

PROVINSIALE TESOURIE • PROVINCIAL TREASURY •  
UNONDYEBO WEPHONDO



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Mr C Golding

**TREASURY CIRCULAR MUN 8- 2007**

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THE CHIEF AUDIT EXECUTIVE (MS R JAFTHA)  
THE SENIOR MANAGER: ECONOMIC ANALYSIS (MS B BOQWANA)  
THE SENIOR MANAGER: FISCAL POLICY (MR D CORNELISSEN) (ACTING)  
THE SENIOR MANAGER: BUDGET OFFICE (MS AJ HICKEY) (ACTING)  
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THE SENIOR MANAGER: LOCAL GOVERNMENT FINANCE (MR G PAULSE)  
THE SENIOR MANAGER: PHYSICAL (FIXED) ASSETS AND PPPs (MR NB LANGENHOVEN)  
THE SENIOR MANAGER: SUPPLY CHAIN MANAGEMENT (MR L MUNSAMY)  
THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)  
THE HEAD: OFFICE OF THE MINISTRY (MR G GESWINDT)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: FINANCIAL MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT AND HOUSING

**RE: THE FACILITATION AND ADMINISTRATION OF TRANSVERSAL CONTRACTS FOR**

## **MUNICIPALITIES IN THE WESTERN CAPE**

### **1. Purpose**

- 1.1 To facilitate the arrangement of transversal contracts for the procurement of goods and services that may be required by more than one municipality on the proviso that the value proposal/needs analysis indicate that participation in the resultant Supply Chain Management process will lead to potential economies of scale, value for money, and preferential procurement advantages.
- 1.2 To obtain initial written confirmation from Accounting Officers to participate in such a framework.
- 1.3 To request nominations from Accounting Officers to serve on respective District Working Committees with the aim to determine areas where economies of scale, value for money and preferential procurement advantages can be achieved.

### **2. Background**

- 2.1 Provincial Treasury have received numerous requests from municipalities to help facilitate transversal contracts within the respective Districts in the Western Cape.
- 2.2 A primary consideration for entering into and facilitating the transversal contract process will be the achievement of economies of scale, standardisation of purchasing power / beneficial monopolistic behaviour, value for money, and/or achieving governmental procurement objectives (BBBEE / Preferential Procurement) as envisaged by Section 217 of the Constitution.
- 2.3 For the purpose of this Circular, a transversal contract means any contract that is deemed to be economically cost effective and which provides for the supply of goods or services or both through a competitive bidding process and which has been identified as a common need that affects all or most of the municipalities within a District; and where such transversal contract will benefit municipalities in the following respects:
  - a) Municipalities can exercise their buying power to secure better prices because suppliers have a guaranteed maximum level of sales;
  - b) Minimum stock will be held by municipalities as the supplier will be contracted to provide goods within a specified time period often at short notice or immediately to meet the requirements of the respective municipality;
  - c) Internal purchases, processing requirements and time is reduced as municipal staff

may order directly from a supplier;

- d) Longer-term contracts may, if managed properly, provide municipalities with more influence to improve the quality of goods and services that are provided.

2.4 The following criteria, if present, would be viable for a transversal contract:

- a. When the demand for goods and services can be aggregated to minimise procurement costs and maximise better pricing and quality of goods and services,
- b. For high volume requirements;
- c. Where goods and services are required over a fixed period; and
- d. Where the requirements for goods and services can be approximated over an agreed time-scale, using a call-off arrangement.

### 3. REGULATORY FRAMEWORK

3.1 Section 217 of the Constitution of the Republic of South Africa, 1996, provides as follows:

***“When an organ of state in the National, Provincial or Local sphere of government, or any other institution identified in the national legislation contracts for goods and services it must do so with a system which is fair, equitable, transparent, competitive and cost effective.”***

3.2 The transversal bid process must be conducted in a manner prescribed by all legislation applicable to the procurement and supply chain management environment of government which includes but is not limited to the Broad-Based Black Economic Empowerment Act No 53 of 2003 (hereinafter referred to as the BBBEEA), the Preferential Procurement Policy Framework Act No 5 of 2000 (hereinafter referred to as the PPPFA).

3.3 It must also take into consideration regulation 32 of the Municipal Supply Chain Management Regulations in terms of section 168 of the Local Government: Municipal Finance Management Act, 2003(Act no. 56 of 2003); which states as follows:

***(1) “A supply chain management policy may allow the Accounting Officer to procure goods and services for the municipality or municipal entity under a contract secured by another organ of state, but only if -***

***(a) The contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state;***

***(b) The municipality or entity has no reason to believe that such contract was not validly procured;***

***(c) There are demonstrable discounts or benefits for the municipality or entity to do so; and***

***(d) That the other organs of state and the provider have consented to such procurement in writing.***

***(2) Subregulation (1)(c) and (d) do not apply if –***

***(a) a municipal entity procures goods or services through a contract secured by its parent municipality; or***

***(b) a municipality procures goods or services through a contract secured by a municipal entity of which it is the parent municipality.***

#### **4. TERMS OF REFERENCE FOR THE INITIAL MEETING**

4.1 The initial meeting with the nominees forming the District Working Committee would be to discuss areas where it is suitable and the need is required to develop a transversal contract for goods and services.

4.2 Taking into consideration the explanatory notes regarding transversal contracts above, nominees are required to provide a list of goods and services that may be appropriately acquired in future by means of a transversal contract.

4.3 Nominees are also requested to provide a report on their actual spend on the above list of goods and services, the requirements for the particular goods and/or services required and also the goals and objectives which the transversal contract must address.

4.4 A business case will be then drafted and forwarded to the respective Accounting Officers. The business case will outline the following:

- a. current cost of the service,
- b. an analysis of the current market,
- c. how the transversal contract will provide preferential advantages to the municipal area,
- d. a supplier market analysis,

- e. factors which may have an impact on the process, and
- f. the various options available in terms of the process ahead.

**5. REQUIRED**

- 5.1 In order to ensure a successful facilitation of the process, it is imperative that Accounting Officers provide a contact person with whom Provincial Treasury can liaise with on suitable nominations for the District Working Committee by latest 13<sup>th</sup> July 2007. This is to ensure that a balance of skills and knowledge is obtained.
- 5.2 Any queries in this regard may be directed to Craig Golding / Rodney Moolman on tel. no: (021) 483 9940 or via e-mail to [cgolding@pgwc.gov.za](mailto:cgolding@pgwc.gov.za) or [rmoolman@pgwc.gov.za](mailto:rmoolman@pgwc.gov.za).
- 5.3 Your co-operation herein will be appreciated.

**MR CRAIG GOLDING**

**ACTING DIRECTOR: SUPPLY CHAIN MANAGEMENT**

**DATE:**