agreements are properly procured and that contractor performance is monitored and reported as necessary. Contracts and agreements may be amended by either party, but only after reasons for the amendment have been tabled in council and the local community has been consulted in connection with the amendments.



A councillor may not be a member of a municipal bid committee or any other committee evaluating or approving tenders, quotes, contracts or bids, nor may a councillor attend such meetings as an observer. No person may interfere with the SCM system of a municipality, or amend or tamper with any tender or bid after submission.

The municipal manager and municipal staff involved in the implementation of a supply-chain management policy must meet the prescribed competency levels. The municipality must help train officials by providing resources or opportunities for development.

Part 2: Public–private partnerships

A municipality may enter into a PPP agreement if it can be demonstrated that the agreement will provide value for money, is affordable, and will transfer the appropriate technical, operational and financial risk to the private party. Before such an agreement is

concluded, the municipality must conduct a thorough feasibility study of the proposal and make public the findings for comment.

The implementation of the MFMA is being phased in over a period of three years, depending on the capacity of the different municipalities. Municipalities have been categorised as having a high, medium or low capacity.

Chapter 11 of the MFMA has to be implemented in terms of Table 3.1 below.

Table 3.1 IMPLEMENTATION OF CHAPTER 11 OF THE MFMA

Section	Description	All municipal-ities	High capacity	Medium capacity	Low capacity
110	Application	1/7/2005			
111	SCM policy		1/10/2005	1/1/2006	1/7/2006
112	SCM policy complying with prescribed framework		1/10/2005	1/1/2006	1/7/2006
113	Unsolicited bids	1/7/2004			
114	Approval of tenders not recommended	1/7/2004			
115	Implementation of system	1/7/2004			
115(1)(a)	Implementation of policy		1/10/2005	1/1/2006	1/7/2006
116	Contract and contract management	1/7/2004			
116(2)(c)	Contract and contract management		1/7/2005	1/7/2006	1/7/2007
117	Councillors barred from tender committee	1/7/2004			
118	Interference	1/7/2004			
119	Competency levels of officials	1/7/2004			
120(1-4; 6-7)	PPP	1/7/2004			
120 (5)	Assistance with assessing	1/7/2004			

3.2.5 Supply-Chain Management Regulations

On 30 May 2005, the Minister of Finance, acting with the concurrence of the Minister for Provincial and Local Government, promulgated the Supply-Chain Management Regulations to give effect to section 168 of the MFMA. In terms of these regulations, SCM must be implemented as follows: by high-capacity municipalities on 1 October 2005; by medium-capacity municipalities on 1 January 2006; and by low-capacity municipalities on 1 July 2006.

The regulations can be summarised as follows:

Chapter 1: Establishment and Implementation of Supply-Chain Management Policies

Each municipality and each municipal entity must have and implement an SCM policy, which is fair, equitable, transparent, competitive and cost-effective, that gives effect to the Constitution and the MFMA. The accounting officer of a municipality must prepare and submit a draft SCM policy to the Council for adoption. The implementation of this policy must be reviewed annually, and, when deemed necessary, the accounting officer must submit proposals for the amendment of the policy to the council.



The council of a municipality must delegate such additional powers and duties to the accounting officer, in order to enable him/her to discharge SCM-related responsibilities. No management power or duty or decision-making power or duty may be delegated to a person who is not an official of the council, such as a consultant or an advisor. The accounting officer may further sub-delegate SCM powers and duties subject to the following:

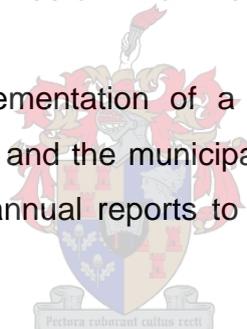
The power to make a final award:

- (a) *Above R10 million may not be sub-delegated;*
- (b) *Above R2 million (VAT included), but not exceeding R10 million (VAT included) may be sub-delegated, but only to:*
 - (i) *The chief financial officer;*
 - (ii) *A senior manager; or;*

- (iii) *A bid adjudication committee of which the chief financial officer or a senior manager is a member;*
- (c) *Not exceeding R2 million (VAT included) may be sub-delegated but only to:*
 - (i) *The chief financial officer;*
 - (ii) *A senior manager;*
 - (iii) *A manager directly accountable to the chief financial officer or a senior manager; or*
 - (iv) *A bid adjudication committee.*

A written report of each final award must be submitted by an official or bid adjudication committee to which the power to make a final award has been sub-delegated. This report must be submitted within five days of the end of each month to the accounting officer if the award was made by the Chief Financial Officer (CFO), a senior manager or a bid adjudication committee, or to the CFO or senior manager if the award was made by a manager or a bid adjudication committee of which the CFO was not a member.

Any oversight regarding the implementation of a council's SCM policy remains the responsibility of a municipal council and the municipal board of directors. The accounting officer must submit quarterly and annual reports to the municipal council. Such reports must be made public.



Each municipality must establish an SCM unit that operates under the direct supervision of the CFO. A municipal entity and its parent municipality may have a single SCM unit for implementing their respective SCM policies. Officials involved in the implementation of an SCM policy should receive adequate training, which must be in accordance with any Treasury guideline regarding SCM.

Chapter 2: Framework for Supply-Chain Management Policies

The SCM policy of a municipality must describe in detail the system of SCM to be implemented by the municipality and effective systems for demand management, acquisition management, risk management and performance management.

Demand management is described in Part 1; acquisition management in Part 2; and logistics, disposal, risk and performance management in Part 3, while other related matters are described in Part 4 of Chapter 2.

Part 1: Demand management

In order to ensure that the resources required to support the strategic and operational commitments of the municipality are delivered in the correct quantity and quality at the right place at the right time, an effective system of demand management must be included in a municipality's SCM policy.

Part 2: Acquisition management

An effective system of acquisition management must be provided for by the SCM policy, in order to ensure that procurement takes place in accordance with authorised processes, that expenses have been budgeted for and that the threshold values are complied with. Bid documentation, evaluation and adjudication criteria and general conditions of a contract must comply with the legislation. The monetary limits for obtaining verbal quotations, written quotations or a competitive bidding process must be provided for in an SCM policy. Table 3.2 summarises the relevant limits.

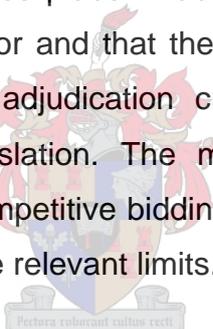


Table 3.2 THRESHOLD LIMITS FOR PROCUREMENT

Type of transaction	Amount (VAT included)
Petty cash purchases	R2 000
Written or verbal quotations	R2 001 – R10 000
Formal written quotations	R10 001 – R200 000
Competitive bidding	Above R200 000 and long-term contracts (period exceeding one year)

The accounting officer must compile a list for each commodity and each type of service offered by prospective providers from whom quotations can be obtained or who are capable of participating in the competitive-bidding process. At least once a year, prospective providers must be invited to apply for evaluation and listing in the local newspapers and on the municipal website. The list must be updated quarterly, although service providers can apply for listing at any time.

A municipality's SCM policy must indicate the conditions set for procurement by means of petty cash purchases, written or verbal quotations, formal written price quotations and competitive bids. Preconditions for each of these types of procurement are described in detail in the Regulations, from which the SCM policy cannot deviate.

Each manager must be limited to a certain number of petty-cash purchases per month. Certain categories of expenditure may be excluded from petty-cash purchases. The CFO must receive a monthly reconciliation from each manager regarding his/her petty cash purchases in order to endorse the expenditure incurred.

At least three written or verbal quotations from, but not limited to, listed providers must be obtained for purchases up to R10 000. All quotations received must be recorded, and if a verbal quotation is accepted, the provider must confirm acceptance in writing prior to an order being placed. For purchases between R10 000 and R200 000, at least three written quotations from listed providers must be obtained. If quotations are invited from unlisted providers, a report must be submitted to the CFO within three days of the end of each month to justify taking such an action.

Goods and services sought in excess of R30 000 (VAT included) must be procured by means of formal written quotations and must be advertised for at least seven days on the website and on the official noticeboard of the municipality. The accounting officer or CFO must be notified in writing each month of all written, verbal and formal written quotations accepted by an official acting in terms of a sub-delegation in order to check for compliance. Competition amongst providers must be stimulated by inviting quotations on a rotation basis.

An SCM policy must specify that procurement exceeding R200 000 (VAT included) and long-term contracts may not deliberately be split into separate parts for the sake of procurement and must be conducted in terms of a process of competitive bidding. Each of the following stages must be provided for in a competitive bidding process:

- (a) *the compilation of bidding documentation;*
- (b) *the public invitation of bids;*
- (c) *site meetings or briefing sessions, if applicable;*

- (d) *the handling of bids submitted in response to public invitation;*
- (e) *the evaluation of bids;*
- (f) *the award of contracts;*
- (g) *the administration of contracts; and*
- (h) *proper record keeping.*

Bid documentation for competitive bids must comply with certain criteria determined in terms of the SCM policy and must take any Treasury guidelines or the Construction Industry Development Board requirements into account.

The bid documentation of competitive bids must include the evaluation and adjudication criteria and place the onus on bidders to declare possible conflict of interest that they may have regarding the transaction for which the bid is submitted. In instances where it is expected that the transaction will exceed R10 million (VAT included), the bidder must furnish annual financial statements for the past three years and certify that he/she has no outstanding commitments for municipal services towards a municipality or other service provider in respect of which payment is overdue for more than 30 days. The bidder must further furnish details of any contract awarded to him/her by an organ of state during the previous five years, as well as details of any dispute regarding the execution of such contract. If any portion of the goods or services is expected to be sourced from outside South Africa, a statement indicating that portion must be supplied.

The procedure for the invitation of competitive bids must be included in the SCM policy. Invitations to prospective providers must be advertised in a local circulating newspaper and on the municipality's website. Only sealed bids may be submitted, which must be opened in public as soon as possible after the stipulated deadline. All bids received must be recorded in a register.

The SCM policy may allow the accounting officer to negotiate with preferred bidders, on condition that this does not lead to prices higher than the bid submitted and does not allow any preferred bidder an unfair opportunity. A two-stage bidding process may be allowed for in large complex projects, long-term contracts, or where it may be undesirable to prepare complete detailed technical specifications.

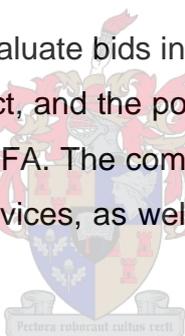
An SCM policy must provide for a bid specification committee, a bid evaluation committee and a bid adjudication committee.

Bid specification committee functions

The bid specification committee must compile the specifications for each item to be purchased and take account of standards such as those issued by Standards South Africa, the International Standards Organisation or an authority recognised in terms of the South African National Accreditation System. Specifications must be drafted in an unbiased manner, may not create trade barriers and may not make reference to any particular trademark, design or producer. If no other feasible way of describing the work exists, the word “equivalent” must be used as a reference. If points are awarded in terms of the point system, its goal must be specifically indicated. The committee must consist of one or more officials, preferably including the manager responsible for the function involved.

Bid evaluation committee functions

The bid evaluation committee must evaluate bids in accordance with the specifications, the bidder's ability to complete the contract, and the points systems set out by the SCM policy and as prescribed in terms of the PPPFA. The committee must consist of officials from the department requiring the goods or services, as well as of at least one SCM practitioner of the municipality concerned.



Bid adjudication committee functions

The bid adjudication committee must consider the report and recommendations of the bid evaluation committee and either make a final award or make another recommendation to the accounting officer. The committee must consist of at least four senior managers, including the CFO, at least one SCM practitioner and a relevant technical expert. A member of the bid evaluation committee or an advisor may not also be a member of a bid adjudication committee.

A contract for the provision of banking services must be procured by means of competitive bids and may not be for a period exceeding five years at any one time. The process for procuring a banking contract must start nine months before the end of an existing contract, and bids must be restricted to banks registered in terms of the Bank Act, 1990 (Act 94 of 1990). The State Information Technology Agency (SITA) may assist with the acquisition of

IT-related goods and must be notified by the accounting officer if the transaction exceeds R50 million (VAT included).

If another organ of state awarded a contract after a competitive bidding process, then the accounting officer may be allowed to procure under that contract. This must be agreed to in writing by that other organ of state and the provider.

The acquisition and storage of goods in bulk must be restricted by the SCM policy if the goods require special safety arrangements, such as in the case of gases and fuel. The extent of municipal support for the Proudly South Africa Campaign must be stipulated in the SCM policy.

Treasury guidelines must be followed regarding the procurement of consulting services. A process of competitive bidding must be followed if the value exceeds R200 000 (VAT included) or if the contract period exceeds one year. The copyright in any document produced and the patent rights in any process designed must vest in the municipality.

In an emergency, in the case of the provider being the sole supplier or in case of the acquisition of artwork, animals for zoos or other exceptional cases, the accounting officer may deviate from the prescribed procurement processes. Minor breaches of the established process may be ratified by the accounting officer if they are of a technical nature. The reasons for any deviations must be recorded in all cases.

The municipality is not obliged to consider unsolicited bids. However, it may do so if the product is unique or if the provider is the sole supplier. If unsolicited bids are considered, the decision must be made public in accordance with section 21(a) of the Systems Act.

Measures for the combating of abuse of the SCM system must be provided for in the SCM policy, and must enable the accounting officer to take reasonable steps to prevent such abuse, as well as to investigate any allegations against an official or other role-players of fraud, corruption and similar misdeeds. Bids must be rejected if any municipal rates and services account of any bidder or director concerned is in arrears for more than three months.

Part 3: Logistics, Disposal, Risk and Performance Management

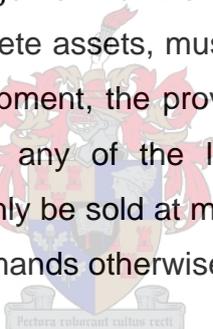
Logistics management, disposal management, risk management and performance management are explored below.

Logistics management

An effective system of logistics management must be provided for by an SCM policy in order to provide for the setting of inventory levels; the placing of orders; the receiving and distribution of goods; storage and warehouse management; the expediting of orders; transport management; vendor performance; maintenance; and contract administration.

Disposal Management

An effective system of disposal management for the disposal or letting of assets, including unserviceable and redundant or obsolete assets, must be provided for by the SCM policy. In the case of the disposal of IT equipment, the provincial department of education must be approached to indicate whether any of the local schools are interested in the equipment. Land and buildings may only be sold at market-related prices, except when the plight of the poor or public interest demands otherwise.



Risk management

An effective system of risk management for the identification, consideration and avoidance of potential risks in the SCM system must be included in the SCM policy. The provision of adequate cover for residual risks and the transfer of risks to contracting parties must be included in the risk management system.

Performance management

Through retrospective analysis, it must be possible to determine whether the authorised SCM processes are being followed and whether the desired objectives are being achieved. An effective internal monitoring system must therefore be provided for by the SCM policy.

Part 4: Other matters

The Regulations prohibit the award of a bid above R15 000 to a person whose tax matters are not in order. The municipality must check with the South African Revenue Service (SARS) to see whether a bidder's tax affairs are in order before making an award. An award may neither be made to a person in state service, nor to a non-natural person whose directors, manager or principal stakeholder is in state service. Advisors or consultants contracted to the municipality may also not be awarded a bid. Any award of more than R2 000 to close family members of persons in state service must be disclosed in the notes to the annual financial statements of a municipality.

If a service provider is paid a fixed percentage on turnover, the contract must state that such compensation is performance-based, and to what the maximum amount payable amounts.

An ethical code of standards must be compiled and established in order to promote trust, respect and an environment in which business can be conducted with integrity and in a fair and reasonable manner. No role-player may receive, offer or promise any reward, favour, gift or hospitality for, or in connection with, the awarding of a contract. The accounting officer must report any contravention of the code of standards to the National Treasury. Sponsorships by providers of the municipality must be disclosed to the National Treasury.

The SCM policy must allow persons aggrieved by decisions in the implementation of the SCM system to lodge a written objection within 14 days of the decision or action. An independent and impartial person must be appointed by the accounting officer to resolve disputes and to deal with objections, complaints or queries. If this dispute is not resolved within 60 days, it may be referred to the relevant provincial treasury. If the dispute is not or cannot be resolved by the provincial treasury, it may be referred to the National Treasury for resolution.

Bids may not be considered from members of any municipal council, any provincial legislator, the National Assembly, the National Council of Provinces, any municipal official, or any civil servant or consultant who has a vested interest in the SCM system.

The Regulations focus on demand, acquisition, logistics, disposal, and performance management. According to literature described in Chapter 2 of this research, all these activities form elements of logistics management. Core elements of SCM, such as cross-functional and cross-organisational integration, are neither referred to, nor anticipated by the legislature. The researcher therefore argues that use of the word *procurement* instead of the phrase *supply-chain management* in the Regulations would have been more appropriate.

3.2.6 The Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) and Regulations

The PPPFA gives effect to section 217(3) of the Constitution and allocates a preference point system that must be followed by all organs of state when considering tenders. Tenders with a rand value up to R500 000 are to employ the 80/20 preference point system and tenders with a rand value over R500 000 are to employ the 90/10 preference point system.

The 80 or 90 points are awarded for price, while the 20 or 10 points are awarded to a tenderer on the basis of his/her being a historically disadvantaged individual (HDI), or for achieving certain specified goals, which could include implementing programmes forming part of the Reconstruction and Development Programme; the promotion of South African-owned enterprises; the promotion of small, micro and medium-sized enterprises (SMMEs); job creation; and certain other goals. Specific goals must be measurable, quantifiable and clearly specified in the invitation to submit a tender.

The term “historically disadvantaged individual” refers to a South African citizen who, due to the previously existing apartheid policy, had no franchise in national elections prior to the introduction of the 1983 Constitution or to the Interim Constitution of South Africa, who is a female or who has a disability.

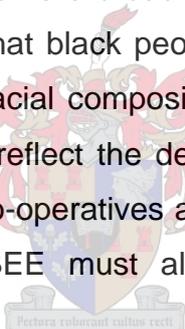
3.2.7 The Broad-based Black Economic Empowerment Act, 2003 (Act 53 of 2003)

The BBEEA took effect on 21 April 2004, establishing a legislative framework for the promotion of black economic empowerment (BEE) and the establishment of the BEE Advisory Council.

In terms of the BBBEEA, “broad-based black economic empowerment” refers to the economic empowerment of all black people (Africans, Coloureds and Indians), including women, workers, youth, people with disabilities and people living in rural areas by means of the following socioeconomic strategies:

- *increasing the number of black people that manage, own and control enterprises;*
- *facilitating ownership and management of enterprises by communities;*
- *development of human resources and skills;*
- *achieving equitable representation in all occupational categories and levels in the workforce;*
- *preferential procurement; and*
- *investment in business that are owned or managed by black people.*

The objective of the BBBEEA is to facilitate broad-based BEE through the transformation of the economy, in order to ensure that black people can meaningfully participate in the economy. In addition to the above, racial composition of ownership and management of enterprises must change in order to reflect the demographics of South Africa, while the involvement of workers, community co-operatives and black women in economic activities must be increased. Broad-based BEE must also be facilitated by making finance accessible to black entrepreneurs.



The BBBEEA further regulates the establishment, functions, composition and appointment of members of the BEE Advisory Council.

3.2.8 The Promotion of Administrative Justice Act, 2000 (Act 3 of 2000)

PAJA, commencing on 30 November 2000, gives effect to section 33 of the Constitution, which ensures citizens’ rights to administrative action that is lawful, reasonable and procedurally fair. The Act also gives effect to citizens’ rights to written reasons for administrative action.

However, in terms of section 1 of the Act, administrative action excludes the executive powers or functions of a municipal council, as well as the legislative functions of a municipal council. However, citizens retain recourse to the courts if municipal councils do

not conduct their affairs in a lawful or reasonable way. This recourse must, however, be taken on grounds of common law principles. As unlawful and unreasonable SCM practices could result in municipalities being challenged in courts, SCM policies must be drafted with care.

3.2.9 The Promotion of Access to Information Act, 2000 (Act 2 of 2000)

The PAIA gives effect to section 32 of the constitution and assigns certain duties to the organs of state. The Act aims not only to encourage a culture of accountability and transparency in institutions, but also to ensure that citizens have access to information in order to protect their rights. The Act describes how citizens can access information and the circumstances under which information can be withheld. Each public body is compelled to have a manual on its functions and index of records held.

3.2.10 “Batho Pele” – “People First”: White Paper on Transforming Public Service Delivery

The White Paper on Transforming Public Service Delivery (WPTPS) was published on 24 November 1995 and is applicable both to the public sector areas which are regulated by the Public Service Act, 1994, as well as to local government.



To remedy the long-lasting effects of apartheid, public service delivery must be transformed. In this regard, the WPTPS provides an implementation strategy and a policy framework. The eight “Batho Pele” principles for transforming public service delivery are summarised in Table 3.3 below. Municipal staff dealing with SCM must pay particular attention to these principles in order to enhance service delivery.

Table 3.3 THE “BATHO PELE” PRINCIPLES

Principle	Description
1. Consultation	The citizens concerned must be able to choose from a range of services offered, and must be consulted before the level and quality of any service is fixed.
2. Service Standards	The level and quality of services offered must be communicated to the people in order for them to know what to expect. Lowering of standards is unacceptable.
3. Access	Services must be equally accessible to all.
4. Courtesy	Everybody must be treated with courtesy and consideration.
5. Information	Accurate information must be provided to all regarding the services that they are entitled to receive.
6. Openness and Transparency	Information about management and the cost of running government departments must be made available to all citizens.
7. Redress	Failure to deliver the promised service must result in an apology, explanation and an effective remedy. All complaints by citizens should be met with a positive response.
8. Value for money	Citizens must receive value for money by way of the delivery of economic and efficient services.

3.2.11 Matatiele Municipality: Financial By-laws

The Financial By-laws of Matatiele Municipality give effect to sections 151(3), 156(2) and 160(2) of the Constitution. In terms of these sections, a municipality has the right to govern the affairs of its community, may make and administer by-laws for the effective administration of its matters and may make by-laws that prescribe rules for its internal arrangements, business and proceedings. These by-laws came into effect on 4 November 2004.

Section 13 of the by-laws covers SCM. All subsections of section 13 refer to the process to be followed when calling for tenders. The section therefore only deals with a portion of the concept of logistics management. The constructs of SCM, as discussed in Chapter 2 of this study, consisting of the integration of internal processes within an organisation, as well

as the integration of internal processes with those of suppliers and customers, and other legislative requirements, as discussed earlier in this chapter, are not included in the by-laws. This particular section of the Financial By-laws therefore appears inadequate.

3.3 Summary

All citizens of South Africa are entitled to municipal services, which must be provided cost-effectively and according to an agreed-upon level. SCM plays an important role in the quest to satisfy such entitlement and to eradicate service backlogs in South Africa. Legislation dealing with the above matters was discussed in Chapter 3.

Various pieces of legislation regarding SCM are applicable to municipalities in South Africa. The accounting officer (municipal manager) is required by law to implement an SCM policy that is fair, equitable, transparent, competitive and cost-effective. The invitation to bid and awarding of bids must not exclude any prospective service providers, although it might be done on a rotation basis to afford everybody an economic opportunity. Staff members dealing with SCM in municipalities are required to fulfil certain legislatively prescribed competency levels. Municipal councils are, by law, required to make resources available in order to ensure that their SCM practitioners obtain and maintain the required competency levels. However, the SCM regulations issued in terms of the MFMA focus on demand, acquisition, logistics, disposal, and performance management. According to the literature described in Chapter 2, all these activities form elements of logistics management. Core elements of SCM, such as cross-functional and cross-organisational integration, are not mentioned and are not anticipated by the legislature. The researcher, therefore, argues that use of the word *procurement* instead of the phrase *supply-chain management* would have been more appropriate in these regulations. From the deliberations in Chapter 2, and in answer to the research question, the legislative framework appears inadequate in regard to demarcating the ambit of SCM. In order to benefit from the potential available by means of SCM, a broader application framework requires demarcating – a point that will be kept in mind when recommendations are made in Chapter 7.

Chapter 4

Comparative Studies

4.1 Introduction

Chapter 1 stated that the objective of the current study is to develop a strategy which the executive authority of Matatiele Municipality can implement in order to improve service delivery. Previous research should clearly not be duplicated. Where possible, existing SCM best practice already in use in similar local authorities should be implemented or redeveloped. Therefore, visiting other municipalities and/or interviewing their SCM staff to see how they implement SCM was regarded as imperative. Thousands of municipalities exist worldwide, making it difficult to decide which ones would be most appropriate to visit. Since the study focuses on Matatiele Municipality, the researcher opted for municipalities with similar dynamics. The success of certain US municipalities regarding the implementation of SCM is well documented, with many case studies already having been undertaken. However, the USA is a developed country with a generally acknowledged high level of resources, such as ICT, available, while South Africa is a developing country with scarce resources and immense backlogs in the provision of services and the development of infrastructure. For Matatiele Municipality to try to implement the SCM strategy of a major US city is, therefore, fruitless. In order to gain an international perspective on the situation, it was decided that a municipality in a developing country in Europe be visited. The country of choice was Poland: firstly, because of economic and transitional similarities between Poland and South Africa, and, secondly, because, while attending the International Summer School at the Krakow University of Economics, the researcher was able to experience Polish conditions directly by means of observation and face-to-face interviews with the relevant Polish municipal officials.

The Municipal Demarcation Board has advertised proposed amendments to the boundaries of Matatiele Municipality.¹² If adopted, the newly demarcated area will result in Matatiele Municipality serving an estimated population of 350 000 people, making a comparison with Krakow more meaningful.

Analysing the history of Poland reveals similarities with South Africa. The first Polish state was formed more than a thousand years ago, under the Piast dynasty. On 3 May 1791,

¹² *Rapport*, 4 September 2005.

the Polish Constitution was adopted, being the first to be adopted in Europe and the second in the whole world, after the Constitution of the USA. However, soon afterwards, the country was split up among Russia, Austria, and Prussia, so that it effectively ceased to exist as a united nation. After the First World War, the country of Poland regained its independence as the Second Polish Republic. Following the Second World War, Poland became a communist satellite state of the Soviet Union, known as the People's Republic of Poland. The Solidarity movement's struggle for freedom resulted in the defeat of Poland's communist rulers in the first free post-World War II elections held in 1989. The defeat of the communist regime opened the way for the establishment of the current Third Polish Republic, which adopted a new constitution in 1997. After consistently pursuing a policy of economic liberalisation during the 1990s, Poland today stands out as the greatest success story among the former communist states. However, the oppressive communist rule resulted in extensive demand for the development and maintenance of infrastructure, the transformation of society and the modernisation of the political and economic systems. The Polish agricultural sector remains handicapped by structural problems, surplus labour, the existence of inefficient small farms, and a lack of investment. Agriculture employs 27,5% of the workforce, but contributes only 3,8% to the gross domestic product, indicating low productivity. Over half of all Polish farming households produce only for their own needs, with few commercial sales. Since the liberation of Poland in 1989, the economic reforms introduced include the removal of price control; the elimination of most subsidies to industry; the opening of markets to international competition; and the imposing of strict budgetary and monetary discipline on the ruling economy (Wikipedia, 2005).

Similarities with South Africa are clearly evident, as seen in relation to its colonial past, the declaration of independence in 1961, the uprooting of apartheid rule by means of implementation of a true democracy from 1994 onwards after the successful termination of a struggle for freedom by the majority of South Africans. The new democratic government has seen fit to implement similar economic reforms to those implemented in Poland, but, to date, still struggles with backlogs in service delivery and with the building of institutional capacity. Innovative thinking by public managers is required to address these backlogs.

In this chapter the interview conducted by the researcher with the Director: Budget of Krakow Municipality will be discussed, as well as will the view of certain KwaZulu-Natal VUNA Award finalists regarding SCM and its implementation.

4.2 An Overview of Krakow Municipality, Poland

Krakow, situated in southern Poland, is one of the largest cities in Poland, dating back to the seventh century. The city has 750 000 inhabitants and is known as the nucleus of Polish national culture.¹³ The researcher held a personal interview with the Director: Budget of the Krakow Municipality, findings of which are summarised below:

Poland, a member of the EU, has an open and free economy. Each municipality in Poland must devise a fifteen-year investment plan, called a regional innovation strategy (RIS). The RIS directs the city's capital programme. Each year a one-year operating budget and a three-year capital budget is approved by the city council. No public participation or consultation regarding this budget takes place. The elected councillors are viewed as representatives of the community that elected them, so that decisions made by the council are final. Krakow has 18 districts, with each being represented by 10 councillors. The 180 councillors *inter alia* monitor whether officials in fact implement the budgeted projects and whether resolutions taken are indeed executed.

The researcher had to explain the concept of SCM to the Director, as the term was unknown to her. After stating that SCM is not practised in Poland, she explained that Poland's Procurement Act stipulates the procurement limits before formal tenders are called for. Any firm from a European Union country can tender for contracts, which are normally awarded to the lowest tender. No preferential treatment is given in the awarding of tenders from a Polish municipality on the basis of gender, youth, historical disadvantage or location. If a contract is awarded to a firm from another country that, in turn, makes use of Polish subcontractors, the subcontractors must be paid before the municipality concerned pays the relevant contractor.

Municipalities in Poland offer non-governmental organisations (NGOs) support in the form of training and assistance in obtaining project financing. No direct financial contribution is made by a municipality.

¹³ Podlecki, J., *Cracow*, Krakow: Karpaty, 2001.

Krakow has a special economic zone called the Krakow Technology Park. Businesses investing in the Park receive assistance in the form of an income tax exemption and a property tax exemption. The income tax exemption rate is 40%, plus 15% for small and medium enterprises, and 100% for property tax.

The income tax exemption is based on investment expenditure or on the salaries payable for new jobs created over a 24-month period.

Table 4.1 illustrates the income tax exemption claimable for both methods.

Table 4.1 INCOME TAX EXEMPTIONS CLAIMABLE AT KRAKOW TECHNOLOGY PARK

Investment Expenditure		Salaries Payable	
Site	2 mil PLN	Gross salary	2 400 PLN
Building	6 mil PLN	Number of jobs created	200
Plant and Equipment	8 mil PLN	Number of months involved	24
Material	4 mil PLN	TOTAL COST	11,52 mil PLN
TOTAL COST	20 mil PLN	Public Assistance 40%	4,6 mil PLN
	Public Assistance 40%	8 mil PLN	

The investor starts paying income tax on income earned in the Special Economic Zone when the amount of unpaid taxes equates with the amount of public assistance provided. The exemptions also apply to the accounting profession.

Polish municipalities assist in the recruitment of staff by means of the provision of a personnel consulting and employment agency service, which is provided free of charge. Businesses receive financial assistance from the Magistrates' Employment Office if they employ a person from the target group for a period not exceeding 6 months. The maximum amount claimable is 3 566 PLN for the 6-month period. If this temporary job leads to permanent employment, the employer receives a one-off refund of 150% of

the average salary, payable on the date of appointment. The current average salary is 3 404,90 PLN per annum. The target group for employment consists of the following categories:

- (a) a person under 25 years old;
- (b) a person over 50 years old;
- (c) an unqualified person;
- (d) a person who has been unemployed for more than 12 months;
- (e) a disabled person; and
- (f) a person who cares for at least one child under 7 years old.

4.3 South African Municipalities: VUNA Award Finalists

The Municipal Performance Excellence Awards were introduced by the Minister of Provincial and Local Government in 2003. The Awards aim to identify and reward municipalities with superior development planning practices and to enable municipalities to learn from one another. Assessments are based on the following key performance areas:

- 
- (a) *Service Delivery*
 - (b) *Promoting local economic development and other job creation initiatives*
 - (c) *Municipal transformation and institutional development*
 - (d) *Municipal financial viability*
 - (e) *Good governance*¹⁴

Municipalities were rated on grounds of: the promotion of sound local governance; benchmark performance; improving the profile of local government; building citizens' confidence in municipalities; and improving the management support systems of local government.¹⁵

Fifteen municipalities were short-listed in 2003 for KwaZulu-Natal and nine in 2004.¹⁶ Seven of the same municipalities were short-listed in both years. The names of

¹⁴ VUNA Awards 2003 Best Practice Report.

¹⁵ VUNA Awards 2003 Best Practice Report.

¹⁶ VUNA Awards 2003 and 2004 Best Practice Reports.

municipalities short-listed in 2003 and 2004 are given in Table 4.2. (The names of the seven municipalities short-listed in both years are printed in blue for easy reference.)

Table 4.2 VUNA AWARD FINALISTS 2003 AND 2004

2003	2004
Metro Municipality	Metro Municipality
Ethekweni	Ethekweni
District Municipality	District Municipality
Ilembe	Ilembe
Ugu	Ugu
	Uthungulu
Local Municipality	Local Municipality
Abaqulusi	Abaqulusi
Ingwe	Ingwe
Matatiele	Matatiele
Umhlathuze	Umhlathuze
Msunduzi	
Hibiscus Coast	
Kwadukuza	
eNdondasuka	
Richmond	
Ubuhlebezwe	
Utrecht	
Vulamehlo	
	Emnambithi

Analysis of the criteria for assessing and scoring should serve to confirm that those municipalities short-listed in both years are the municipalities in KwaZulu-Natal most likely to be capable of setting the standards for best practice in the province. Some of the officials of the municipalities concerned were, therefore, interviewed telephonically for the purpose of this study.

During the interviews, the researcher realised that certain rural municipalities, such as Matatiele and Ingwe, cannot implement SCM in the same way as can municipalities such as Ethekweni, Ugu and Umhlathuze, which include cities, such as Durban, Port Shepstone and Richards Bay. Not only should municipalities have adequate staff

structures and other resources in place in order to be able to implement SCM, but they should also have manufacturers, wholesalers and other service providers located in their own towns. Small rural towns notably lack such facilities. No business in Matatiele carries sufficient electrical supplies, bitumen products or storm-water piping to cope with municipal needs. If required, such items must be sourced from the larger centres.

During an interview with the CFO of Ingwe Municipality, the researcher was advised that Ingwe Municipal officials have not, as yet, been able to focus on the upcoming need to implement SCM principles. However, closer to the implementation date for SCM, an SCM policy, most probably consisting of the Generic Policy issued by the National Treasury, will be presented to their council for adoption. The CFO also indicated that Ingwe Municipality does not, as yet, have sufficient financial resources to employ more staff, should an SCM unit have to be established.

A telephonic interview was held with the Procurement Officer of Abaqulusi Municipality, during which the researcher was advised that this particular official is responsible for SCM in the absence of the CFO. The Officer provided the contact details of the institution that had given the staff of that municipality training in SCM, which he had himself attended. He also offered to forward details regarding the threshold levels of procurement, as well as the National Treasury's generic policy, to the researcher. The Officer, who was unaware of any of the constructs relating to SCM, was adamant that SCM concerns procurement threshold levels and tender procedures.

The Acting CFO of Ugu District Municipality stated during a telephonic interview that the Municipality concerned has drafted and implemented an SCM and has appointed one official to manage its SCM unit. According to the Acting CFO of Ugu, further appointments are pending, due to the workload created by SCM. The workload involves assembling the different committees, as described in subsection 3.2.5 of this study, to advertise bids and in managing the database for prospective service providers. He further stated that Ugu District Municipality's SCM policy refers neither to the IDP nor to LED, as the IDP, LED, and SCM are unrelated. The IDP is the responsibility of the IDP manager, while LED is the responsibility of the Director: Community Services and SCM is the responsibility of the CFO. Clearly no form of cross-functional integration, as described in subsection 2.3.3.1 of this study, exists or is understood as such by Ugu District Municipality. According to the

Acting CFO of Ugu District Municipality, SCM refers to procurement threshold levels, the tender procedure, and the maintenance of a database for prospective service providers.

In the Matatiele Municipality, where the researcher is employed, none of the staff was aware of the constructs of SCM. During a staff meeting, general questions were used to assess the level of understanding regarding SCM. Even those staff who had attended SCM training and who currently serve on an SCM committee think that SCM refers only to demand management, acquisition management, and logistics management. As such, SCM is understood as entailing the determination of inventory and procurement threshold levels, the formulation of tender procedures, and the management of a database of prospective service providers. Staff also tended to be of the opinion that National Treasury's Generic Policy adequately serves the needs of Matatiele Municipality, because all that is required by law is to have a policy in place.

4.4 Summary

In this chapter, an interview conducted with the Director: Budget of Krakow Municipality in Poland was discussed in order to provide an international perspective on SCM. The situation in Krakow regarding incentives offered for investment in the Technology Park can be compared to BEE initiatives undertaken in South Africa. Polish service delivery would clearly benefit from the implementation of all the constructs relating to SCM. SCM and all its advantages, as discussed in section 2.3 of this study, are, as yet, unknown to Polish officials, who could benefit from restructuring, reforms and modernisation in line with SCM principles, if they are correctly implemented. Poland is situated in central Europe and is close to developed countries such as France and Germany, of which the latter is its largest trading partner. Opportunities for cross-organisational integration with suppliers therefore exist. However, the processes of Polish municipalities and government departments must be cross-functionally integrated as the first step in the evolutionary path of SCM.

In order to obtain a local perspective, VUNA Award finalists for KwaZulu-Natal were interviewed in order to learn of their SCM implementation strategy. The conclusion reached by the researcher is that SCM best practice does not currently exist in KwaZulu-Natal, due to the confusion that exists as to the true nature of SCM, which is still confused with logistics management. Municipalities that are rewarded for their superior development

planning practices and innovative thinking are, as yet, unaware of the constructs of SCM. They fail to refer to the principles of cross-functional integration, as discussed in subsection 2.3.3.1 of this study; to those of cross-organisational integration, as discussed in subsection 2.3.3.2 of this study; to those of supply community integration, as discussed in subsection 2.3.3.3 of this study; or to those of adding customer value, as discussed in subsection 2.3.3.4 of this study, when considering SCM or their own SCM policies. All municipalities know of the National Treasury's instructions, but an analysis of the nature of SCM, as covered in the MFMA, is not performed. Subsection 3.2.4 states that the MFMA aims to assist municipalities with maximising their capacity for delivering services, as well as authorising managers to manage. The ability of public managers is therefore questionable if an enacted tool that can assist with the rendering of services and with the optimisation of customer satisfaction, is ignored. Public managers seem, as yet, to be incapable of discerning the relationship between strategic management and SCM, given the high levels of disparity, poverty, and lack of resources that they seemingly are unable to address. LED, service delivery, and institutional development must still be achieved by means of the introduction of innovative thinking. SCM plays both above-mentioned roles of being a legislative tool, as well as a vehicle for innovative thinking. Municipal officials must take the initiative and need not wait for the National Treasury to tell them what to do. Furthermore, the generic policy issued by the National Treasury will not remedy the situation if the individual municipalities do not take into account their local conditions, circumstances, or dynamics. The generic policy does not provide for all the constructs of SCM, as discussed in Chapter 2 of this study, and, if implemented by the majority of South African municipalities, will result in the central objective of SCM, namely a reduction of costs aimed at optimising customer value, not being achieved in South Africa.

Chapter 5

Analysing Strategic Supply-Chain Management by Matatiele Municipality

5.1 Introduction

Matatiele Municipality was established on 5 December 2000 in terms of Proclamation no. 5563 of 19 September 2000. The Municipal Demarcation Board allocated the number KZ 5(a)3 to the area consisting of the extent of the erstwhile Matatiele Transitional Local Council, of the erstwhile Cedarville Transitional Local Council and of some surrounding agricultural land. On 3 May 2001, the Local Council resolved¹⁷ that the KZ 5(a)3 area become known as Matatiele Municipality, as Matatiele is the name by which the whole region is known to its inhabitants, as well as to the people of neighbouring regions.

Matatiele was founded by the Griquas after their trek across the Drakensberg mountain range. The name of the town is derived from the name of an adjacent march called Madi I Yila or “the ducks have flown”.¹⁸ Today, the small town is the centre of a farming area focused on the production of maize and dairy goods. Horses are also bred in the area. The road from Mount Fletcher to Maclear is currently undergoing tarring and, when completed, the route will be the shortest from Durban to Cape Town and should considerably improve the tourism potential of the town. The Quaches Nek border post between the Republic of South Africa and Lesotho is 34 km from the town centre of Matatiele. The town provides banking and postal commercial services to the people of southern Lesotho and the north-eastern Cape.

A tarred road connects Matatiele with other parts of KwaZulu-Natal via Cedarville and Kokstad, Durban being just over 300 km away. The distance by road to Pietermaritzburg is some 260 km. The location of Matatiele can be determined on the map of South Africa (see Figure 5.1).

¹⁷ Council Resolution, no. CR 41/3/5/2001.

¹⁸ Delport, A.(1995). *Municipal Yearbook 1995*.Johannesburg. Gaffney Group.



Figure 5.1 A MAP OF SOUTH AFRICA

Source: Municipal Demarcation Board (2004).

All essential services, including water, electricity and sewage, have been adequately provided throughout the town. Electricity is purchased from Eskom's Natal Undertaking by the Municipality. The town's water supply comes from Mountain Dam, situated on the municipal commonage. The dam's effective storage capacity is 1 052 million litres. Many boreholes also exist. The waterborne sewage scheme was installed in 1951, and the sewage disposal works were extended and improved during 1998.

Schools are well represented in the area, with new ones being opened to meet the ever-increasing demand for good education. In the municipal area of Matatiele, there are 21¹⁹ public schools and 5 independent schools.

The Tayler Bequest Hospital provides medical and surgical facilities for those in the surrounding area, treating more than 3 900 patients per month.²⁰ The Khotsong Santa

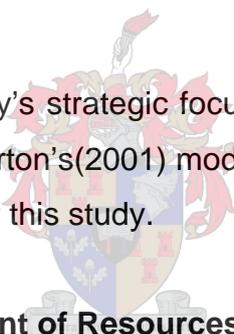
¹⁹ Matatiele Municipality, Integrated Development Plan, 1 July 2002 to 30 June 2007.

Tuberculosis Centre is a separate hospital and provides for 250 patients. The municipal clinic treats 6 500 clients on average every month.²¹

Residents from the rural areas surrounding Matatiele are migrating in great numbers to the town for similar reasons as those that cause urbanisation worldwide. In 1990, 5 500²² people resided in Matatiele. In 2004, that figure rose to 20 200.²³ The influx has placed an enormous strain on the town's resources, as the infrastructure continuously requires improvement and expansion.

On 4 September 2005,²⁴ the Municipal Demarcation Board advertised its intention to incorporate additional rural areas into Matatiele Municipality, and to transfer the newly demarcated municipality from KwaZulu-Natal to the Eastern Cape. If the proposed amendments to the municipal boundaries are, indeed, implemented, the population of the Matatiele Municipality will increase to about 350 000 people, including those living in 26 different tribal areas.

In this chapter, Matatiele Municipality's strategic focus and alignment of resources will be described in terms of Kaplan and Norton's (2001) model of a strategy-focused organisation, as discussed in subsection 2.2.3.4 of this study.



5.2 Strategic Focus and Alignment of Resources

The strategic focus and alignment of resources by Matatiele Municipality will be described below in terms of the principles of a strategy-focused organisation: translating the strategy into operational terms; the alignment of the organisation with the strategy concerned; making the strategy the daily concern of all; making the strategy a continual process; and mobilising change by means of executive leadership.

²⁰ Personal interview with B. Rooi, 15 November 2005.

²¹ Council Minutes, May 2005.

²² Financial Statements, 1989/1990.

²³ Financial Statements, 2003/2004.

²⁴ *Rapport*, 4 September 2005.

5.2.1 Translating strategy into operational terms

Subsection 2.2.3.4 of Chapter 2 stated that organisations must capitalise on existing tangible and intangible capabilities and assets in order to achieve desired results. Hidden assets and capabilities must be unleashed and the question “*What is the strategy?*” must be asked. Matatiele Municipality’s strategy is encapsulated in its IDP, which is now explored, together with the LED initiatives implemented by the Matatiele Municipality.

5.2.1.1 The integrated development plan

Chapter 5 of the Systems Act, which describes integrated development planning, as well as providing the legal requirements for its implementation, is described in subsection 3.2.3 of this study. Integrated development planning is a process according to which municipalities and other spheres of government prepare a strategic development plan for a five-year period. The IDP, which is the product of this planning process, must inform the budget, management, and all planning activities in a municipality. An IDP adopted by a municipal council is reviewed annually and remains in force until a new IDP is adopted by the next elected council.



5.2.1.1.1 The intention of the IDP process

The intention of the IDP process is to obtain community involvement and participation in the planning activities of government. Communities must plan for themselves. Knowing what their own needs are, they can accordingly determine the service delivery needs and service levels in their area. The municipal council’s role is to co-ordinate the process in a structured way and to discuss the community’s needs with members of the community. Community needs must also be prioritised by the community concerned.

The IDP process must be linked to the municipality’s performance management system, to the management’s performance and to the performance of all staff members. Such linkage helps to ensure that the council concerned delivers appropriately by reaching the objectives set by the community during the IDP process.

All spheres of government should plan together. The local municipality’s IDP must be aligned with that of the District Municipality, whose IDP needs to be aligned with the

growth and development strategy of the provincial government. All provincial growth and development strategies need to be aligned with that of the National Government. Therefore, it is imperative that all government departments and provincial departments; all service providers, such as Telkom, Eskom, the South African Post Office, Vodacom, MTN, Cell C and Transnet; the relevant NGOs; organised labour; organised agriculture and organised commerce be represented at IDP meetings. All such representatives can contribute to the well-being and development of the community by means of their invaluable input. The intention of the IDP process is, therefore, to align the planning and budgeting of all spheres of government, as well as to bring order and structure to all municipal functions. All national and provincial government departments should then be involved with local government in delivering services to all those living in South Africa.

5.2.1.1.2 The IDP process

At the time of the current investigation, ward meetings were being held by the respective councillors, during which the community's needs were documented. Projects aimed at satisfying these needs were being identified and prioritised. The output of all ward meetings was presented to a steering committee, which calculated the costs of the identified projects and made suitable recommendations to the Mayor's Representative Forum. The Steering Committee consisted of municipal officials who were the municipality's technical experts in their various fields. The Mayor's Representatives Forum, consisting of representatives of all stakeholders, approved the IDP, recommending its adoption to the municipal council. A list of projects to be implemented in order of priority over the next five years was then compiled and included in the IDP. Once consensus was reached, the Council adopted the IDP, which it submitted to the relevant MEC for approval. The Municipal Manager was responsible for seeing that the IDP was implemented, by means of delegating certain duties to the different departmental managers (see Figure 5.2).

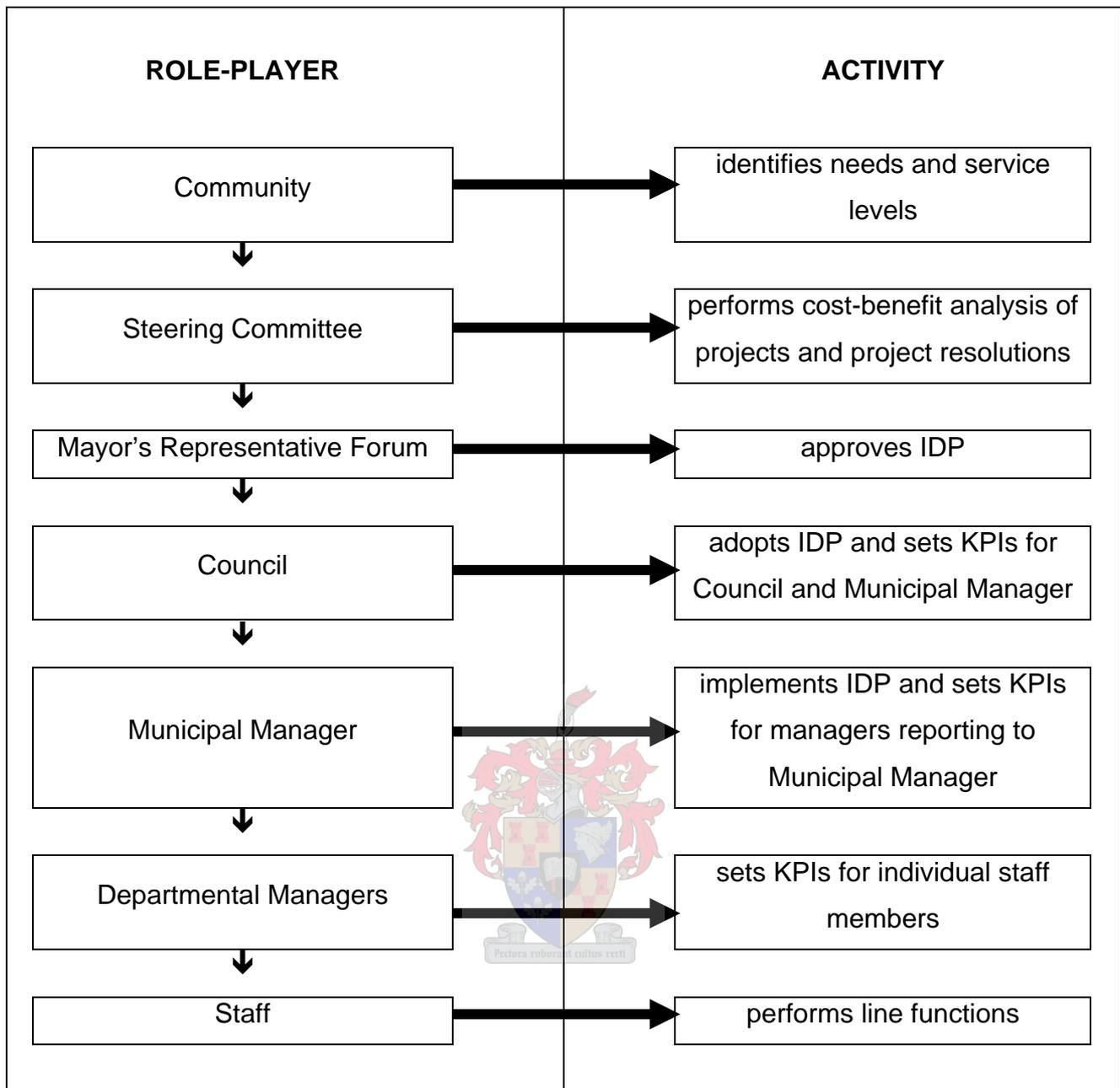


Figure 5.2 THE IDP PROCESS

5.2.1.1.3 Problems experienced regarding the IDP process of Matatiele Municipality

At the beginning of the IDP process, those people involved were motivated, became involved and expressed an interest in the process. Representatives from 48 local structures and NGOs met weekly.²⁵ The difficulty lay in maintaining their interest, as all concerned presented their own wish lists, which they viewed as being of paramount importance. When the priority of their own concerns was not acknowledged, the participants started to lose interest in the whole process and ward meetings shrank to

²⁵ Matatiele Municipality, Minutes of Representatives Forum Meeting, April 2002.

where only six people attended them regularly. Unrealistic goals at the time caused tension between the community and council, while political differences led to lack of performance. The process ground to a halt when opposing parties debated issues of ideology. Representatives of other spheres of government, the district municipality and neighbouring municipalities hardly bothered to attend the meetings at all. Those who did attend were mainly junior staff, who were able to provide little input regarding the needs of their institutions. The result was that the IDPs failed to align with one another and other programmes as they should have. A small municipality with little capacity can thus be seen as being unable to manage the process effectively, as the system is new, unknown to many and without funding for any of the projects so far identified. To access government funding is onerous and time-consuming and often no funding is available for the type of projects desired by the community. Rural municipalities have difficulty in attracting capacitated staff, due to the low salaries and lack of housing and services, such as sporting activities, cinemas, shopping malls and discotheques (Personal interview with Municipal Manager, 20 July 2005).

5.2.1.1.4 The IDP of Matatiele Municipality

The IDP of Matatiele Municipality for the period 1 July 2002 to 30 June 2007 was approved by the Municipal Council on 15 May 2002, as well as and by the MEC for Local Government and Traditional Affairs of KwaZulu-Natal on 10 September 2002.²⁶ The IDP informed the Budget to the extent that only items identified by the Representative Forum²⁷ were included in the Capital Budget, with the operating costs of these projects being included in the Operating Budget.²⁸

The Mayor's Representative Forum met annually to review progress made regarding projects approved and implemented, as well as to review the programmes of ensuing years. Regrettably, the review meetings had a poor turn-out. Those present indicated their satisfaction with progress made with the completion of projects, but were generally dissatisfied with the rate of job creation and sustainable economic empowerment of local SMMEs. At IDP meetings only capital projects are discussed.²⁹ Levels of services, such as refuse removal, are not discussed at the IDP meetings, but are decided upon by Council

²⁶ Matatiele Municipality, File 5/2 Budget.

²⁷ Matatiele Municipality, Reviewed IDP, 2004/2005.

²⁸ Matatiele Municipality, Operating Budget, 2004/2005.

²⁹ Matatiele Municipality, Minutes of Meeting, IDP review meeting, 2004/2005.

during its Budget meetings.³⁰ The IDP grouped the different key development issues into five categories, which are summarised in Table 5.1.

Table 5.1 THE IDP OF MATATIELE MUNICIPALITY

SECTOR	KEY DEVELOPMENT ISSUES
Physical Infrastructure and Services	<ul style="list-style-type: none"> • Water • Sanitation • Electricity • Roads • Waste management • Municipal estates
Social Development	<ul style="list-style-type: none"> • Education • Crèches • Primary health care and welfare • Facilities for the physically challenged • Facilities for the aged • Sport and recreation • Safety and security • Housing (including ownership education)
Economic Development	<ul style="list-style-type: none"> • Local economic development • Tourism • Job creation and poverty alleviation • Development of SMMEs
Land Reform, Environmental and Land Use Management	<ul style="list-style-type: none"> • Land reform • Environmental management
Institution Development	<ul style="list-style-type: none"> • Performance management system • Human resource development • Communications • Public–private partnerships • Capacity resource development

Source: Matatiele Municipality, Integrated Development Plan, May 2002.

³⁰ Matatiele Municipality, Budget Working Papers, 2004/2005.

In total, 125 projects were included in the IDP of Matatiele Municipality (see Annexures 1 to 5 on pages 119 to 127 for details). By 30 June 2005, 29 of the projects had already been completed, while 29 others were still in progress. The completion rate of the projects is summarised in Table 5.2.

Table 5.2 THE NUMBER OF IDP PROJECTS COMPLETED BY 30 JUNE 2005

Financial year	Total number of projects	Number of projects completed	Number of projects in process	Number of projects not started	% rate of completed projects
2002/2003	24	21	3	0	88
2003/2004	27	5	22	0	19
2004/2005	47	3	4	40	6
2005/2006	12	–	–	12	0
2006/2007	15	–	–	12	0

Source: Matatiele Municipality, Revised IDP, 2005/2006.

An interview with the Municipal Manager on 20 July 2005 revealed that many projects for 2004/2005 had not yet been implemented, due to a lack of counter funding from government, as well as a lack of preplanning between all spheres of government. Matatiele Municipality lacks sufficient financial resources to fund all the projects.

Table 5.3 IDP-APPROVED AMOUNTS COMPARED WITH ACTUAL EXPENDITURE

Period	Financial Year	IDP Amount R	Capital Budget Approved R	Capital Expenditure Incurred R
1 st Year	2002/2003	8 870 000	22 840 000	19 946 578
2 nd Year	2003/2004	13 030 000	9 560 000	20 119 198
3 rd Year	2004/2005	10 950 000	13 800 000	7 797 995
4 th Year	2005/2006	19 780 000	3 550 000	As yet unknown

Source: Matatiele Municipality Integrated Development Plan, 1 July 2002 to 30 June 2007.

Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2003.

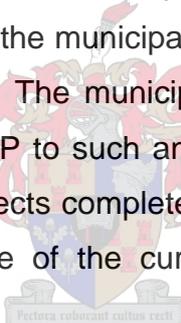
Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2004.

Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2005.

Source: Matatiele Municipality, Budget, 2005/2006.

Table 5.3 indicates the monetary amounts for all projects included in the IDP compared with the amounts budgeted for, as well as the actual expenditure for the years concerned. The Table clearly shows that in Year 1 and 2 the projects for the years to come were budgeted for and implemented. In Year 3 only 56% of the budget was spent, echoing the comments made by the Municipal Manager, as included in the preceding paragraph. The Table further indicates that the IDP of Matatiele Municipality seems to have lost its momentum. In Year 4 only 18% of the amount needed to implement the approved projects for that year had, in fact, been budgeted for.

Though the IDP contained a vision and a mission statement for the municipality,³¹ a vision or mission statement for each functional unit of the municipality had not yet been compiled at the time of investigation. Though a BSC for the municipality was, indeed, compiled in July 2005, only the Municipal Manager and Heads of Departments knew about it at the time of the report. A BSC for each functional unit did not yet exist at that stage. Three questions relating to financial ratios were the only financial items included in the BSC. A performance management system for the municipality linked to the IDP was, at the time of investigation, undergoing compilation. The municipal managers' performance agreement was linked to the objectives of the IDP to such an extent that it was assessed, amongst others, in terms of the number of projects completed. The other two officials' performance agreements had not yet, at the time of the current report, been linked to the IDP's objectives.³²



5.2.1.2 Local economic development initiatives

At the time of the report, Matatiele Municipality lacked an official Empowerment Policy, though it supported the national governments' BEE initiatives.³³ Matatiele Municipality had outsourced its refuse collection, grass-cutting and cemetery-maintenance services since 1 October 1992.³⁴ Service providers were appointed in terms of a three-year contract, following a public tender process. When assessing tenders, Council gave preference to service providers that formed joint ventures or partnerships across all race groups. The awarding policy sought to award contracts where possibilities existed of knowledge transfer between partners, so that certain race groups would not feel marginalised. The

³¹ Matatiele Municipality, Integrated Development Plan, 1 July 2002 to 30 June 2007.

³² Personal interview with Municipal Manager, 20 July 2005.

³³ Interview with Municipal Manager, 15 July 2005.

³⁴ Council Minutes, October 1992.

same policy was followed when awarding contracts for the building of new infrastructure. The central business district (CBD) refuse collection had been contracted to a group of 26 retrenched municipal workers, who had formed their own company.

At times conflict between partners occurred, resulting in Council having to play a mediatory role. The CFO had to assist in resolving financial management problems between partners. This led to Council insisting that qualified and registered Chartered Accountants or Certified Financial Accountants be appointed by contractors when the contracts came up for renewal.³⁵ These accountants had to give management advice to contractors and to report monthly to the Municipal Manager that sound finance management and internal control has been implemented. Small jobs, such as plot clearing and the removal of access building material, were channeled to emerging contractors. Awarding was done at the discretion of the Manager: Technical Services (Personal interview with Manager: Technical Services, 10 July 2005).

Contracts awarded to emerging contractors or joint ventures included: the construction of two new libraries, one in Matatiele and one in Cedarville; the construction of a new bus rank and community hall in Harry Gwala Park; additions to the civic buildings in Matatiele; and renovations to the town hall. The monetary value of these contracts amounted to R3 626 016 of a capital expenditure of R20 119 198 in 2003/2004³⁶ and R2 516 499 of a capital expenditure of R7 797 995 in 2004/2005.³⁷

5.2.2 Aligning the organisation with the strategy

Subsection 2.2.3.4 of Chapter 2 described the need to link and integrate the strategies of all departments and units across an organisation in order to maximise performance. Functional units should not operate in isolation, and barriers should not be created between different segments of the organisation. The staff structure of the Matatiele Municipality comprises four Directorates: Executive and Council; the Directorate: Financial Services; the Directorate: Administration and Corporate Services, and the Directorate: Technical Services. Figure 5.3 illustrates the hierarchical arrangement of the Directorates concerned. The organograms of the four Directorates form Annexures 6 to 9 of this study.

³⁵ Matatiele Municipality, Service Level Agreement, Lerato Association.

³⁶ Matatiele Municipality, Financial Statements Working Papers, 2003/2004.

³⁷ Matatiele Municipality, Financial Statements Working Papers, 2004/2005.

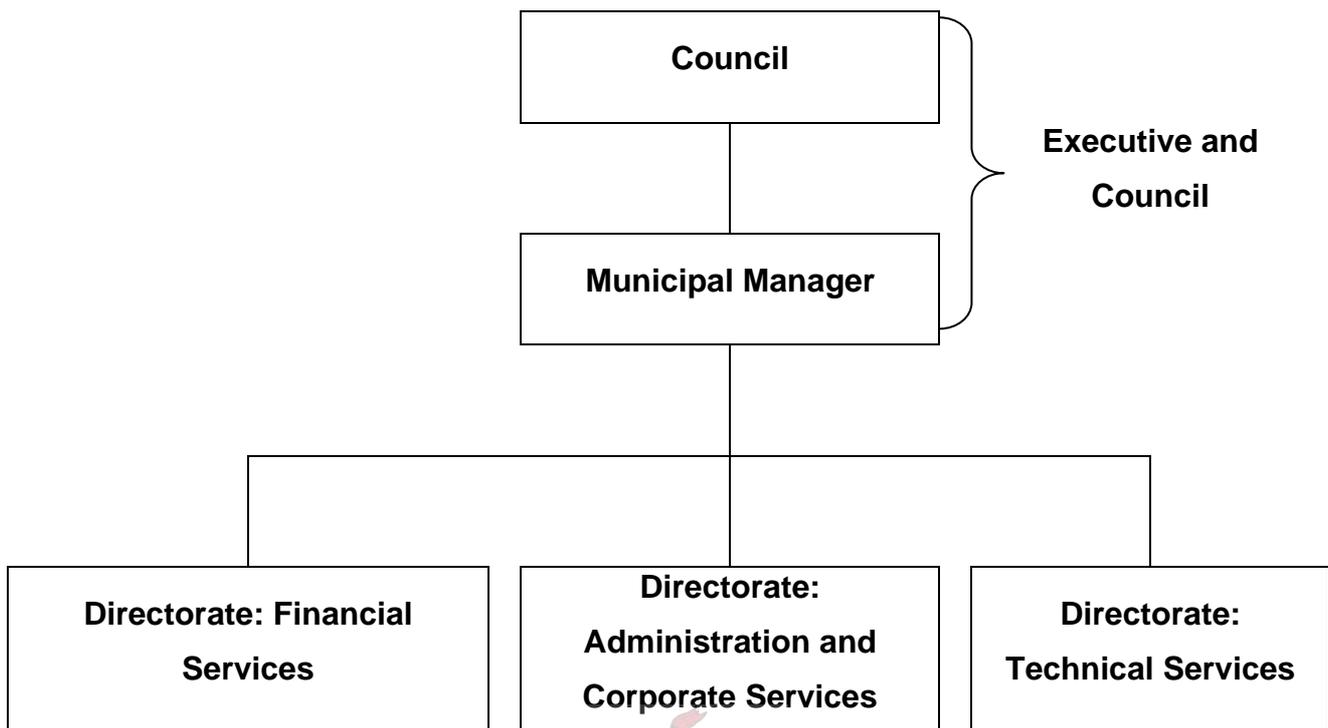


Figure 5.3 THE HIERARCHY OF DIRECTORATES

Source: Matatiele Municipality, Budget Working Papers, 2004/2005.

The organisational structure of Matatiele Municipality was, at the time of research, typical of that of a traditional functional organisation structure. Subsection 2.3.3.1 states that this type of organisational structure is not conducive to the implementation of SCM, resulting in its having to be replaced by a cross-functional process integrated organisational structure before SCM could be successfully implemented. Subsection 2.3.3.1 discusses such a structure .

5.2.3 Making strategy everyone's everyday job

Subsection 2.2.3.4 stated that all employees in an organisation must understand the strategy of the organisation and contribute to its implementation. Aspects of human resource management relating to strategic awareness and the application of legislation in the Matatiele Municipality are described below.

5.2.3.1 Human resource management

On 30 June 2005 Matatiele Municipality had 181 employees, of which 77 (43%) were on monthly contracts. The high percentage of temporary workers was due to unresolved disciplinary action and the pending transfer of certain powers and functions between the district municipality and local municipalities. The Matatiele Municipality did not want to make new appointments until these two issues had been resolved.³⁸

The Municipal Manager, CFO, and Director: Administration Corporate Services were, at that stage, Section 57 employees.³⁹ A Section 57 employee is a person appointed in terms of Section 57 of the Systems Act on a fixed-term contract for a period usually of five years. The Municipal Manager had entered into a performance contract with the Council, while the other two Section 57 employees had entered into a performance contract with the Municipal Manager. Assessments of these three employees were being conducted annually, with increases and bonuses depending on the score obtained in the assessment. The performance of no other staff members was being assessed at the time of the investigation. Increases and bonuses were viewed as a right and were, accordingly, being paid automatically each year.⁴⁰

The employment contract for the two Section 57 employees reporting to the Municipal Manager required the holding of monthly meetings with staff of their respective directorates.^{41,42} Proof of such meetings had to be submitted during assessment. However, the items discussed were always of an administrative nature, such as leave schedules, offices requiring repair and stationery requirements.⁴³ Management meetings between the Municipal Manager and Heads of Departments were only held before and after the Municipal Manager had been away from office for a long period or when an emergency situation developed. No minutes of these meetings were kept.

Annexure 10 consists of a table indicating the number of permanent and contractual staff in each Directorate and Department. The Streets Department employed nearly twice the number of staff on a contractual basis as it did on a permanent basis. An interview with the

³⁸ Matatiele Municipality, Council Minutes, May 2005.

³⁹ Matatiele Municipality, Staff records, 30 June 2005.

⁴⁰ Source: Salary Records, 30 June 2005.

⁴¹ Contract of Employment between Matatiele Municipality and DC. van Zyl.

⁴² Contract of Employment between Matatiele Municipality and W.D. Linqa.

⁴³ Directorate: Financial Services, Minutes of Monthly Staff Meetings, 01 July 2004 to 30 June 2005.

Manager: Technical Services on 5 July 2005 revealed that the employment of contractual workers was due to a lack of sufficient funds being allocated to the Repairs and Maintenance votes. Once these votes were depleted, staff contracts were not renewed until the next budget allocation was made. The Streets Department was responsible for the maintenance of street surfaces, pavements, curbs and channeling, as well as storm-water drains. Figure 5.4 indicates the number of permanent employees in relation to the number of contractual staff.

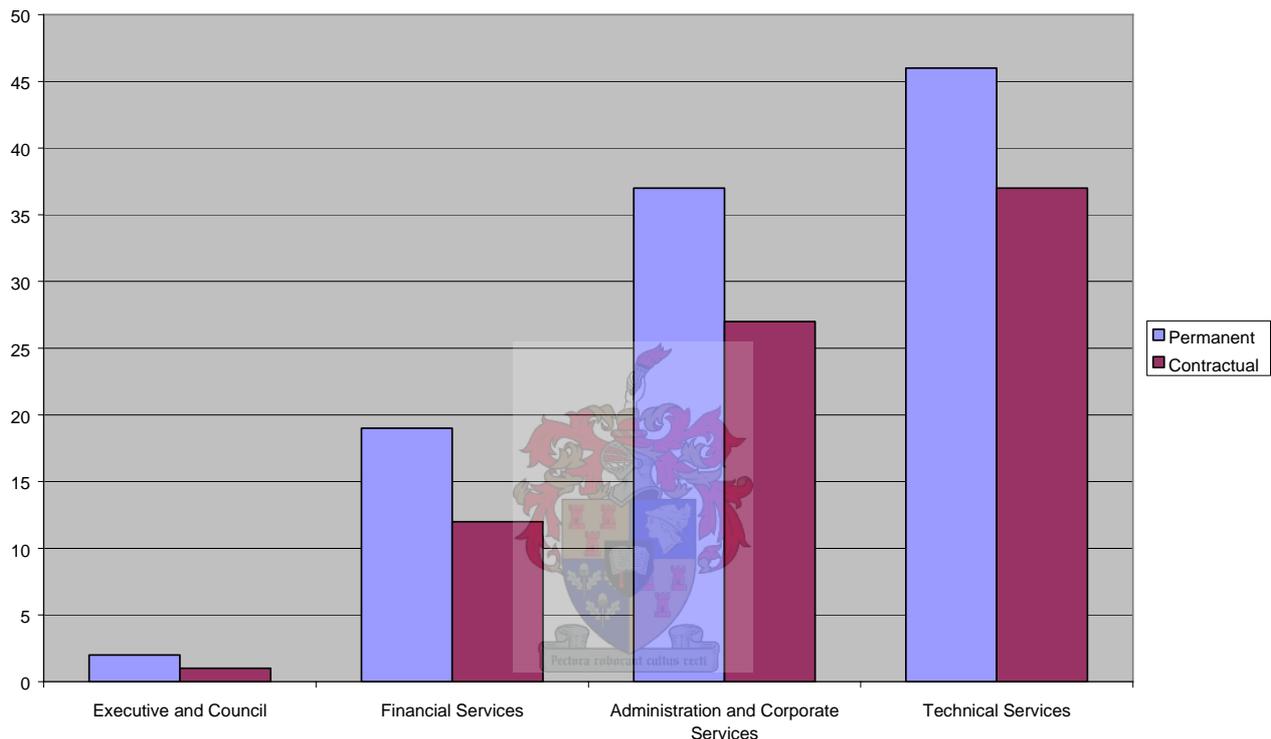


Figure 5.4 THE NUMBER OF PERMANENT STAFF IN RELATION TO THAT OF CONTRACTUAL STAFF

Table 5.4 indicates the years of municipal service performed by members of staff per Directorate. The four members of staff with 20 years or more of service all hold senior management positions. The Directorate: Technical Services, which has the lowest number of qualified staff, has the most members of staff with between 10 and 19 years of service. Further research revealed that the service provided had been with the same department of the Matatiele Municipality, and that the majority of such members of staff were illiterate. Employees with few qualifications were not given an opportunity to improve their skills, so that their ability to offer improved service delivery to the community was negligible.

Table 5.4 STAFF YEARS OF MUNICIPAL EXPERIENCE PER DIRECTORATE

Years of Municipal Experience	Executive and Council	Financial Services	Administration and Corporate Services	Technical Services	Total	%
20 years and more	1	1	2	0	4	2
10 to 19 years	0	5	12	38	55	31
5 to 9 years	1	1	8	5	15	8
2 to 4 years	0	13	19	3	35	19
2 years or less	1	11	23	37	72	40
Total	3	31	64	83	181	100

An interview with the Municipal Manager on 20 July 2005 revealed that the Municipal Manager and CFO were preoccupied with multiple line functions, such as the compiling of agendas, the writing of minutes, the subdivision and consolidation of erven, and handling insurance claims and town planning issues. The Municipal Manager also acted as IDP manager at the time and was therefore responsible for driving the IDP process. In the Directorate: Technical Services, general assistants report directly to the Manager: Technical Services. No foreman was responsible for assisting with supervision or planning, both of which functions had to be performed by the Manager, causing pressing managerial issues to be neglected. The Municipal Manager was also concerned that certain senior officials simply acted as transmitters of information and did not add value to the municipal quest to render first-class services to its citizens. An example of the inefficiency involved in this scenario could be where the Municipal Manager wanted to know why the clinic closed early on a certain day. In such cases, he would need to ask the Director: Administration and Corporate Services. The Director would then direct the query in writing to the Assistant Director Administration. The Assistant Director would then write a memorandum to the clinic manager, to which she would attach the Director's memorandum, for which she would request a reply. The reply would follow the same route back. Each person in the communication chain would simply attach the others' memorandum to their own memorandum, stating that the attached memorandum was self-explanatory and requesting a reply to it. According to the Municipal Manager, this matter was a cause of especial concern in the case of the Directorate: Administration and Corporate Services.

At the time of the investigation, the Matatiele Municipality had already established a Local Labour Forum (LLF), consisting of five members representing labour and five representing management. The LLF was supposed to meet monthly to discuss issues affecting labour. However, on scrutinising the minutes of the Forum meetings, the researcher found that months went by without any meetings of the Forum taking place. An interview with the Director: Administration and Corporate Services on 5 July 2005 revealed that meetings were often postponed, due to the unavailability of councillors representing the management component or due to no items being forwarded to the secretariat. The postponement of meetings resulted in a delay in the approval of certain vital documents, such as the Work Skills Plan and Employment Equity Plan. Targets were therefore not timeously met.

In June 2004, the Matatiele Municipal Council adopted its Employment Equity Plan. In terms of this plan the Municipal Manager was assigned responsibility for its implementation and monitoring. However, due to the few new appointments that were made and the employment of contractual workers, little progress in achieving employment equity targets was made.⁴⁴ Annexure 12 consists of a table indicating the gender composition of staff per Directorate and Department, as on 30 June 2005. The only directorate that was not mainly staffed by women at that stage was the Directorate: Technical Services, which employed no women. Figure 5.5 provides a schematic representation of the gender composition of municipal staff as on 30 June 2005.

⁴⁴ Matatiele Municipality, Salary Records, 30 June 2005.

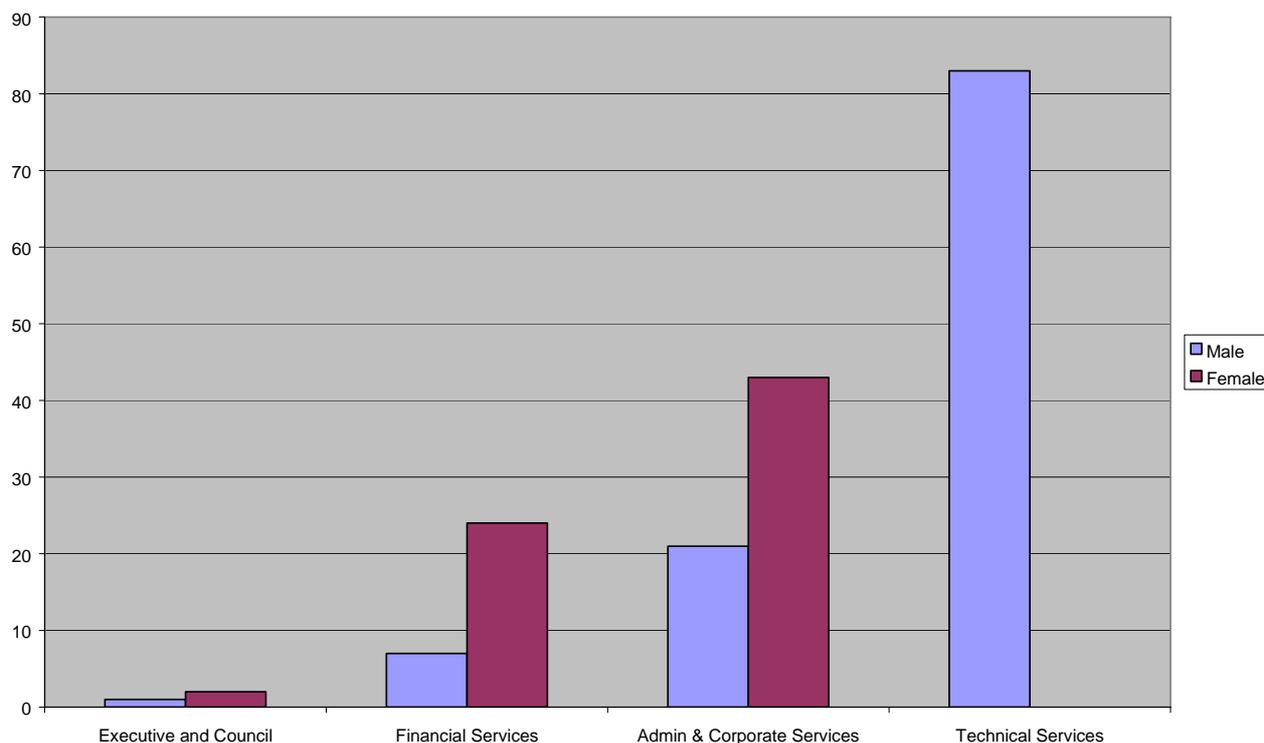


Figure 5.5 THE GENDER COMPOSITION OF STAFF

Source: Matatiele Municipality, Salary Records, 30 June 2005.

Annexure 13 tabulates the racial composition of staff per Directorate and Department as on 30 June 2005. Of the 73% of black employees, 55% are employed as general assistants in the Directorate: Technical Services. Only 1% of staff employed is Indian, which appropriately reflects the number of Indians residing in Matatiele.⁴⁵ Figure 5.6 indicates the racial composition of staff schematically.

⁴⁵ Matatiele Municipality, IDP, 1 July 2002 to 30 June 2007, Statistical Report.

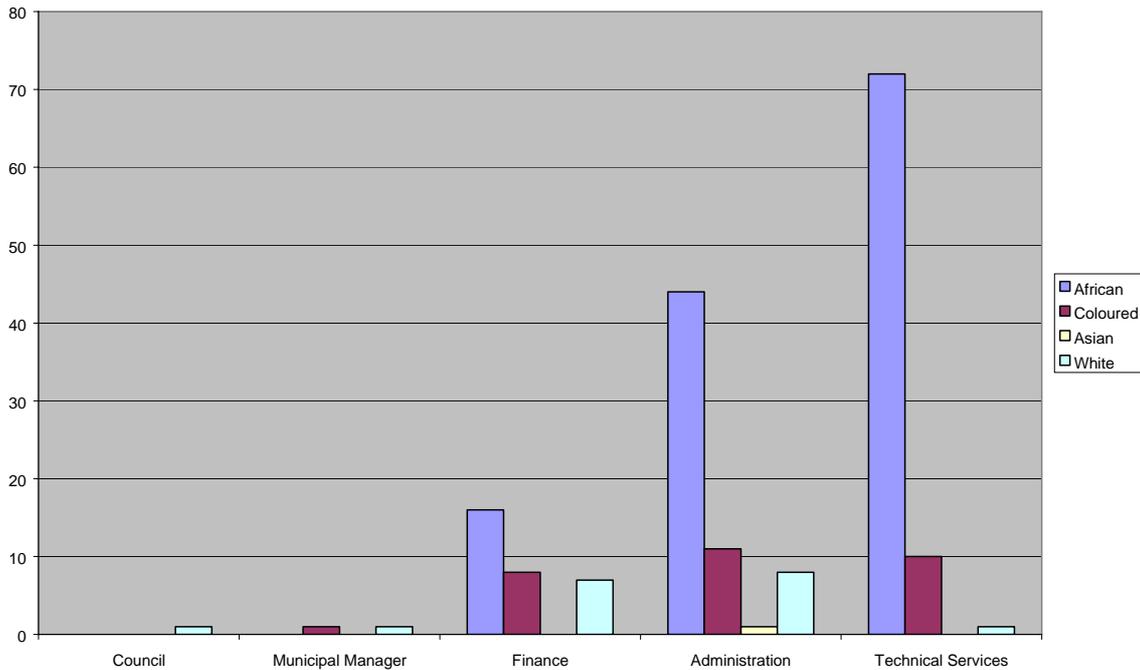


Figure 5.6 THE RACIAL COMPOSITION OF THE STAFF COMPLEMENT

Source: Matatiele Municipality, *Salary Records*, 30 June 2005.

At the time of the investigation, the Matatiele Municipality had five councillors, of which only one, the mayor, had been declared a full-time councillor. The four remaining councillors were employees of other organisations and, as such, fulfilled their council activities after hours. The mayor also served as a district municipality councillor. Meetings attended at various locations by councillors from other municipalities had also to be attended by a councillor from Matatiele Municipality. The required attendance placed a great deal of pressure on Matatiele Municipality's Mayor, who was the only councillor available for attending such meetings, due to his status as the only full-time councillor. A scrutiny of travel-and-subsistence claims⁴⁶ revealed that the mayor had attended 77 out-of-town meetings with an average duration of two days each during the 2004/2005 financial year. This attendance excluded meetings held locally, as well as meetings that he attended in his capacity as a district municipality councillor. The fact that the Mayor was out of office so often resulted in his not meeting with management as frequently as he would have liked to. Requests for information and follow-up on queries was done telephonically or by means of electronic mail. Council committee meetings involving the discussion of policy were therefore often postponed or cancelled. Over a long period, such postponement or cancellation of meetings would inevitably have a negative effect on service delivery (Personal interview with Municipal Manager, 20 July 2005).

⁴⁶ Matatiele Municipality, Subsistence and Claims Register, 1 July 2004 to 30 June 2005.

An Employee Performance Appraisal System and a Human Resources Manual for Matatiele Municipality were in the process of being developed at the time of the investigation.

5.2.3.2 The application of legislation

Matatiele Municipality, as a medium-capacity local authority, was required by law to comply with the SCM legislation with effect from 1 January 2006. However, at the request of National Treasury, all municipalities had to act in the spirit of SCM legislation until such legislation became applicable. According to the Logistics Manager of Matatiele Municipality, the situation presented Matatiele Municipality with certain challenges, including the following (Personal interview, 30 August 2005):

a) *Political Office Bearers, Service Providers and Suppliers*

Political office bearers wanted to know what “*in the spirit of*” meant and whether or not the legislation was applicable. If not, they wanted to know why they were meant to act in terms of rules that were not yet applicable and not in terms of the existing legislation, which was still applicable. The legislation against which the Auditor-General would check for compliance was debatable.

Service providers and suppliers were, at the time of the investigation, submitting neither SARS tax clearance certificates nor municipal rates clearance certificates. Such certificates are required to ensure that business is done with individuals and firms whose government taxes are in order. Furthermore, the service providers and suppliers concerned were reluctant to register as such, stating that they saw no reason why they should do so. In a small town with only a few service providers and suppliers such an attitude delayed sourcing, which was exacerbated by wholesalers located in the larger centre also having the same attitude. The amount of business offered them by the Matatiele Municipality seemed relatively insignificant when compared to their total turnover.

b) *Supply-Chain Management Policy*

The SCM policy was undergoing development by the CFO at the time of the investigation. On completion, the policy had to be provisionally approved by Council, and then published for comment from the public, while it was being workshopped with interested parties. On completion of the aforesaid process, the Matatiele Municipal Council had formally to adopt the policy and have it promulgated in the Provincial Gazette. The time available for this process was inadequate and might have resulted in National Treasury's Generic Policy being adopted, which might not have suited the Matatiele Municipality.

c) *The Supply-Chain Management Unit*

The organogram of the Directorate: Financial Services had to be amended to include the above unit and appointments had to be made to fill the new positions. However, job descriptions for the new positions had still to be compiled.

d) *Bid committees*

The three bid committees (Bid Specification, Bid Evaluation and Bid Adjudication), as required in terms of the SCM Regulations, had as yet not been appointed. Such appointments would only take place once the staff vacancies for the SCM unit had been filled.

e) *Procurement levels*

As stated in (b) above, an SCM Policy had not yet been approved by the Matatiele Municipal Council at the time of the investigation. Uncertainty therefore prevailed regarding the maximum amount to which expenditure might be incurred before tenders were formally called for (see paragraph 5.5 hereunder for comments) regarding the current status of SCM. Matatiele Municipality would definitely not be ready for the implementation of the SCM legislation on 1 January 2006.

As far as the management of the Matatiele Municipality was concerned, all other legislation was complied with, but only in order to meet the compliance requirement and

neither to improve service delivery nor as a management tool. Procedural manuals were being compiled by management, but were not being filtered down to all staff members concerned. The following serve as examples of such obstructionism.

A Disaster Management Plan⁴⁷ was compiled and implemented by Management, but when excessive floods occurred on 20 November 2004, municipal staff were inaccessible. The Municipal Manager had to rally support from community members to alleviate the effect of the floods.⁴⁸ On 18 February 2003 Council adopted an Access to Information Manual in terms of PAIA, but the management of Matatiele Municipality was continuously being confronted by staff stating that they did not know how to cope with a request for information from a member of the public.⁴⁹ The MFMA reporting questionnaires and Statistics South Africa returns were all timeously completed and submitted by an official appointed specifically for the purpose, upon which they were filed. The information was not presented to management timeously enough to allow for review of strategy and management styles, or to allow holding of staff accountable for lack of productivity.⁵⁰

A website was undergoing development at the time of the research. Matatiele Municipality was therefore, at that stage, not yet compliant with the MFMA in that regard.

5.2.4 Making strategy a continual process



Subsection 2.2.3.4 of Chapter 2 stressed the importance of holding regular management meetings for purposes of performance evaluation and the taking of corrective steps. The need to link strategy and budget processes was stressed, as well as the need to introduce processes involving the learning and adaptation of the strategy to local requirements. Information and communication technology systems had to enhance decision-making and training had to focus on ways in which to improve the organisation's processes in order to facilitate the implementation of strategy. With this in mind, the management of ICT, financial management, asset management and training in the Matatiele Municipality are described below.

⁴⁷ Matatiele Municipality: Disaster Management Plan.

⁴⁸ Observation by researcher.

⁴⁹ Observation by researcher.

⁵⁰ Matatiele Municipality, Council Minutes, January 2001 to June 2005.

5.2.4.1 Information and communication technology (ICT)

At the time of the study, the CFO of Matatiele Municipality also served as the Chief Information Officer of the Municipality. ICT upgrades and purchases were therefore initiated by him, as few requests for ICT were ever received from other Heads of Departments or members of staff.

The ICT of Matatiele Municipality consisted of one Xeon Pentium 4 Serve with SCO Unix operating system and Fujitsus' Abakus Local Authority Financial package at the time. The Municipality had a Windows 2003 Small Business Server fitted with Microsoft XP. Twenty staff members each had a Pentium 4 personal computer (PC), provided with Internet and e-mail facilities. The hardware support had been outsourced to a firm from Durban on a contractual basis of 24 hours per month. No local service provider was able to support the SCO Unix operating system. The Abakus Financial package had a creditors and stores module for the control and management of the functions concerned. No facility for the electronic sourcing or acquisition of goods or services was available on Abakus. No electronic database of suppliers existed. A website was undergoing development at the time. Matatiele Municipality was therefore non-compliant with the MFMA in that regard.

In the absence of an electronic database of minutes of meetings, a hard copy of the minutes was kept in a lever-arch file. Immediate access to specific resolutions was therefore impossible. The registry and archives departments were not yet automated. Hard copies of documents were filed in cabinets, which were kept in a fireproof strong room. To obtain a specific letter could take days of paging through files, especially if the letter writer was unavailable and registry staff did not know where to start searching (Personal interview with Assistant Director: Administration, 10 July 2005).

Financial policies, procedures and other documentation were kept on the PC of the CFO's Secretary, who was the only one with access to the relevant documentation. Human resource, salary and leave records were kept electronically by the salaries clerk, who was the only person authorised to have access to them. The salary system was not integrated with the ledger, resulting in salary journals being posted manually. Management accounts were not being produced electronically. Data from the Abakus reports was being captured onto an Excel spreadsheet, which was then presented to management and the Council. The reports were only available one month in arrears. Meter readings for the billing of

consumers for services rendered were being captured manually from the meter reading cards. Numerous human errors were experienced monthly, resulting in consumers receiving unduly high accounts (Personal interview with Account: Budget and Treasury Office, 11 July 2005).

5.2.4.2 Financial management

Annexure 14 consists of a tabulated analysis of the operating income and expenditure of Matatiele Municipality for the period 1 July 2002 to 30 June 2005. The Water and Sanitation Services' income and expenditure amounts were included in the 2002/2003 totals, but excluded in subsequent years, due to Water and Sanitation becoming a District Municipal function and being rendered by Matatiele Municipality on an agency basis with effect from 1 July 2003. The change in responsibility problematised the making of comparisons over the three-year period concerned. However, from the table the following could still be deduced:

- (a) Government subsidies were increasing steadily from 12% of the total income in 2002/2003 to 16% in 2004/2005. Therefore, own income generated declined from 88% in 2002/2003 to 84% in 2004/2005.
- (b) The interest received on investments was declining, due both to the drop in interest rates, as well as to the reduced amount of cash available for investment.
- (c) General expenses increased by 45% in 2003/2004 and 27% in 2004/2005. General expenses included items such as stationery, telephone, insurance and subsistence and traveling expenditure.
- (d) The amount spent on the purchasing of bulk electricity increased by 16% from 2003/2004 to 2004/2005, while the income from sales increased by only 8% over the same period.

The CFO submitted monthly reports, which were tabled at the quarterly Council meetings, to the Mayor, Municipal Manager, National Treasury and Provincial Treasury. Variances in any of the departments' votes had to be explained by the CFO during Council meetings. The CFO froze expenditure votes as soon as it became apparent that income targets were not going to be met, in order to prevent the financial transactions for the year ending in a deficit. Heads of Departments were advised on a monthly basis regarding the financial status of their departments, as well as regarding any adjustments made by the CFO. The

CFO made recommendations to the Municipal Manager regarding initiatives that could generate income. If approved by the Municipal Manager, the CFO instructed the other Heads of Departments on the processes to be followed or the programmes to be implemented. Table 5.5 indicates the budgeted income versus the actual income, the budgeted expenditure versus the actual expenditure and the actual income versus the actual expenditure. The table clearly indicates that, although income targets were not being met, expenditure levels had been reduced to such an extent that the financial transactions for the various years had ended in a surplus. The problem with this was, however, that Repairs and Maintenance votes were continually being reduced and that less money was available for spending on fixed assets (the infrastructure). (See Annexure 14 and refer to the comments made in paragraph 1 above.)

Table 5.5 BUDGETED INCOME VERSUS ACTUAL INCOME

Budgeted Income versus Actual Income			
Year	Budget R	Actual R	Variance R
2002/2003	27 104 215	24 487 871	2 616 344
2003/2004	30 711 897	23 676 294	7 035 603
2004/2005	28 397 050	26 991 276	1 405 774
Budgeted Expenditure versus Actual Expenditure			
2002/2003	27 085 880	24 028 806	3 057 074
2003/2004	30 639 498	23 192 817	7 446 681
2004/2005	24 471 210	24 923 792	(452 582)
Actual Income versus Actual Expenditure			
2002/2003	25 487 871	24 028 806	1 459 065
2003/2004	23 676 294	23 193 817	482 477
2004/2005	26 991 276	24 923 792	2 067 484

Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2003.

Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2004.

Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2005.

Annexure 15 consists of a table indicating the revenue sources of the various Matatiele Municipality Directorates as on 30 June 2005.

At the time of the investigation, all erven in Matatiele had metred electricity, metred water and a waterborne sewage connection. Refuse was also being collected twice weekly from every domestic dwelling and daily from every commercial premises. Monthly statements for services rendered and assessment rates were being printed by means of the Abakus Financial package, whereupon they were either posted or hand-delivered in areas to which the South African Post Office did not deliver. Domestic consumers with prepaid electricity metres numbered 1 700, while 150 used credit metres. Commercial consumers with prepaid electricity numbered 50, while the remaining 255 used credit metres. Matatiele Municipality neither provided electricity to the town of Cedarville nor to the agricultural areas within its area of jurisdiction,⁵¹ which were provided by Eskom. All 835 water connections in the town of Cedarville used prepaid metres, while 50 of the 2 055 consumers in Matatiele used prepaid water meters.⁵²

A cause of concern at the time of the investigation was the growing debt. Prepaid technology obviously was preventing debt from growing for that particular service. However, collecting revenue from services not supplied by means of prepaid technology remained a challenge. The Financial Statements for the year ended 30 June 2005 indicated that the amount of debt had increased by R285 127 from R5 980 574 on 30 June 2004 to R6 265 701 on 30 June 2005. The average debt collection period had increased from 86 days in 2004 to 121 days in 2005.



At Matatiele Municipality the budget for all directorates was being compiled by the Budget and Treasury Office of the Directorate: Financial Services. Little input was being received from other directorates. This had led to confrontation during the year under discussion, when Heads of Departments had wanted to implement programmes not yet budgeted for. The Abakus financial package allowed neither orders to be issued nor payments to be made if such expenditure had not been budgeted for. Only the CFO could override the security to allow such expenditure. The Capital Budget was being derived from projects included in the IDP. The Municipal Manager or CFO had initiated the implementation of all capital projects, by calling for tenders and monitoring progress made with the projects. Other Heads of Departments were mainly involved with other minor management issues.

⁵¹ Budget working papers, 2005/2006.

⁵² Annual Financial Statements for the year ending 30 June 2005.

At the time of the investigation, the Annual Financial Statements were compiled by the CFO and staff from the Budget and Treasury Office. The 2005 Financial Statements were submitted to the Auditor-General's office on 31 August 2005. The Auditor-General had, however, not yet completed the audit for the year ended 2004 and had not yet started with the 2005 audit. The fact that the Auditor-General was late with his reports hampered planning and reporting to service providers, such as banks and other funding agents.

Matatiele Municipality had outsourced its internal audit function since 1 July 1995. The services of audit firms was being procured for three-year terms by means of public tenders. Audits, which were previously performed on a quarterly basis, were with effect from 1 July 2005 being conducted monthly. Audit reports were submitted to an Audit Committee, at first consisting of the Mayor, Municipal Manager and CFO but with effect from 1 July 2004 consisting of three independent members of the public. All auditing queries were answered by the CFO, who was responsible for drafting and responding to the annual audit report issued by the Auditor-General.

5.2.4.3 Asset management

All assets of the Matatiele Municipality were under the control of the CFO at the time of the investigation. Part of the process of compiling a new asset register involved identifying and marking assets. Once the process was completed, the control and maintenance of assets was to form the responsibility of the relevant Head of Department. An Asset Maintenance Plan formed part of the new assets register.

Annually, when the Financial Statements were tabled for Council's approval, a list of assets required to be written off was submitted by the CFO. The reason for the said assets no longer being useable or required was included in the report to Council. A certificate stating that all assets were properly maintained was attached to the Financial Statements, which were presented to the Auditor-General for auditing. Council's internal auditors also performed spot checks on assets throughout the year, reporting their findings to the Audit Committee.⁵³

Table 5.6 indicates the opening balance, expenditure, write-offs and closing balance of Council's assets register for the period 1 July 2002 to 30 June 2005. Amounts of

⁵³ Annual Financial Statements, Working Papers, 2002/2003; 2003/2004; 2004/2005.

R31 795 975, relating to rental housing sold to dwellers, and R40 228 337, relating to Water and Sanitation assets transferred to the District Municipality, were included in the amount of R72 094 214 written off during 2004/2005.⁵⁴

Table 5.6 ANALYSIS OF FIXED ASSETS

Year	Opening Balance R	Expenditure R	Written- off/Transferred R	Closing Balance R
2002/2003	81 380 423	19 946 576	1 340	101 325 659
2003/2004	101 325 659	20 119 198	104 366	121 340 491
2004/2005	121 340 491	7 797 995	72 094 214	57 044 272

Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2003.

Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2004.

Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2005.

5.2.4.4 The training of staff

During 2003 a skills audit was performed on the entire municipal staff. All staff members had to produce original certificates to prove their qualifications during a personal interview. The information gleaned from the audit formed the basis of the Workplace Skills Plan, which was then compiled. Regrettably, at the time of the investigation, the plan was not being followed, due to financial and time constraints.⁵⁵ The low level of education of the majority of municipal workers necessitated that Adult Basic Education and Training (ABET) receive priority, albeit mainly for the staff of the Directorate: Technical Services. The CFO organised eight finance-related courses, to which the staff members of other directorates and local authorities, as well as community members were invited. Besides ABET, this training, which formed part of the Workplace Skills Plan, was the only training received by staff members during the 2004/2005 financial year (Matatiele Municipality, Training Report 2004/2005).

Annexure 11 consists of a table indicating the training received by staff in terms of each directorate. In order to empower the community with regards to municipal finance, 29 members of the Matatiele community received training in this regard.

⁵⁴ Matatiele Municipality Annual Financial Statements, 2002/2003; 2003/2004; 2004/2005.

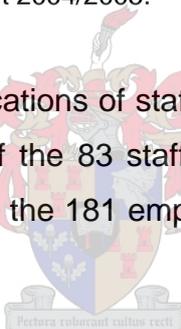
⁵⁵ Personal Interview, Director: Administration and Corporate Services, 5 July 2005.

Table 5.7 STAFF LEVEL OF QUALIFICATIONS PER DIRECTORATE

Level of Qualification	NQF Level	Executive and Council	Financial Services	Administration and Corporate Services	Technical Services	Total	%
Postgraduate	7–8	0	1	0	0	1	0,5
Graduate	6	0	1	3	0	4	2
Diploma	5	0	3	11	1	15	8,5
Matriculation	4	3	13	7	2	25	14
Up to, but excluding, Matriculation	1–3	0	13	43	80	136	75
Total		3	31	64	83	181	100

Source: Matatiele Municipality, Training Report 2004/2005.

Table 5.7 indicates the level of qualifications of staff in each Directorate concerned. Of the Directorate: Technical Services, 80 of the 83 staff members have not yet obtained their matric, while only one staff member of the 181 employed by the Matatiele Municipality has a postgraduate qualification.



5.2.5 Mobilising change by means of executive leadership

Subsection 2.2.3.4 describes that active participation and ownership deliver the best results, whereas teamwork and co-ordination play an important role in the implementation of strategy. Subsection 5.2.1.1.1 states that the intention of the IDP process is to obtain community involvement and participation in the planning activities of government. Communities that plan for themselves are likely to feel that they own the process as well as the projects implemented, so that they feel free to participate in ensuring the success of the system. With their knowledge of their own needs, they can contribute towards determining service levels in their own areas. The municipal council's role is to co-ordinate the process in a structured way and to discuss the community's needs with them. However, while needs should only be prioritised by the community itself, the municipal manager has the responsibility for seeing that the IDP is implemented. Table 5.8 below

indicates instances highlighted in this study where adequate participation and buy-in did not yet exist in the Matatiele Municipality at the time of the investigation.

Table 5.8 PROCESSES LACKING COMMUNITY PARTICIPATION AT THE TIME OF THE STUDY

Process	Description
Service levels	Levels of service, such as that of refuse removal, were not discussed at IDP meetings, but were decided by the Council during its budgetary meetings.
ICT upgrades	ICT upgrades and purchases were initiated by the CFO, as few requests for ICT were received from other Heads of Departments or staff.
Budget variances	Variances existing in any of the departments' votes were explained by the CFO during Council meetings.
Expenditure control	The CFO froze expenditure votes as soon as it became apparent that income targets would not be met.
Income generation	The CFO made recommendations to the Municipal Manager regarding initiatives that could generate income.
Budget compilation	The budget for all directorates was compiled by the Budget and Treasury Office of the Directorate: Financial Services. Little input was received from other directorates
Capital projects	The Municipal Manager or CFO initiated the implementation of all capital projects.
Control over assets	All assets of the Matatiele Municipality were under the control of the CFO.
Training	The CFO organised eight finance-related courses to which the staff of other directorates, other local authorities and community members were invited. Besides ABET, this was the only training received by staff members during the 2004/2005 financial year.

5.3 Summary

Chapter 5 outlined the location, amenities, and growth of Matatiele. Matatiele Municipality's strategic focus and alignment of resources was described in terms of Kaplan and Norton's (2001) model of a strategy-focused organisation. During the study, various shortfalls came to light that had to be addressed if Matatiele Municipality were to remain the leading municipality in its area. Real action steps had to be implemented in order to promote public participation in municipal planning processes, as envisaged in the Constitution, while training, capacitating, and empowerment of municipal personnel had to receive the Executive's urgent attention. Proper recruitment procedures had to be implemented and more care had to be taken when staff members were employed on a temporary basis for long periods, as doing so might have led to industrial action being instituted against the municipality and municipal manager as accounting officer. The organisational structure required modernisation and adaptation in order to allow for cross-functional integration. Each directorate had to stop operating in silos. Duplicated processes had to be identified and eliminated, as described in subsection 2.3.3.

At the time of the investigation, too few employees of the Matatiele Municipality were aware of its strategies, while performance management was non-existent. Real issues were not discussed at management meetings and only top management knew about the BSC. Heads of Departments, by taking ownership of the IDP and their directorates' budgets, had to play a leading role in both processes. Heads of Departments also had to control and maintain assets allocated to their departments and needed to be empowered with ICT skills. They had to acquire decision-support systems and utilise available technology. Recommendations regarding the above are made in Chapter 7.

Chapter 6

Findings on Strategic Supply-Chain Management by Matatiele Municipality

6.1 Introduction

Chapter 2 defined the concept of strategic management, stressed its importance and described the strategic management process. After highlighting the value of a BSC and strategy maps the principles of a strategy-focused organisation were briefly discussed. Chapter 2 also defined the concept of SCM and explored the strategic SCM process, the evolutionary nature of SCM and the various integration options currently available for achieving optimised value creation for both shareholders and customers.

Chapter 4 emphasised that municipalities in neither Poland nor South Africa truly understand the implications of SCM, resulting in their not yet having been able to implement it. In Poland the term 'supply-chain management' is unknown, while in South African SCM is confused with logistics management. Chapter 3 described the legal requirements of SCM in South Africa, while Chapter 5 explained the status quo of Matatiele Municipality at the time of the study in regards to strategic management in terms of the model of a strategy-focused organisation, as presented by Kaplan and Norton (2001).



The gap analysis that existed at the time of the study between the theory and the status quo at Matatiele Municipality will be described in this chapter in terms of the model of strategic SCM presented by Hugo *et al.* (2004) and as discussed in subsection 2.3.2 of this study.

6.2 Supply-Chain Management

The application of SCM by Matatiele Municipality will be explored below in terms of: its external environment; the internal and supply chain environment; the four strategic processes; and the strategic development process.

6.2.1 The external environment

The external environment of an organisation is influenced by political, legal, economic, social, cultural, technological, regional, global, and green factors. The organization has no control over the changes and turbulences in these factors. As a sphere of government, Matatiele Municipality, at the time of the study, operated in a political environment which at times could be very fragile. At that stage, Matatiele Municipality was at odds with both central government and the provincial governments of KwaZulu-Natal and the Eastern Cape, due to the process followed in transferring Matatiele from KwaZulu-Natal to the Eastern Cape. This matter could have ended up in the Constitutional Court and had the potential to sour relationships between role-players in all spheres of government. Subsection 5.2.1.1.3 of the study stated that the IDP process in Matatiele ground to a halt when opposing political parties debated matters of ideology.

Matatiele depended on the trade conducted by its inhabitants in the surrounding rural areas. Droughts, as well as a recession in the mining industry on the Reef, where the majority of the area's males were employed, had severe economic consequences for Matatiele. The lack of employment opportunities led to social problems and resulted in the majority of Matatiele Municipality's clients being declared indigent. The relative poverty of many of its inhabitants placed excessive strain on the already scarce resources, as mentioned in Section 5.1 of the study.

ICT management in Matatiele Municipality was described in subsection 5.2.4.1 of the study, where the need for improvement in the use of ICT was stressed.

6.2.2 The internal and supply-chain environment

The internal and supply-chain environment of an organisation includes: product technology and innovation; teamwork; supply factors; distribution factors; competitive forces; competencies; costs; and financial resources. The majority of these factors were described in Chapter 5 of the current study and will not be explored any further in this subsection. Chapter 5 argued that teamwork in Matatiele Municipality was inadequate, that staff competencies needed urgent improvement and that the financial management of all directorates had to be implemented. At the time of the study, staff of the Matatiele

Municipality lacked understanding of SCM and therefore required extensive capacity-building and training.

6.2.3 The four strategic processes

In terms of the model described in subsection 2.3.3, every organisation should design its business processes around the processes of planning, sourcing, making, and delivery. The source, make, and deliver processes can be considered at corporate, business unit and functional levels and should be integrated internally and across supply-chain partners, while planning must be done for the supply chain as a whole. Subsection 5.2.3.1 stated that in Matatiele Municipality planning was done by the executive and the source, make and deliver processes were only initiated at the instruction of the municipal manager or CFO. All the processes concerned applied only to Matatiele Municipality itself, and not to the Municipality's suppliers and business partners, such as other municipalities. No cross-functional or cross-organisational integration with suppliers existed at the time of the study. Issues regarding integration will be explored further in subsection 6.2.4.3.

6.2.4 The strategy development process

The strategy development process of Matatiele Municipality will be explored in terms of corporate strategy, business unit strategy, functional strategies and supply-chain strategy.

6.2.4.1 Corporate strategy

An organisation's corporate strategy defines its core business and consists of the organisation's vision, mission, and milestones. All actions of an organisation must be evaluated in terms of its vision. The Matatiele Municipality's IDP included its vision and mission statements, a fact which was, however, not known by all employees. Likewise, the BSC drafted for the Matatiele Municipality was not communicated to all staff members and did not receive the necessary attention during the occasional management meetings. Subsection 5.2.1.1.4 describes the above-mentioned situation in detail.

6.2.4.2 Business unit strategy

Each business unit of an organisation must have its own strategies, which should be compatible and aligned with the corporate vision, mission, and milestones. Subsection 5.2.1.1.4 stated that neither vision, mission statements nor a BSC for each business unit of Matatiele Municipality existed at the time of the study, neither were objectives set for each business unit nor for individual employees. Remuneration and rewards, if organisational objectives are reached, are therefore not based on performance, as stated in subsection 5.2.3.1, which discussed human resource management in detail. The three section 57 employees were the exception in this regard, as they had entered into performance agreements with the Municipality. Action plans regarding how objectives should be met had therefore not yet been devised. The Municipal Manager and CFO action capital projects on an ad hoc basis and service levels were not discussed with clients.

6.2.4.3 Functional strategies

Subsection 2.3.3 described how, in modern organisations, traditional functional divisions have been replaced with cross-functional processes, according to which teams manage their processes both cross-functionally and cross-organisationally. Subsection 5.2.2 highlighted that in Matatiele Municipality the staff structure of the organisation was not conducive to cross-functional integration, and therefore no level of integration existed. Subsection 5.2.4.2 described the financial management of Matatiele Municipality, according to which the CFO's control of the budget was the only form of (one-way) collaboration existing between the different functional departments. Each Director managed his own division in isolation and the staff of one functional unit were unaware of what the others were doing. Management meetings, at which strategic and policy issues could be deliberated, were infrequently held and feedback concerning policy issues were not communicated to staff at grassroots level. Furthermore, one full-time councillor was unable to cope with the workload allocated and expected of a council, as described in subsection 5.2.3.1.

Besides ICT software packages, Matatiele Municipality shared or had integrated no function with other municipalities or its suppliers or customers, as stated in subsection 5.2.4.1. Although certain services had been outsourced to companies that provided the same service to other municipalities, the outsourcing was done on an individual basis.

Subsection 5.2.1.1.3 stated that suppliers and funding agents did not attend IDP meetings and no collaboration between the Municipality and its suppliers and customers as a combined group existed at the time of the study. As no level of cross-functional, cross-organisational or supply chain community integration existed at the time, Matatiele Municipality was estranged from the principles of SCM.

6.2.4.4 Supply-chain strategy

The model described in subsection 2.3.2 regards an organisation's supply-chain strategy as including the material flow, the quality of service or products, the costs for rendering the service or producing the product, the relationship with suppliers and customers, the services offered, and the human resource management involved. At the time of the study, ICT systems supportive of decision making still had to be developed and maintained. The systems had to be integrated with those of suppliers and customers in order to empower the whole supply chain.

In Matatiele Municipality, stores and materials were purchased as and when required for general maintenance work. A small inventory was kept at the Stores Buildings to cater for emergency maintenance. No minimum, reorder or maximum level for stock items had been determined at the time of the study. Sourcing was done by obtaining quotations from three known suppliers. Should the quotations have exceeded R70 000, a public tender calling for suppliers to bid for the material required was published in local newspapers for a period of fourteen days.

Since councillors were barred from any involvement in the awarding of tenders and contracts as from the inception of the MFMA on 1 July 2004, an SCM Committee with the CFO as Chairperson had been formed. Other members of the committee were the Heads of Departments and senior finance officials. The SCM Committee considered and awarded all quotations received between R10 000 and R70 000, as well as all tenders falling in the R70 000 to R10 million range. Tenders over R10 million were awarded by the Municipal Manager. This procedure was to be followed until 31 December 2005, at which date Council should have adopted an SCM policy, whereby the different bid committees would be established. The functions of the SCM committee related to logistical activities. Paragraph 3.2.5 states that the SCM Regulations actually refer to logistical management. Matatiele Municipality had neither an approved SCM policy, as required in terms of Section

2 of the SCM Regulations, nor an SCM unit as envisaged in Section 7(1) of the Regulations. In terms of Section 7(3) of the said regulations, any SCM unit should be under the direct supervision of the CFO concerned. The unit must make provision for issues of demand management, acquisition management, logistics management, disposal management, risk management and performance management.

Subsection 5.2.4.1 stated that neither was the ICT of Matatiele Municipality integrated with the systems of any of its suppliers nor was any decision support system used by any of its business units. At the time of the study, ICT was only utilised for financial management. Inventory reorder levels had not yet been determined and were therefore not recorded electronically, but by means of a system according to which the representatives of suppliers visited the stores or provided a service or product in response to a crisis. Communication between staff at all levels was only recorded on hard copy, as the existing systems had not yet been integrated.

6.3 Summary

A gap analysis between the theory and the status quo at Matatiele Municipality was described in this chapter in terms of the model of strategic SCM presented by Hugo *et al.* (2004), as discussed in subsection 2.3.2. The processes followed at Matatiele Municipality reactively responded to the development of a crisis, while business units functioned on an individual basis. Staff continued to operate along outdated lines and were not aware of initiatives, such as New Public Management and SCM, aimed at modernising processes and optimising customer value. The municipal manager and CFO were pivotal in implementing all processes, from the basic line functions, such as ordering of stationery, to co-ordinating strategic planning exercises, such as IDP meetings. Sufficing as an interim measure, should the two officials concerned have left the employ of the Municipality, operations would have ground to a halt. Furthermore, staff employed as managers still needed to learn how to manage, while all staff had still to learn the true meaning of SCM and had still to participate in the planning process, together with all other significant role-players.

Chapter 7

Recommendations and Conclusion

7.1 Introduction

In the preceding chapters the theory of strategic management and SCM were briefly discussed, the legislative requirements of SCM in South Africa noted, the status quo of the Matatiele Municipality described and a gap analysis was presented. In this chapter, recommendations as to how to bridge the gap will be given, a strategic SCM model for Matatiele Municipality will be proposed and recommendations for further studies will be made.

7.2 Recommendations Regarding an Approach to the Implementation of Strategic Supply-Chain Management by Matatiele Municipality

The analysis and findings regarding strategic SCM by Matatiele Municipality were explored in Chapters 5 and 6. Recommendations regarding an approach to the implementation of strategic SCM by Matatiele Municipality will be described below in terms of the external environment, the internal and supply chain environment, the four strategic principles, and the strategic development process.



7.2.1 The external environment

Recommendations regarding the external environment will be made below in terms of the political, legal, economic, social, cultural, technological, regional, global, and green factors concerned.

Political factors

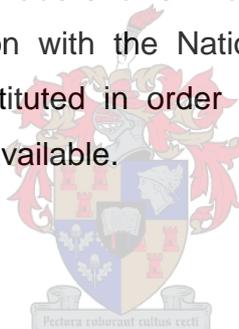
Buy-in had to be obtained from all political parties regarding the implementation of SCM. The Mayor and portfolio committees had to support the idea. If not, SCM would have been stillborn. Workshops conducted for the Exco, councillors, community development workers, ward councillors, and community members had to be held to convince them of the advantages of adopting SCM.

Legal factors

Obtaining buy-in from legislators in all spheres of government would have ensured that legislation catered for the implementation of SCM. If necessary, meetings had to be held with members of the Legislature, or legislators had to be addressed on the issue. Matatiele Municipality had to subscribe to a legislation update service provider in order to ensure that new legislation and amendments to the existing legislation were brought to the attention of the Councillors concerned, as well as to that of all affected staff.

Economic factors

The executive had to be aware of the existing macroeconomic and microeconomic situation and economic indicators. The Council had to subscribe to financial journals, to the Reserve Bank Reports, and to government reports. The Council had to join the local Chamber of Commerce and attend trade shows in order to explore developing economic opportunities. Constant collaboration with the National and Provincial Departments of Trade and Industry had to be instituted in order to assist both the Council and the community with incentive schemes available.



Social factors

The executive and staff of Matatiele Municipality had to learn about the socioeconomic conditions under which its citizens were living. The ICT system of Matatiele Municipality had to be integrated with the systems of the Departments of Home Affairs and Social Welfare in order to maximize the sharing of information. Competencies and capacities, including financial capacities, of citizens had to be recorded on the database. Conditions specific to certain areas had to be managed accordingly.

Cultural factors

The executive and staff of Matatiele Municipality had to learn about the cultural background of its citizens. The ICT system of Matatiele Municipality had to be integrated with the systems of the Department of Home Affairs in order for information to be shared. Frontline staff had to be able to communicate with citizens in the language of the citizens' choice. Staff had to receive language training, as well as training in how to manage

multicultural issues. Conditions specific to certain areas had to take local conditions into account.

Technological factors

The executive had to be aware of the latest developments and innovations. Shows and demonstrations had to be attended and Council had to subscribe to technological journals. Available technology to the Municipality required maximum utilisation.

Regional factors

Regular meetings with the District Municipality and other regional bodies had to be attended by all members of both the executive and management.

Global factors

The executive had to remain abreast of global trends and happenings in order to explore opportunities as they arose. Selected seminars, workshops, and training had to be attended by selected members of the executive. Relevant Information could also be obtained from academic journals.



Green factors

Environmental factors had to be recorded and considered during planning activities. Municipal ICT had to integrate with the ICT of the Departments of Environmental Affairs, Water Affairs and Forestry, and Trade and Industry, as well as with that of other relevant role-players.

7.2.2 The internal and supply-chain environment

Recommendations regarding the internal and supply-chain environment will be made below in terms of: product technology and innovation; teamwork; supply; distribution; competitive forces; competencies; and costs and financial resources.

Product technology and innovation

Unique incentives such as free land, special tariffs for services and special agreements with organised labour had to be offered by Matatiele Municipality in order to attract new businesses that offered unique products that would, in turn, attract new inhabitants. Uneconomical processes had to be eliminated by means of utilisation of the latest technology. Innovative methods, including the use of SCM, had to be explored in order to enhance service delivery. Collaboration with suppliers and customers during IDP meetings would result in knowledge-sharing that could lead to innovation.

Teamwork

Team-building exercises that included critical suppliers, critical customers, and staff needed to be held, so that strategies and objectives could be discussed, as well as team spirit be cultivated. Boundaries between different departments had to be eradicated in order to ensure that departments and business units did not operate in silos.

Supply

Demand management had to be implemented, according to which all role-players would be made timeously aware of the capital programme of the Municipality. A database of prospective service providers had to be maintained and invitations to submit bids had to be rotated. Council had to pass a by-law regarding SCM.

Distribution

Internal processes had to be streamlined and integrated in order to ensure the smooth internal flow of materials and information.

Competitive forces

Collaboration with other supply-chain members would enhance knowledge of competitive forces existing in other supply chains and firms. A better service than that provided by neighbouring towns had to be offered at lower tariffs in order to achieve customer satisfaction. Customer needs had to be served.

Competencies

Staff and political office bearers had to receive continuous training and capacity-building in order to ensure that outdated processes were not retained. A library stocked with the most recent research and academic literature had to be established in order for the Municipality to remain up-to-date.

Costs and financial resources

Cost had continuously to be reduced and adequate expenditure control measures implemented.

7.2.3 The four strategic processes

Recommendations regarding the planning, sourcing, manufacturing, and delivery processes, which are generic to most organisations and which provide a continual chain of value-adding activities when integrated with those of supply partners, are made below.

Staff, suppliers, and customers had to be involved with all planning activities. A special effort had to be made to involve all role-players in IDP meetings. Customers had to play an active role in determining service levels. Service levels had to be agreed on at IDP meetings. IDP meetings had to be scheduled at convenient times in order to enable the majority of people in any particular ward to attend. If necessary, transport and meals had to be provided in order to encourage people to attend. At the meetings, people had to be able to speak the language of their own choice. Special efforts, such as personal telephonic invitations, had to be made to encourage all role-players to attend the meetings. A database of the role-players had to be compiled by means of making an extra effort to obtain the names of all relevant people concerned. Suppliers and funding agents registered on the database should be invited to the meetings in order for them all to know well in advance of projects in the pipeline. In this regard, the Demand Manager played a pivotal part in informing the Acquisition Manager and suppliers of the pending actions forming part of specific projects.

7.2.4 The Strategy Development Process

Recommendations regarding the strategy development process will be made below in terms of corporate strategy, business unit strategy, functional strategies, and supply-chain strategy.

Corporate strategy

Recommendations regarding corporate strategy are made below in terms of vision, mission, and milestones.

Vision

The Matatiele Municipality's vision, as contained in the IDP, should be communicated to all staff members, suppliers, and customers. This should be placed on the Council's website and individual PCs. The vision required regular revisiting.

Mission

The Matatiele Municipality's mission, as contained in the IDP, should be communicated to all staff members, suppliers, and customers. Inclusion of the mission on the Council's website would encourage regular revisiting.

Milestones

Objectives must be set for the municipality, each functional unit and for individual employees. A BSC had to be compiled for each functional unit and communicated to all employees. Performance had to be measured regularly, such as at monthly management meetings and at weekly staff meetings of functional units, which still had to be introduced. The BSCs had to feature prominently at the meetings. An employee appraisal system had still to be designed and implemented and the remuneration system amended to allow for the rewarding of those who performed exceptionally well and reached all their objectives. Rewards could include an afternoon off, a meal at a restaurant, a weekend at a resort, cash or a cash bonus, and a salary notch increase. Milestones at regular intervals should be determined and communicated to all staff members, suppliers, and customers.

Business strategy

Recommendations regarding business strategy will be made below in terms of vision, mission, and milestones.

Vision

A vision and mission statement for each functional unit had to be developed by the respective Director or Head of Department. The statements had to complement the overall vision and mission statement of the municipality and had to be approved by the Municipal Manager as accounting officer. All vision and mission statements had to be communicated to all employees. Each business unit of Matatiele Municipality should develop a vision which was aligned to the vision of the Municipality, which the unit concerned should communicate to all staff members, suppliers, and customers. The vision should be placed on the Council's website and individual PCs to encourage regular revisiting.

Mission

Each business unit of Matatiele Municipality had to develop a mission which was aligned with the mission of the Municipality. The mission should be communicated to all staff members, suppliers, and customers. Inclusion of the mission on the Council's website and individual PCs should encourage regularly revisiting of the document.

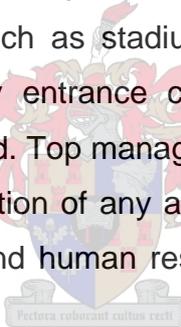
Milestones

Objectives for the municipality, each functional unit and individual employees had still to be set. A BSC had to be compiled for each functional unit and communicated to all employees. Performance had to be measured regularly, for example at monthly management meetings and at weekly staff meetings of functional units, which still needed to be introduced. The BSCs had to feature prominently at such meetings. An employee appraisal system had to be designed and implemented and the remuneration system amended to allow for the rewarding of those who performed outstandingly well and reached all set objectives. Rewards could include an afternoon off, a meal at a restaurant, a weekend at a resort, cash or a cash bonus, and a salary notch increase. Milestones which were aligned with the

milestones of the Municipality should be determined and communicated to all staff members, suppliers, and customers.

Functional strategies

The CFO had to compile and submit an SCM Policy for immediate adoption by Council. The policy, though generic, had to be developed to cater for Matatiele Municipality's specific requirements. The CFO had to design the structure of an SCM unit containing comprehensive job descriptions, which he would then submit to Council for approval. Annexure 16 contains a proposed structure, while Annexure 17 contains relevant job descriptions. AN SCM policy had to be drafted, adopted, and implemented and an SCM unit created. Processes, after being integrated both internally and cross-organisationally, had to be executed by the unit best suited to perform the particular function for the whole supply chain. The organogram of the whole organisation had to be flattened. Application had to be made to the relevant authority to have the number of full-time councillors increased. All non-core functions, such as stadium management, pound management, chemical toilet rentals and driveway entrance construction, had to be identified and outsourced, or PPPs had to be created. Top management would then have a team start on managing all functional units. Duplication of any activities, such as the duties required to be performed by the salaries clerk and human resources clerk, had to be identified and eliminated.



Collaboration with other municipalities had to be implemented prior to the appointment of service providers, such as lawyers, auditors, town planners, consulting engineers and ICT specialists. If a group of municipalities entered into a shared services agreement, the services concerned would be rendered more cost-effectively. Once appointed, all service providers and suppliers had to attend IDP meetings in order for them to share their knowledge with the customers concerned, as well as to learn at first hand what Matatiele Municipality's customers' needs were. Suppliers and funding agents would then learn well in advance of all pending projects of the Matatiele Municipality. On identification of core functions, appropriate systems had to be implemented in order to enhance the delivery process. Service providers could assist in this regard by introducing the latest technology and expertise to Matatiele Municipality, including debt-collecting processes, the elimination of electricity line losses and the development of a first-class website.

By integrating cross-functionally, the SCM process would start from where Matatiele Municipality could follow the evolution process until the whole supply-chain community was integrated and full network connectivity was reached.

Supply-chain strategy

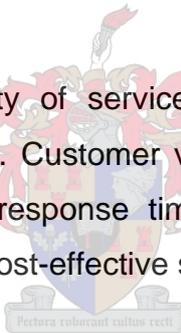
Recommendations regarding supply-chain strategy are made below in terms of material flow, quality, costs, relationships, services, and human resource management.

Material flow

Maximum, minimum and reorder inventory levels had to be determined and all the elements of logistics management implemented. Transport had to be managed effectively.

Quality

An improvement in the quality of services and processes would lead to the optimisation of customer value. Customer value could be increased by improving services, securing a quicker response time, providing feedback on complaints resolved, and supplying more cost-effective services.



Costs

Duplicate processes and any process that did not add value to the core mandate of the municipality should be identified and eliminated. Cost could be reduced by means of appropriate logistics management and control over expenditure by all cross-functional teams.

Relationships

Supply chain had to be formed with suppliers and customers. Regular meetings should be held with all partners concerned.

Services

The community should be involved in determining the level of services during IDP meetings.

Human resource management

An organisational structure should be designed and implemented that was conducive to the implementation of SCM. The manager of the SCM Unit had to coordinate the above process under the supervision of the CFO. All municipal staff training had to be accelerated in order to ensure that all staff members became capable of coping with the latest technology required to perform their line functions. Training on the Workplace Skill Plan should be implemented. Proper recruitment procedures had to ensure the appointment of capable staff and SCM practitioners, while a human resource manual, a performance appraisal system, a performance rewarding system, and a performance management system had to be developed for each employee.

7.3 The Strategic Supply-Chain Management Model for Matatiele Municipality

In terms of the above recommendations, the model illustrated in Table 7.1 for strategic SCM by Matatiele Municipality is proposed:

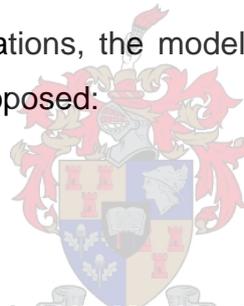


Table 7.1 STRATEGIC SUPPLY-CHAIN MANAGEMENT MODEL FOR MATATIELE MUNICIPALITY

Factor	Element	Action
External environment	Political	1. Apply for more full-time Councillors. 2. Meet with Exco, Council, CDWs, and Ward Councillors.
	Legal	1. Meet with Legislators. 2. Subscribe to legislation updating services.
	Economic	1. Join Chamber of Commerce. 2. Subscribe to financial journals.
	Social	1. Integrate ICT with Home Affairs. 2. Integrate ICT with Social Welfare.
	Cultural	1. Organise multicultural training. 2. Organise language training.
	Technological	1. Attend relevant trade shows. 2. Subscribe to technological journals.
	Regional	1. Meet with District Municipality and regional bodies.
	Global	1. Attend relevant seminars and workshops. 2. Subscribe to academic journals.
	Green	1. Integrate ICT with that of the Department of Environmental Affairs. 2. Integrate ICT with that of the Department of Trade

		and Industry.
Internal and supply-chain environment	Product technology and innovation	1. Develop unique incentives. 2. Eliminate uneconomical processes.
	Teamwork	1. Organise team-building exercises.
	Supply factors	1. Develop a database of service providers. 2. Redevelop by-laws to cater for SCM. 3. Implement demand management principles.
	Distribution factors	1. Streamline internal processes.
	Competitive forces	1. Collaborate with suppliers.
	Competencies	1. Organise continuous training and capacity-building. 2. Establish a library.
	Costs and financial resources	1. Reduce costs. 2. Implement expenditure control.
The four strategic processes	Planning	1. Organise IDP meetings.
	Sourcing	2. Formulate strategies.
	Manufacturing	3. Identify core functions.
	Delivery	4. Outsource non-core functions.
The strategic development process		
Corporate strategy	Vision	1. Develop a vision statement. 2. Communicate the vision to all role-players concerned.
	Mission	1. Develop a mission statement. 2. Communicate the mission to all role-players concerned.
	Milestones	1. Set objectives for Council. 2. Formulate strategies. 3. Develop a BSC for Council. 4. Develop a strategy map. 5. Develop a Performance Management System for Council. 6. Organise regular management meetings.
Business unit strategy	Vision	1. Develop a vision statement. 2. Communicate the vision to all role-players concerned.
	Mission	1. Develop a mission statement. 2. Communicate the mission to all role-players concerned.
	Milestones	1. Set objectives for Directorates and functional units. 2. Formulate appropriate strategies. 3. Develop a BSC for Directorates and functional units. 4. Develop a strategy map. 5. Develop a Performance Management System for Directorates and functional units. 6. Organise regular management meetings.
Functional strategies	Cross-functional processes	1. Develop and adopt a SCM policy. 2. Create a SCM Unit. 3. Integrate cross-functionally by means of:

		<ul style="list-style-type: none"> • creating cross–functional management teams; • streamlining internal processes; • identifying and eliminating duplicate processes and activities; • increasing the use of ICT; • instituting demand management; and • instituting acquisition management. <p>4. Integrate cross-organisationally by:</p> <ul style="list-style-type: none"> • entering into shared service agreements with other local authorities; • inviting suppliers, customers, service providers and government departments to management and IDP meetings; and • outsourcing processes to suppliers who could perform the particular process required in the most cost-efficient way possible.
Supply-chain strategy	Material flow	Determine maximum, minimum, and reorder inventory levels.
	Quality	Increase customer value by: <ul style="list-style-type: none"> • improving services; • implementing a quicker response time; • giving feedback on complaints resolved; and • providing more cost-efficient services.
	Costs	Reduce the cost of stores by means of sound logistics management.
	Relationships	Form appropriate supply chains.
	Services	Organise IDP meetings.
	Human resource management	<ol style="list-style-type: none"> 1. Redevelop a “flat” staff structure. 2. Appoint capable SCM practitioners and fill other vacant posts. 3. Develop a human resource manual. 4. Develop a performance appraisal system. 5. Develop a performance rewarding system. 6. Implement training in terms of the Workplace Skill Plan. 7. Develop a performance management system for each employee.

7.4 Recommendations for Further Research

The current study highlighted the fact the Matatiele Municipality, at the time of the investigation, was inadequately equipped for the implementation of strategic SCM activities at all levels of the organisation. A shortcoming of the research was that SCM as a subject was new to municipalities in South Africa and, as such, was not yet fully understood or implemented. To redesign a cross–functional organogram and to integrate

business processes with those of suppliers would prove to be quite radical and could face resistance from uninformed public officials.

The cross-functional, cross-organisational and supply-chain community integration, as far as it relates to the Matatiele Municipality, should form the subject of additional research.

7.5 Conclusion

As the Constitution is the supreme law of the country, if it demands the implementation of a specific process or system, such implementation has to take place. Public managers cannot then choose whether or not they wish to implement the particular process, activity or system concerned. Conformance with the Constitution obliges public managers to manage their resources economically, effectively and efficiently. The MFMA and the SCM Regulations provide the necessary legislation for the implementation of SCM by municipalities. The SCM Regulations go so far as to state that each municipality has to have an SCM unit under the direct control of its CFO. The SCM Regulations then continue to prescribe logistics management. The essence of SCM, namely cross-functional integration, cross-organisational integration, supply chain community integration, and the elimination of non-core functions, is not contained in the SCM Regulations. However, they do state that municipalities can enter into PPPs if they lack the capacity to perform certain functions. At the time of the investigation, the Matatiele Municipality did not have an approved SCM policy or an SCM unit in place.

The literature reviewed pointed out that organisations should have a vision and a mission statement for the organisation as a whole, as well as for each functional unit. The vision and mission statements must be well communicated to all staff. Objectives should be determined for each functional unit and strategies for reaching the required objectives have to become the responsibility of all. At the time of the study, Matatiele Municipality lacked a vision and mission statement, as well as objectives and strategies for each functional unit.

Measurable objectives for the organisation, as well as for each functional unit and member of staff, still had to be determined. The best way of measuring performance is by way of introducing a BSC. Personnel remuneration should be such that performances which result in the reaching of objectives are rewarded. Performance must be monitored and

evaluated constantly in order for corrective steps to be implemented. Despite Matatiele Municipality, at the time of the study, having a BSC, it was seldom discussed at management meetings. A BSC for each functional unit did not yet exist, while remuneration was not yet linked to performance. Matatiele Municipality lacked a performance management system for individual staff members, other than for the two Section 57 employees.

The study also highlighted the importance of strategy mapping. A strategy map provides a standardised way of describing a strategy in order to enable the institution and management of objectives and actions.

SCM, which is often confused with logistics management, consists of the integration of the linkages of suppliers', customers' and internal processes into a network aimed at performing procedures that will lead to the creation of products and services that will satisfy customer demand (Hugo *et al.*, 2004:7). Demand management, acquisition management, disposal management and risk management are separate elements of logistics management and therefore form a component of SCM.

For Matatiele Municipality to implement SCM, internal processes had still, at the time of the study, to be streamlined, integrated across functional units and, once mastered, integrated with the processes of service providers. Such streamlining and integration would create optimised value for the end user of services.

7.6 Summary

Chapters 5 and 6 described the gap existing between the theory, legislation and the status quo of Matatiele Municipality. In this chapter, recommendations on how to bridge the gaps were discussed, a Strategic SCM Model proposed and recommendations for further research given. Finally a conclusion was reached.

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Annexure 1 IDP Projects for the Financial Year 2002/2003

NO.	PROJECT DESCRIPTION	MUNICIPAL BUDGET (R)	MUNICIPAL DEPARTMENT	STATUS
1	Extension of 200 Houses at Khorong Koali Park	30 000	Technical Services	Completed
2	Upgrading/Rehabilitation of Matatiele Airstrip	350 000	Technical Services	Completed
3	Building of Concrete Protection Fence at Mzingizi Khorong Koali Park	250 000	Technical Services	Completed
4	Identifying and Establishing New Cemetery	50 000	Community Services	Started
5	Upgrading/Rehabilitating Sewer-Pump Station in Matatiele	150 000	Technical Services	Completed
6	Building Security Fence around Civic Complex in Matatiele	280 000	Technical Services	Completed
7	Road-Verge Maintenance at Harry Gwala Park	250 000	Protection Services	On-going
8	Upgrading Municipal Plant and Equipment	150 000	Technical Services	On-going
9	Developing Multipurpose Sports Fields – Cedarville	140 000	Community Services	Completed
10	Installing Floodlighting at North-End Stadium	10 000	Technical Services	Completed
11	Revamping Boreholes at Cedarville for Water Supply	50 000	Technical Services	Completed
12	Upgrading Electric Street Lights in Matatiele	140 000	Technical Services	Completed
13	Building Concrete Walkway to Harry Gwala Park	200 000	Technical Services	Completed
14	Building Foot-bridge at Itsokolele	80 000	Technical Services	Completed

15	Relocating Main Sewer Line in Itsokolele	350 000	Technical Services	Started
16	Building and Equipping New Library in Matatiele	—	Community Services	Completed
17	Upgrading Dam Spillway	1 100 000	Technical Services	Completed
18	Developing Agricultural Centre in Cedarville	40 000		Started
19	Upgrading Cedarville GI Primary School with additional classrooms		Department of Education, not Municipal Budget	Completed
20	Researching an Effective Safety and Security Programme for Matatiele	50 000	Protection Services	Ongoing
21	Developing an Urban-Renewal Program	100 000		Completed
22	Relocation of Mini-town Residents to Adequate Housing	5 000 000	Community Services	In progress
23	Municipal Economic Regeneration Strategy	50 000		Completed
24	Municipal HIV/AIDS Strategy	50 000	Community Services	Completed

8 870 000

Annexure 2 IDP Projects for the Financial Year 2003/2004

NO.	PROJECT DESCRIPTION	MUNICIPAL BUDGET (R)	MUNICIPAL DEPARTMENT	STATUS
1	Relocation of Matatiele Waste Disposal Site	280 000	Technical Services	Started
2	Rehabilitation of Mt. Lake Wall	2 500 000	Technical Services	Started
3	Upgrading of Water Purification Works	50 000	Technical Services	Ongoing
4	Rehabilitation of Matatiele Town Hall	800 000		75% complete
5	Revision of Town Planning Scheme	100 000		Ongoing
6	Development of a programme to encourage Municipal Service Partnerships	80 000		In progress
7	Resurfacing of 2 km of Roads in Matatiele	600 000	Technical Services	Ongoing
8	Tarring of 1 km of Roads in Harry Gwala Park	300 000	Technical Services	Ongoing
9	Drainage of Khorong Koali Park	150 000	Technical Services	Started
10	Creation of Viable Job Opportunities for Service Providers	50 000		Ongoing
11	Improvement of Municipal Support Systems for Matatiele Welfare	20 000		Ongoing (premises available)
12	New Ablutions/Change Rooms – Thandanani Stadium, Itsokolele	30 000	Technical Services	Completed
13	Development of Taxi Rank in Harry Gwala Park	100 000	Community Services	Completed
14	Development of Community Hall in Harry Gwala Park	80 000	Community Services	Completed
15	Upgrading of 1 km of Drains in Matatiele	350 000	Technical Services	Ongoing
16	Upgrading of 1 km Drains – Cedarville	350 000	Technical Services	Ongoing
17	Extend Agri-project in Matatiele	200 000		Completed
18	Provision of Tip Bins:	40 000	Community Services	Ongoing
	– Harry Gwala Park			
	– Khorong Koali Park			
	– Mzingizi			
	– Njongweville			
	– Cedarville			
	– Matatiele			
19	Development of Shelters for Informal Traders	50 000	Community Services	On tender
20	Prepaid Meter Electricity Conversion Programme	3 000 000	Financial Services	In progress
21	Recycling and Buy-back Centre	200 000		Started

22	Marking of Street Names for Entire Municipal Area	200 000	Protection Services	Started
23	One-stop Multipurpose Clinic in North-End /Itsokolele	3 500 000	Community Services	Completed
24	Primary School in Harry Gwala Park		Department of Education, not Municipal Budget	Started
25	High School in Cedarville		Department of Education, not Municipal Budget	Started
26	Social Welfare Offices in Matatiele		Department of Community Services, not Municipal Budget	Started
27	Cluster Children's Homes in Matatiele		Department of Community Services, not Municipal Budget	Started

13 030 000



Annexure 3 IDP Projects for the Financial Year 2004/2005

NO.	PROJECT DESCRIPTION	MUNICIPAL BUDGET (R)	MUNICIPAL DEPARTMENT	STATUS
1	One-stop Business Development Centre in Matatiele	50 000	Community Services	
2	Speed Humps in Matatiele and Cedarville	40 000	Protection Services	Completed
3	Taxi Shelter in Cedarville	15 000	Community Services	
4	Improvement of Shelter Facilities at Matatiele Bus Rank	200 000	Community Services	
5	Development of Chalets in Matatiele/Cedarville	40 000		
6	Upgrading of Street Lighting in Matatiele	600 000	Protection Services	
7	Upgrading of Street Lighting in North-End	200 000	Protection Services	
8	Upgrading/Resurfacing of Tarred Roads in Matatiele	700 000	Technical Services	
9	Upgrading/Resurfacing of Tarred Roads in Harry Gwala Park	500 000	Technical Services	
10	Upgrading/Resurfacing of Tarred Roads in Khorong Koali Park	250 000	Technical Services	
11	Extension of Cemetery in Cedarville	100 000	Community Services	
12	Development of Youth Centre, Children's Home and HIV/AIDS Orphans Shelter	40 000	Community Services	Currently being addressed
13	Upgrading of Public Toilets in Cedarville/Matatiele	100 000	Technical Services	
14	Development of Shelters for Informal Traders in Town	120 000	Community Services	

15	Planting of Trees in Cedarville/Matatiele	5 000	Community Services	Completed (On-going)
16	Development of land as Smallholdings	250 000		
17	Developing/Marketing of Sporting Events in Matatiele	40 000		
18	Relocation of Main Sewer Line at Itsokolele	100 000	Technical Services	Started
19	Instalment of Standby Generator for Purification at Sewerage Works	100 000	Technical Services	Completed
20	Upgrading of North-End Sewer	100 000	Technical Services	Started
21	Security Lighting in Harry Gwala Park	90 000	Protection Services	Started
22	Extension of 500 Houses in Harry Gwala Park	100 000		Approved, but on hold
23	Electrification of 500 Houses in Harry Gwala Park	80 000		Approved, but on hold
24	Rehabilitation/Protection and Commissioning of Boreholes	60 000	Technical Services	
25	Expansion of Existing Micro Manufacturing Centre	100 000		
26	Upgrading of Municipal Stores	350 000	Protection Services	
27	Instalment of Security Fencing around Cedarville Town Hall	240 000		
28	Development of Adequate Road Access between Njongweville and Itsokolele	200 000	Technical Services	
29	Development of Additional Sports Field at Itsokolele	80 000	Community Services	
30	Development of a Tourism Strategy for Matatiele	30 000		
31	Tourism Information Centre	80 000		

32	Municipal Valuation Roll	500 000	Financial Services	
33	Conversion of Mzingizi Hall into a Clinic	400 000	Community Services	
34	Rehabilitation of Water Causeway	250 000	Technical Services	
35	Upgrading of Municipal Plant and Equipment	300 000	Technical Services	
36	Development of Industrial sites to Accommodate SMMEs	150 000		
37	Development of SMME in Matatiele	30 000		
38	Implementation of Municipal Financial Management Act and GAMAP	250 000	Financial Services	
39	Implementation of Property Rating Act	170 000	Financial Services	
40	Feasibility Study into Private–Public Partnerships for Municipal Service Delivery	500 000		
41	Institutional Capacity-building (DBSA)	1 040 000	Corporate Services	
42	Rehabilitation of High Street Flood Damage	450 000	Technical Services	
43	Development of Matatiele Commonage as part of Maluti–Drakensburg Transfrontier Park		Municipal Manager, not Municipal budget	
44	Department of Provincial and Local Government Master-Lease Project.	1 000 000	Municipal Manager	
45	Signage Project for the Entire Matatiele Area	200 000	Protection Services	
46	Electrification of 200 Houses in Cedarville	400 000	Technical Services	
47	Steam Train and Mission Station Tourism as part of Sisonke Tourism	350 000	Municipal Manager	
		10 950 000		

Annexure 4 IDP Projects for the Financial Year 2005/2006

NO.	PROJECT DESCRIPTION	MUNICIPAL BUDGET (R)	MUNICIPAL DEPARTMENT	STATUS
1	Installation of Pay-Toilets for Matatiele/Cedarville	150 000	Community Services	
2	Development of Wilfred Bauer Nature Reserve	200 000		
3	Development of Matatiele Heritage Site	250 000		
4	Development of Play Parks:	100 000	Community Services	
	– Harry Gwala Park	40 000		
	– Khorong Koali Park	60 000		
5	Development of Investment/Incentive Strategy for Potential Investors	50 000		
6	Planting of Trees in All Residential Areas	30 000	Community Services	
7	Development of Community Gardening Programme in Cedarville	100 000	Community Services	
8	Resurfacing of Streets/Drainage	1 500 000	Technical Services	
9	Implementation of Municipal Financial Management Act and GAMAP	100 000	Financial Services	
10	Implementation of the Urban Renewal Strategy (300 housing units)	7 500 000		
11	Upgrading of Electricity Main-feeder into Matatiele Town	6 200 000	Technical Services	
12	Building of Indoor Sports Centre in Matatiele Town.	3 500 000	Community Services	

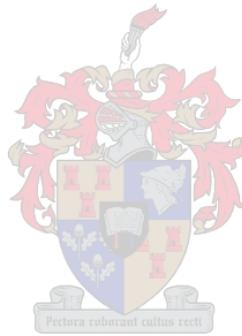
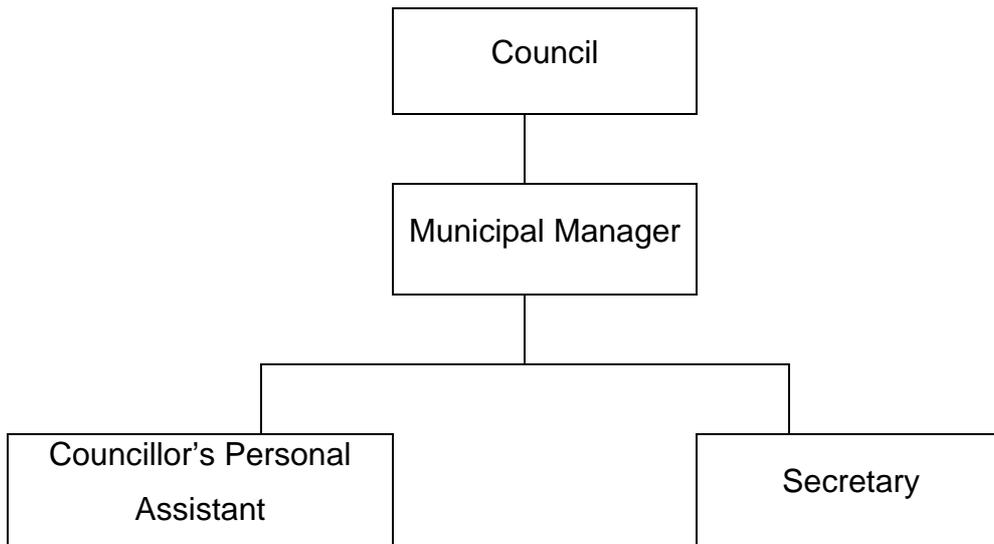
19 780 000

Annexure 5 IDP Projects for the Financial Year 2006/2007

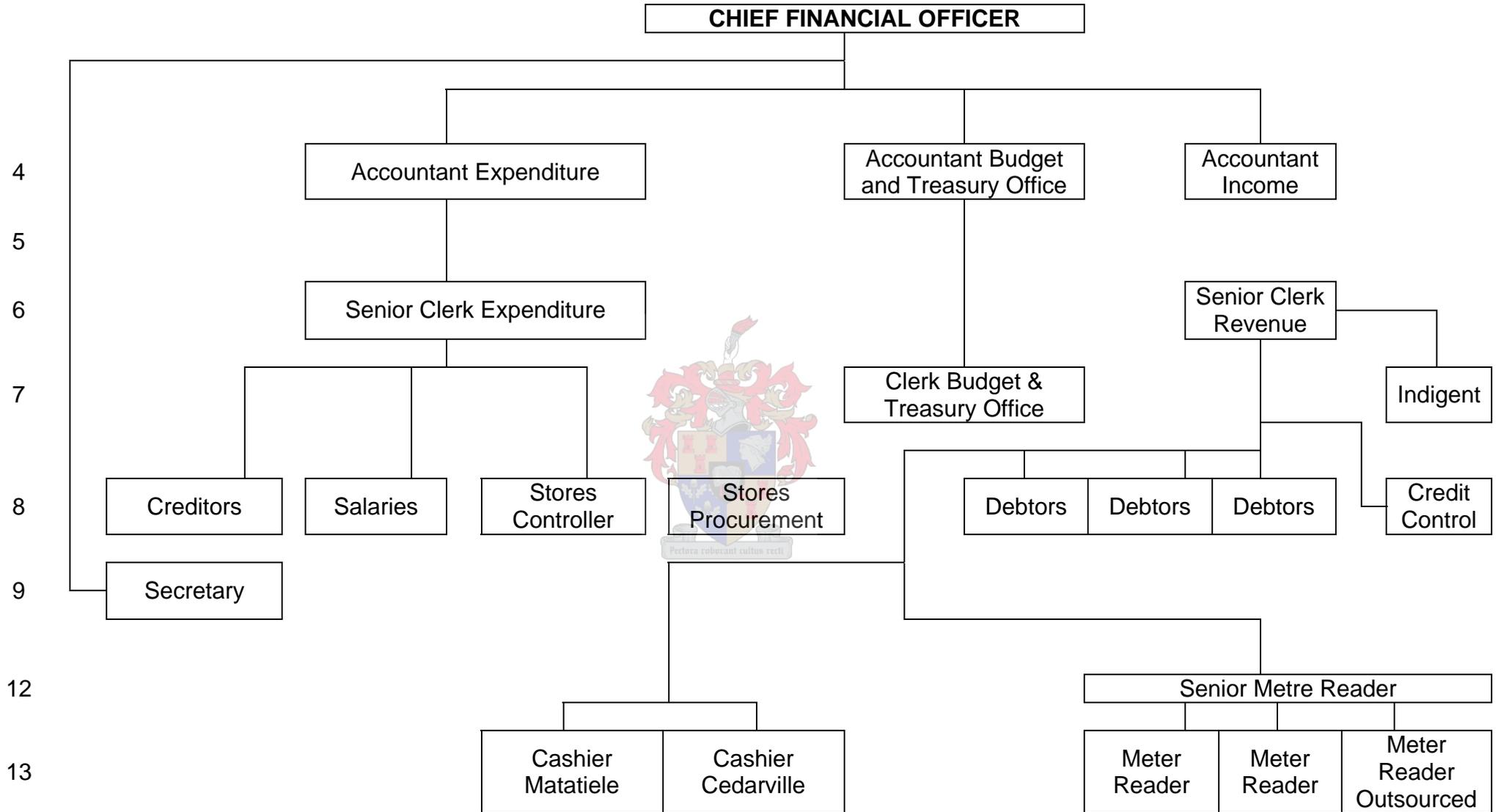
NO.	PROJECT DESCRIPTION	MUNICIPAL BUDGET	MUNICIPAL DEPARTMENT	STATUS
1	Development of Mountain Lake Nature Reserve	200 000		
2	Development of Facilities for the Aged	100 000	Community Services	
3	Development of Informal Trading Shelters in Cedarville	100 000	Community Services	
4	Improvement of Traffic Control in Matatiele/Cedarville	150 000	Protection Services	
5	Tar 2km of Roads in Cedarville	750 000	Technical Services	
6	Development of Community Market in Matatiele	50 000	Community Services	
7	Upgrading of Hawkers' Stalls in Matatiele/Cedarville	40 000	Community Services	
9	Upgrading of IT Equipment in Library – Matatiele	40 000		
10	Upgrading of IT Equipment in Library – Cedarville	30 000		
11	Upgrading of Local Museum	100 000		
12	Development of Sports Academy in Matatiele	150 000	Community Services	
13	Promotion of Home/Community Gardening Projects	50 000	Community Services	
14	Implementation of Municipal Financial Management Act and GAMAP	500 000	Financial Services	
15	Cedarville Unemployed LED Project – Joint Venture Farming Operation between Farmers, Community, Council, and Funding Agent	2 500 000		

4 760 000

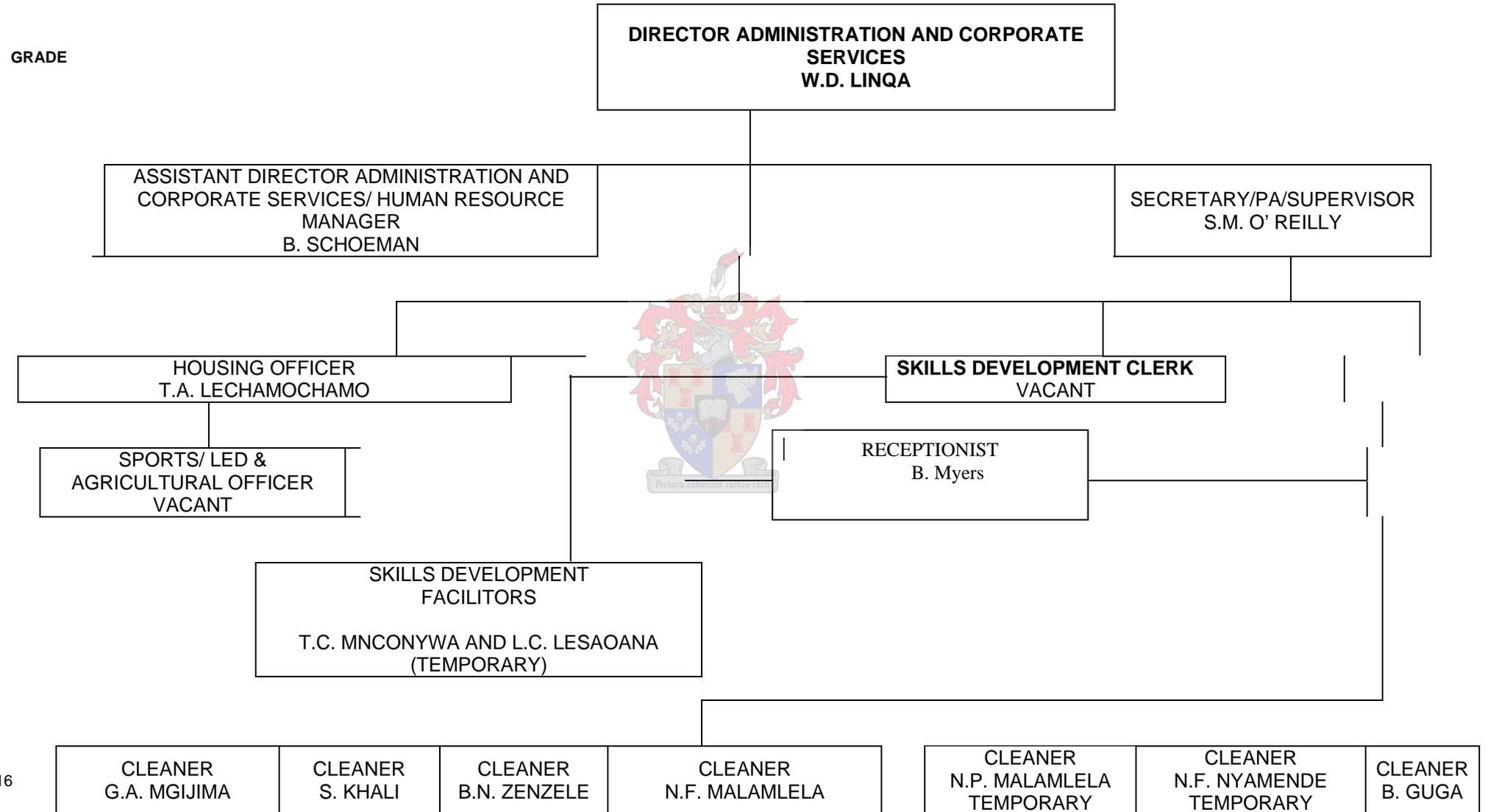
Annexure 6 Organogram of the Executive and Council



Annexure 7 Organogram of the Directorate: Financial Services



Annexure 8 Organogram of the Directorate: Administration and Corporate Services: Administration staff, LED, Housing and Agriculture



Organogram of the Directorate Administration and Corporate Services: Primary Health Services

GRADE

4

CHIEF PROFESSIONAL NURSE/CLINIC MANAGER
N.E. MXAKAZA

L.L. O'REILLY
PROFESSIONAL
NURSE

PROFESSIONAL
NURSE
N.B. MGINGQI

G.M. FORDS
PROFESSIONAL
NURSE

L.M. SEKOAI
PROFESSIONAL
NURSE

COMMUNITY HEALTH CO-ORDINATOR
T. MSWEWU

CLERICAL STAFF
V. NDLELA

10

CLEANER
B. BEZUIDENHOUT

15

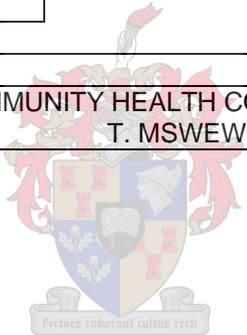
CLEANER
T.E. QHINGA

16

CLEANER
N.M. MOKOATLE

CLEANER
S.B. RAKAIBE

CLEANER
M.A MOTSUOANE



Organogram of the Directorate Administration and Corporate Services: Protection Services (Traffic)

GRADE

2

SUPERINTENDENT: PROTECTION SERVICES
B.L.S. GOUS

OFFICER LAW
ENFORCEMENT

8

ASSISTANT SUREINTENDENT
VACANT

TRAFFIC OFFICER
R.W. PIENAAR

9

TESTING
S.J.P. VAN RHYN

PIT ASSISTANT/POUND MASTER
Z. MANKAYI (TEMPORARY)

10

REGISTRATION
CLERK
N.E. LEFUME

REGISTRATION CLERK
T. MOYO

REGISTRATION CLERK
A.M. NKHAHLE
(TEMPORARY)

13

WARDEN
M.G. LEQELA

WARDEN
E. MONAHENG

14

WARDEN
N.D. LINQA
(TEMPORARY)

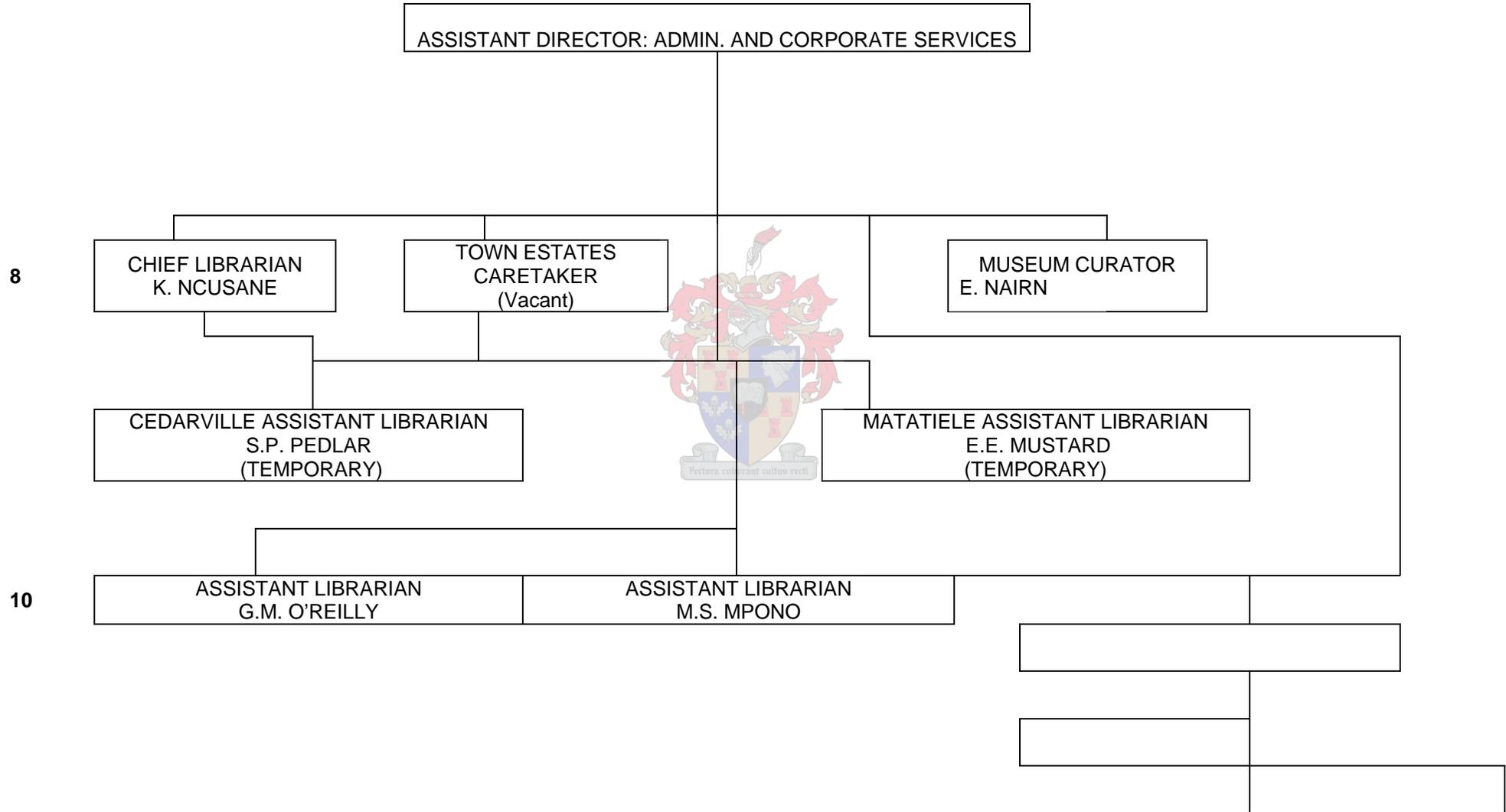
WARDEN
B. MGIJIMA
(TEMPORARY)

WARDEN
E.C. MARAIS
(TEMPORARY)

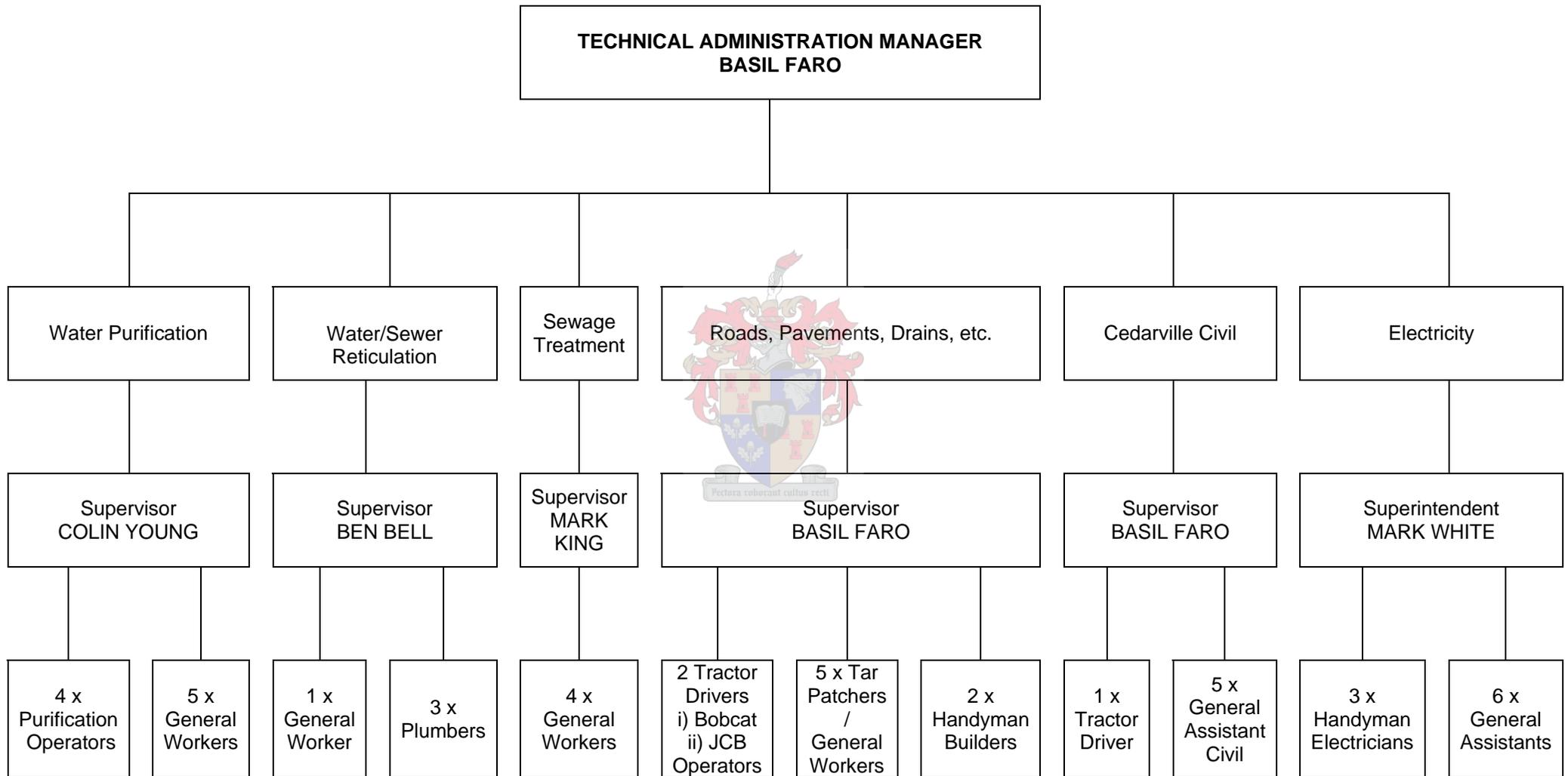


Organogram of the Directorate Administration and Corporate Services: Library/Museum/Town Estates

GRADE



Annexure 9 Organogram of the Directorate: Technical Services



Annexure 10 The number of staff per Directorate and Department

Directorate	Department	Permanent	Contractual	Total	%	
Executive and Council	Council	0	1	1		
	Municipal Manager	2	0	2		
	Total	2	1	3	2	
Financial Services	Finance	19	12	31		
	Total	19	12	31	17	
Administration and Corporate Services	Administration	12	9	21		
	Library	3	2	5		
	Museum	0	2	2		
	Environmental Health	2	0	2		
	Primary Health	12	6	18		
	Testing Station	3	0	3		
	Traffic Control	5	8	13		
	Pound	0	0	0		
	Total	37	27	64	35	
	Technical Services	Streets	18	31	49	
		Pool	1	2	3	
		Sanitation	8	2	10	
		Water	9	1	10	
Electricity		10	1	11		
Total		46	37	83	46	
Grand Total		104	77	181		
%		57	43	100	100	

Source: Salary records, 30 June 2005.

Annexure 11 Training received per Directorate 2004/2005

Course	Exec. and Council	Financial Services	Admin. and Corp. Services	Technical Services	STAFF TOTAL	Community Members	Other Local Auth.	OVERALL TOTAL
Basic Municipal Accounting	–	8	2	–	10	5	5	20
Bank Reconciliation	–	13	–	–	13	2	5	20
VAT Reconciliation	–	12	–	–	12	5	3	20
Administration of Debtors	–	16	1	–	17	5	5	27
Storekeeping	–	20	–	–	20	3	7	30
Payroll Administration	–	17	2	–	19	–	–	19
Fixed Assets Register	–	16	2	1	19	2	3	24
Project Management	3	6	3	–	12	7	16	35
ABET Training	–	–	4	28	32	–	–	32
Total	3	108	14	29	154	29	44	227
% of courses offered	2	47	6	13	–	13	19	100
% of staff sent on courses	2	70	9	19	100	–	–	–

Source: Salary records, 30 June 2005.

Annexure 12 The Gender composition of staff per Directorate and Department

Directorate	Department	Male	Female	Total
Executive and Council	Council	0	1	1
	Municipal Manager	1	1	2
	Total	1	2	3
Financial Services	Finance	7	24	31
	Total	7	24	31
Administration and Corporate Services	Administration	7	14	21
	Library	1	4	5
	Museum	0	2	2
	Environmental Health	1	1	2
	Primary Health	2	16	18
	Testing Station	3	0	3
	Traffic	7	6	13
	Pound	0	0	0
	Total	21	43	64
Technical Services	Streets	49	0	49
	Pool	3	0	3
	Sanitation	10	0	10
	Water	10	0	10
	Electricity	11	0	11
	Total	83	0	83
	Grand Total	112	69	181
	%	62	38	100

Source: Salary records, 30 June 2005.

Annexure 13 Racial Composition of Staff per Directorate and Department

	African	Coloured	Asian	White	Total
Council	0	0	0	1	1
Municipal Manager	0	1	0	1	2
Total	0	1	0	2	3
Finance	16	8	0	7	31
Total	16	8	0	7	31
Administration	19	1	0	1	21
Library	2	2	0	1	5
Museum	0	0	0	2	2
Environmental Health	0	0	1	1	2
Primary Health	14	2	0	2	18
Testing Station	1	1	0	1	3
Traffic	8	5	0	0	13
Pound	0	0	0	0	0
Total	44	11	1	8	64
Streets	48	1	0	0	49
Pool	1	2	0	0	3
Sanitation	9	1	0	0	10
Water	5	5	0	0	10
Electricity	9	1	0	1	11
Total	72	10	0	1	83
Grand Total	132	30	1	18	181
%	73	16	1	10	100

Source: Salary records, 30 June 2005.

Annexure 14 The analysis of operating income and expenditure

Category	Amount		
	2002/2003 R	2003/2004 R	2004/2005 R
INCOME			
Assessment Rates	6 888 484	7 250 672	8 247 145
Tariffs and Service Charges	12 333 622	9 794 900	10 644 731
Government Grants and Subsidies	2 968 411	3 531 216	4 543 075
Interest on Investments	1 135 490	726 499	892 711
Other	2 161 864	2 373 007	2 663 614
TOTAL	25 487 871	23 676 294	26 991 276
EXPENDITURE			
Salaries, Wages and Allowances	8 116 875	8 846 727	9 537 903
General Expenses	3 650 317	5 293 578	6 736 853
Bulk Electricity Purchases	4 159 578	4 638 431	5 399 574
Repairs and Maintenance	4 217 477	4 163 748	3 924 657
Capital Charges	2 030 584	1 723 960	1 810 401
Fixed Assets	196 293	158 601	147 205
Contributions to Statutory Fund	1 657 682	1 187 559	1 052 929
Gross Expenditure	24 028 806	26 012 604	28 609 522
Less: Charges out	0	(2 819 787)	(3 685 730)
Net expenditure	24 028 806	23 192 817	24 923 792

Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2003.
Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2004.
Source: Matatiele Municipality, Annual Financial Statements for the period ending 30 June 2005.

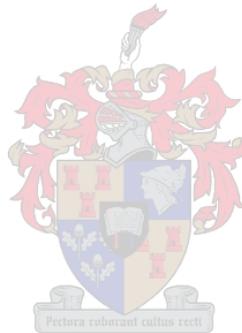
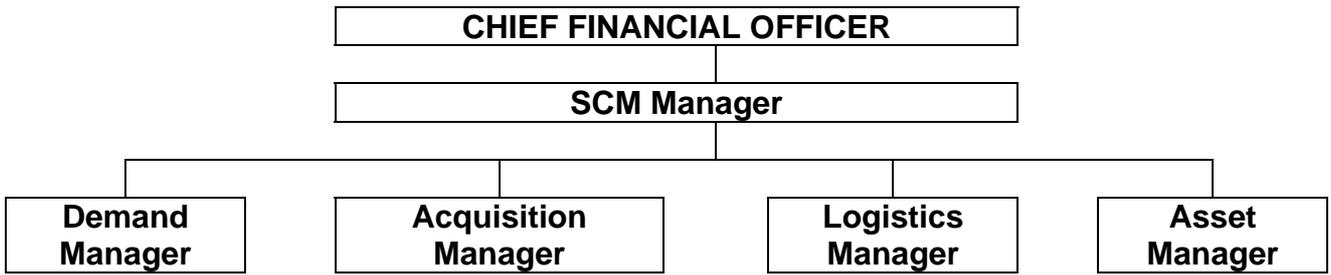
Annexure 15 Revenue sources and services rendered by Directorate

Directorate	Department	Revenue Sources
Executive and Council	Council	No income-generating activities
	Municipal Manager	Building Plan Fees Building Plan Exemption Certificates Search Fees Photocopies Business Licences Rezoning application fees Special consent application fees
Financial Services	Finance	Equitable Share Interest on investments Search fees Assessment rates Rates clearance certificates Deeds search fees Plant hire Administration charges
Administration and Corporate Services	Administration	Search fees Photocopies
	Library	Library penalties Lost books Photocopies Internet usage
	Museum	Museum subsidy Museum donations
	Sport and Recreation	Stadium hire
	Town Estates	Hall rentals Chemical toilet hire LED rentals Equipment hire

Directorate	Department	Revenue Sources
Administration and Corporate Services	Environmental Health	Abattoir meat inspections Public health subsidy
	Primary Health	Primary health subsidy
	Refuse	Refuse removal fees
	Testing Station	Drivers' licences Learner licences Certificate of Roadworthy Certificate of Fitness
	Traffic	Traffic fees Fire callouts
	Cemetery	Burial fees Memorial fees
	Housing	Housing rentals
Technical Services	Commonage	Farm rentals
	Streets	Driveway entrances Main road subsidy Plot clearing
	Swimming-pool	Pool entrance fees Season tickets
	Pound	Pound fees Pound sales
	Sewage	Sewage fees Sewerage connection fees Sewerage blockage fees
	Water	Water consumption fees Water connection fees Water repairs
	Electricity	Electricity consumption fees Electricity reconnection fees Electricity service connection fees Penalty interest Electricity repairs

Source: Matatiele Municipality, Budget 2004/2005.

Annexure 16 Organogram: Supply-Chain Management Unit



Annexure 17 Supply-Chain Unit: Job Descriptions

UNIT MANAGER

1. Co-ordinate ward meetings
2. Co-ordinate IDP meetings (Representatives Forum and Steering Committee)
3. Co-ordinate role-players required to attend IDP meetings
4. Manage service providers' database
5. Assist PDIs and HDIs to obtain professional services
6. Arrange capacity-building programmes for community, PDIs and HDIs
7. Supervise Demand, Acquisition, Logistics and Asset Managers
8. Monitor performance of unit
9. Assist Chief Financial Officer with cross-functional integration
10. Assist Chief Financial Officer with cross-organisational integration

DEMAND MANAGER

1. Liase with person/persons (users) requiring goods or service
2. Perform a needs assessment to ensure that goods or services required are in order to enable delivery of the agreed and desired service:
 - a) See that the needs assessment accommodates both current and future needs
 - b) See that the needs assessment complies with municipality objectives
3. Ensure that goods or services required are budgeted for
4. Draft/complete proposal if goods/services required are not provided for
5. Together with end user, draft/compile precise and appropriate specification report (doing research if required)
6. Analyse the supplying industry and obtain quotations
7. Submit assessment and specification reports (in format expectable) to Supply-Chain Management Committee (bid specification committee)
8. Assess and submit reports promptly
9. Manage risk

ACQUISITION MANAGER

1. Assess and evaluate assessment and specification reports
2. Make recommendations to bid specification committee regarding the procurement procedure, i.e. obtain quotations or advertise to invite bids or proposals
3. Recommend evaluation criteria
4. Place and expedite orders
5. Manage risk

LOGISTICS MANAGER

1. Set inventory levels
2. Receive and distribute materials and goods
3. Manage stores and warehouse
4. Manage transport
5. Review vendor performances
6. Update database
7. Manage risk

ASSET MANAGER

1. Establish and maintain a database for keeping record of obsolete, redundant and unserviceable assets that no longer serve a useful purpose
2. Evaluate assets prior to listing them on database as obsolete
3. Obtain fair market value for obsolete assets
4. Make formal recommendation to Supply-Chain Manager regarding the separate elements of the disposal strategy, i.e. auction, destruction and bids.
5. Obtain authorisation and execute the physical disposal process
6. Control motor fleet and plant, bookings, and maintenance
7. Maintain Council's asset registers
8. Manage risk

