

Tiger had reached that age when you
just never know.

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'Wagging the dog':
How service delivery can
lose its way in the
procurement maze -- and
could find it again

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IMESA conference

George, 25 Oct 2012

SCM regulations have:

- greatly improved the transparency of procurement procedures,
- increased the opportunities for alternative suppliers, and
- reduced the potential for corrupt procurement practices.

However ...

- Is evidence that these regulations are often not implemented in the best interest of service delivery.
- In particular, it would seem that the SCM process, if allowed to be, is often the primary cause of extended delays in the appointment of contractors, leading to delays in the delivery of services. The SCM "tail" would appear on those occasions to be "wagging the dog", namely service delivery.

To 'wag the dog' means to divert attention from what would otherwise be of greater importance, to something else of lesser significance.

Alternatively, it means that the less-important factor takes the limelight, or takes control, drowning proper attention to what was originally the more important issue.

Our points:

Service delivery considerations must rule - the process needs to be driven, and if any component of delivery of an infrastructure project takes longer than scheduled, top management needs to:

- ask questions; and
- take remedial action.

A separate supply chain management track must be set up for engineering and building infrastructure.

(Not the same track as other goods and services.)



First point:

Service delivery considerations must rule - the process needs to be driven, and if any component of delivery of an infrastructure project takes longer than scheduled, top management needs to:

- *ask questions; and*
- *take remedial action.*

**Capital budgets unspent represent
services not delivered**

Education

WHILE Eastern Cape schools are falling apart, with no furniture and text books, the department of education yesterday announced it will not be able to spend a third of its R1.4-billion infrastructure budget by the end of this financial year



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- The "dog" of service delivery, and its timelines, needs to be driving all the components of the service delivery process.
- If the SCM portion of the process, or any other portion of the process, is taking so long as to result in significantly underspent capital budgets by year's end
- this is in effect the "tail"(in this instance SCM) "wagging" the "dog" of service delivery.

We do not suggest the watering down of SCM regulations

- On the contrary, we argue that municipalities' top management should set clear timeframes for each part of the service delivery process, the SCM process included, and hold the respective officials accountable should they take longer without good reason.

Second main point (2 of 2)

A separate supply chain management track must be set up for engineering and building infrastructure.

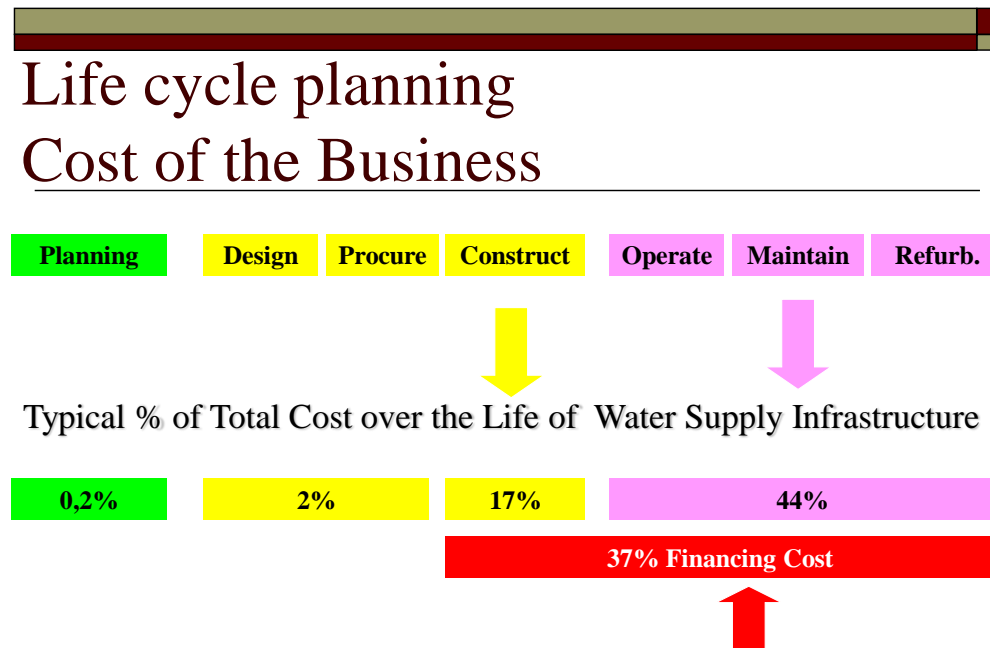
(Not the same track as other goods and services.)

Life cycle

- If the "right quality" isn't procured at the beginning, even if it costs a little more:
 - (that "little more", in terms of the life of the infrastructure, is relatively insignificant)

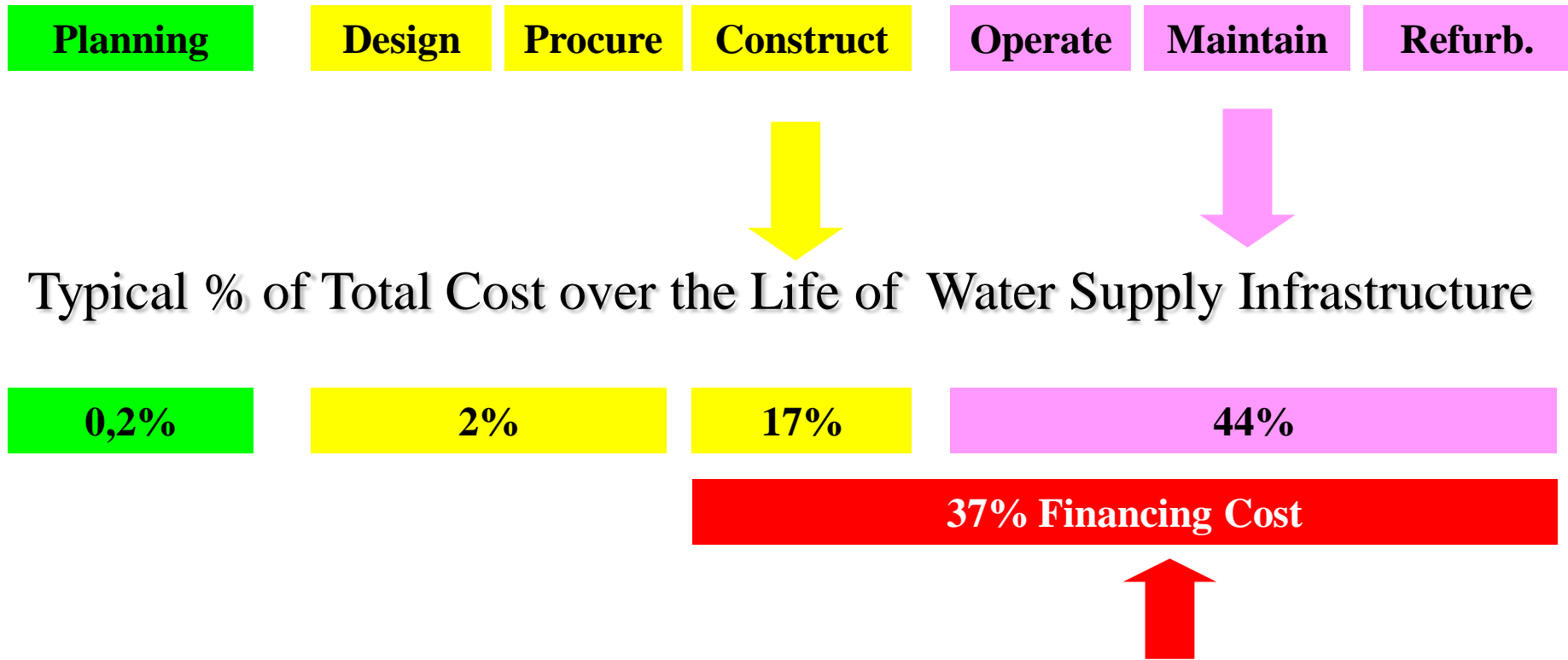
Typical breakdown of total cost of ownership:

- Design cost - 1 to 2%
- Construction - 6 to 18 %
- Operations, maintenance and decommissioning - 80 to 93%

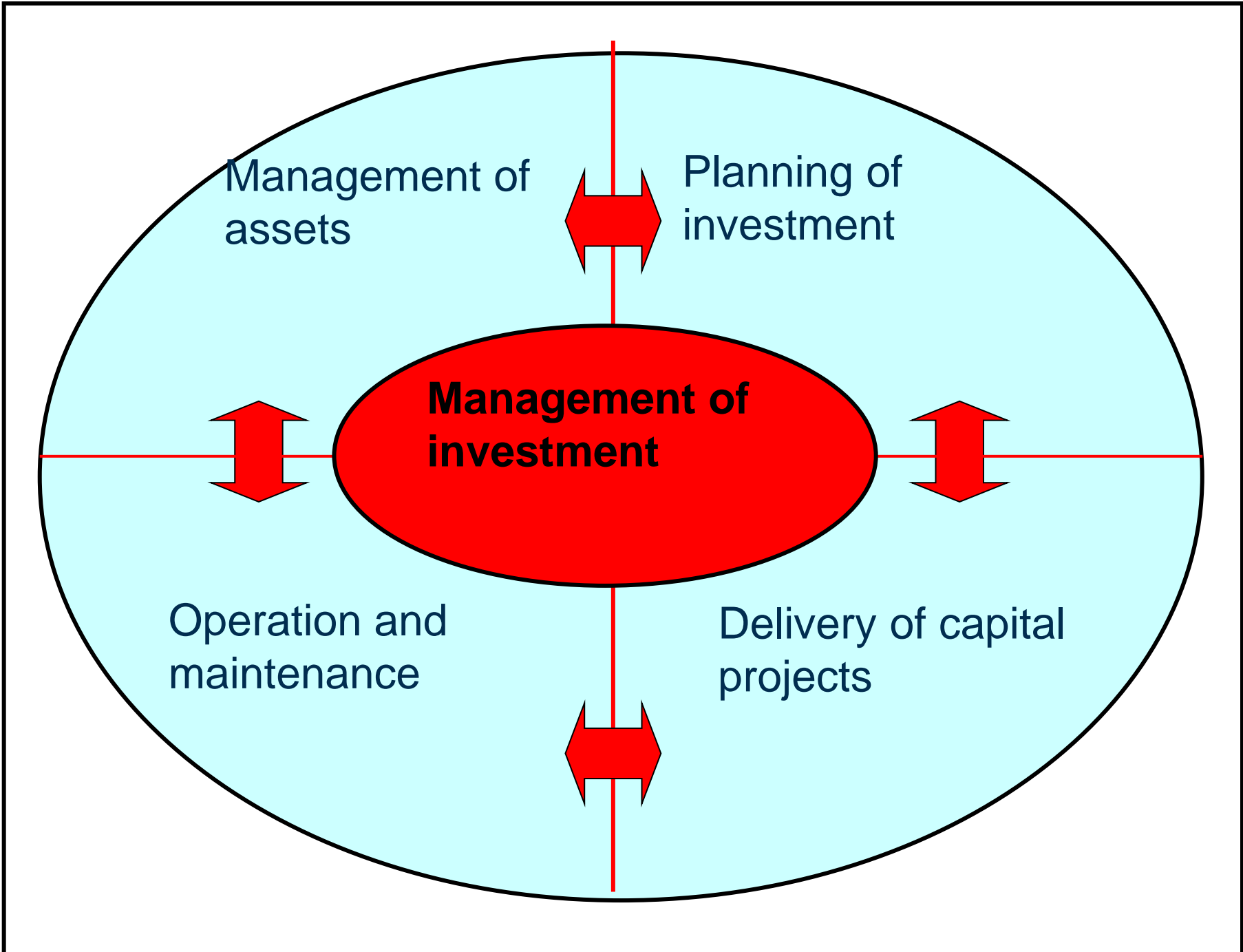


Life cycle planning

Cost of the Business



Based on actual local government case study (Paul le Roux)



Management of assets

Planning of investment

Management of investment

Operation and maintenance

Delivery of capital projects

Life cycle

- If the "right quality" isn't procured at the beginning, even if it costs a little more:
 - (that "little more", in terms of the life of the infrastructure, is relatively insignificant);
- the owner of the infrastructure -- and the people and organisations dependent on that service -- will pay, and pay again and again, for the wrong decision being made at the beginning.
- Infrastructure bought with "lowest first cost" in mind is less likely to provide sustainable service delivery.

Poor quality of design and construction
can have a major impact on operations
and maintenance costs!

There is a big difference between
“price” and “value”

Supply chain management systems

General goods and services

Demand management

Procurement

Payment

Demand management

Sourcing

Purchasing

Receipt of goods

Storage of goods

Issuing of goods to employees

Standard, well defined and scoped services

Off the shelf products /readily available commodities

Focus of Treasury practice notes etc

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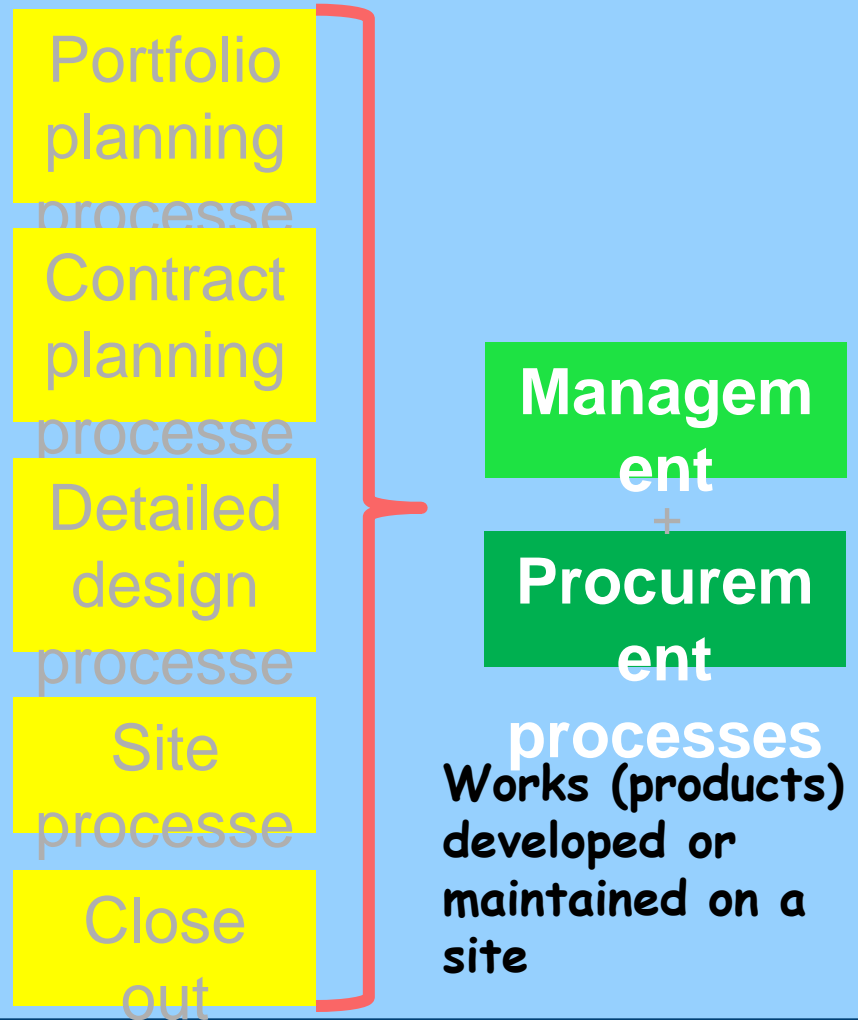
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Delivery and maintenance of infrastructure



Focus on cidb prescripts, best

Prior to
publication of
PFMA / MFMA
SCM regs

Since
publication of
PFMA / MFMA
SCM regulations

2012
Regulations?

Built
environment
(technical)
officials
dominate SCM
activities

SCM (non-built
environment) officials
dominate SCM activities

- Technical voice not heard - general goods and services approached forced onto the delivery and maintenance of infrastructure)
- "Them and us" situation between infrastructure and SCM units

Built environment officials apply their skills. SCM officials

- *Co-ordinate and manage interfaces with Treasury*
- *Monitor performance*
- *Confirm compliance with processes*
- *Collate and compile reports*

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Procurement of capital works and professional services

- Because of the need to reduce service delivery delays, but also in order to improve the functionality of infrastructure services, a very good argument can be made ...
- for the procurement of capital works and professional services, which are generally very situation-specific and site-specific (and could also be community-specific), ...
- ... to be treated differently from the procurement of other types of goods and services.

The committee system for competitive tendering

PFMA - SCM regs require SCM system to provide for:

- the establishment, composition and functioning of bid specification, evaluation and adjudication committees
- the approval of bid evaluation and/or adjudication committee recommendations.

MFMA - SCM regs require the SCM committee system to comprise at least a bid specification, evaluation and adjudication committee

Is there not a case for a separate supply chain for the delivery and maintenance of infrastructure?

The committee system for competitive tendering

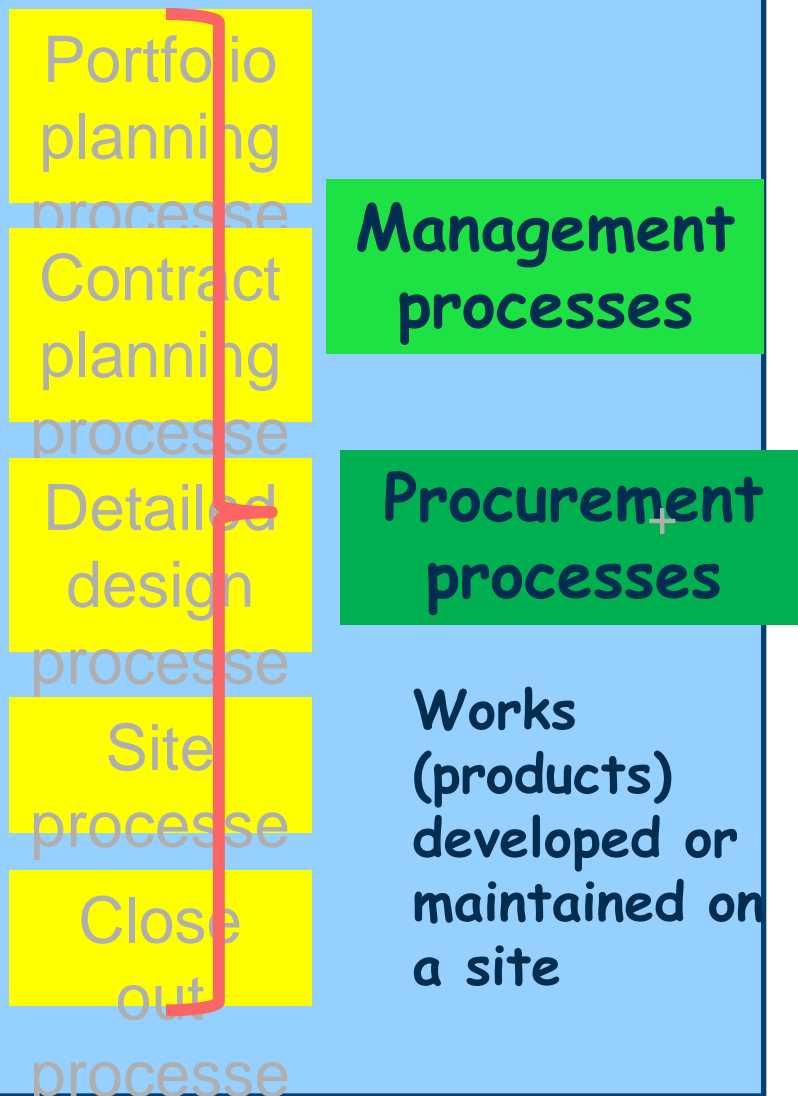
In essence the:

- specification committee compiles procurement documents
- evaluation committee evaluates tender offers and prepares an evaluation report
- adjudication committees considers the tender evaluation report and makes a recommendation on how to proceed with a procurement
- delegated authority makes an award.

Key questions - can the specification and evaluation committees deal with both general goods and services and the delivery and maintenance of infrastructure? Are the skills sets very different?

Is there not a case for a separate supply chain for the delivery and maintenance of infrastructure?

Delivery and maintenance of infrastructure



Use of built environment professionals in the management of the SCM system and the committee systems



All officials

Reality - National Planning Commission confirmed that skills shortage exists in infrastructure within the public sector



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Does SA have sufficient skills?

National Planning Commission confirmed that skills shortage exists in infrastructure within the public sector

SAICE highlighted in 2005 the extreme shortage of engineers in SA based on population per engineer e.g UK, Australia and SA has 311, 414 and 3166

Employer	%age distribution of engineers & technologists	
	1969 (HSRC)	2005 (SAICE)
SoEs	12	6
Nat & prov	12	4
Muns	15	10
Consultants	31	51
Industry or business	28	23
Academia	2	6

Migration from public sector to consulting



Public sector unattractive environment for engineering professionals?
Is the public sector making effective use of the private sector capacity?

Stable

General goods and services

Evaluate functionality first, eliminate those who fail to score a threshold for functionality and score remaining tenders to price and preference as per PPPFA regulations

Functionality = the measurement according to predetermined norms ...of a service or commodity that is designed to be practical, useful, working or operating taking into account amongst other factors, the quality, reliability and durability of a service and the technical capacity and ability of the tenderer

Generalists capable of evaluation



Provides detailed rules for formulation and evaluation of quality as per ISO 10845-1

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Delivery and maintenance of infrastructure

Quality evaluated in tender offers together with preference points system as other objective criteria into section 2(1)(f) of the PPPFA in accordance with the provisions of the CIDB Standard for Uniformity in Construction Procurement

Quality = totality of features and characteristics of a product or service that bears on the ability of that product or service to satisfy stated or implied needs

Built environment professionals capable of evaluation



Provides detailed rules for formulation and evaluation of quality as per ISO 10845-1

Is there not a case for separate preferential procurement regulations for the delivery and maintenance of infrastructure?

PPPFA regulations - other issues

There are a number of other issues where the approach in the regulations is geared towards general goods and services and not the delivery and maintenance of infrastructure e.g.

- Limitations on subcontracting
- Joint venture formation
- Thresholds for micro exempt enterprises

These can be readily addressed - the solutions are very simple

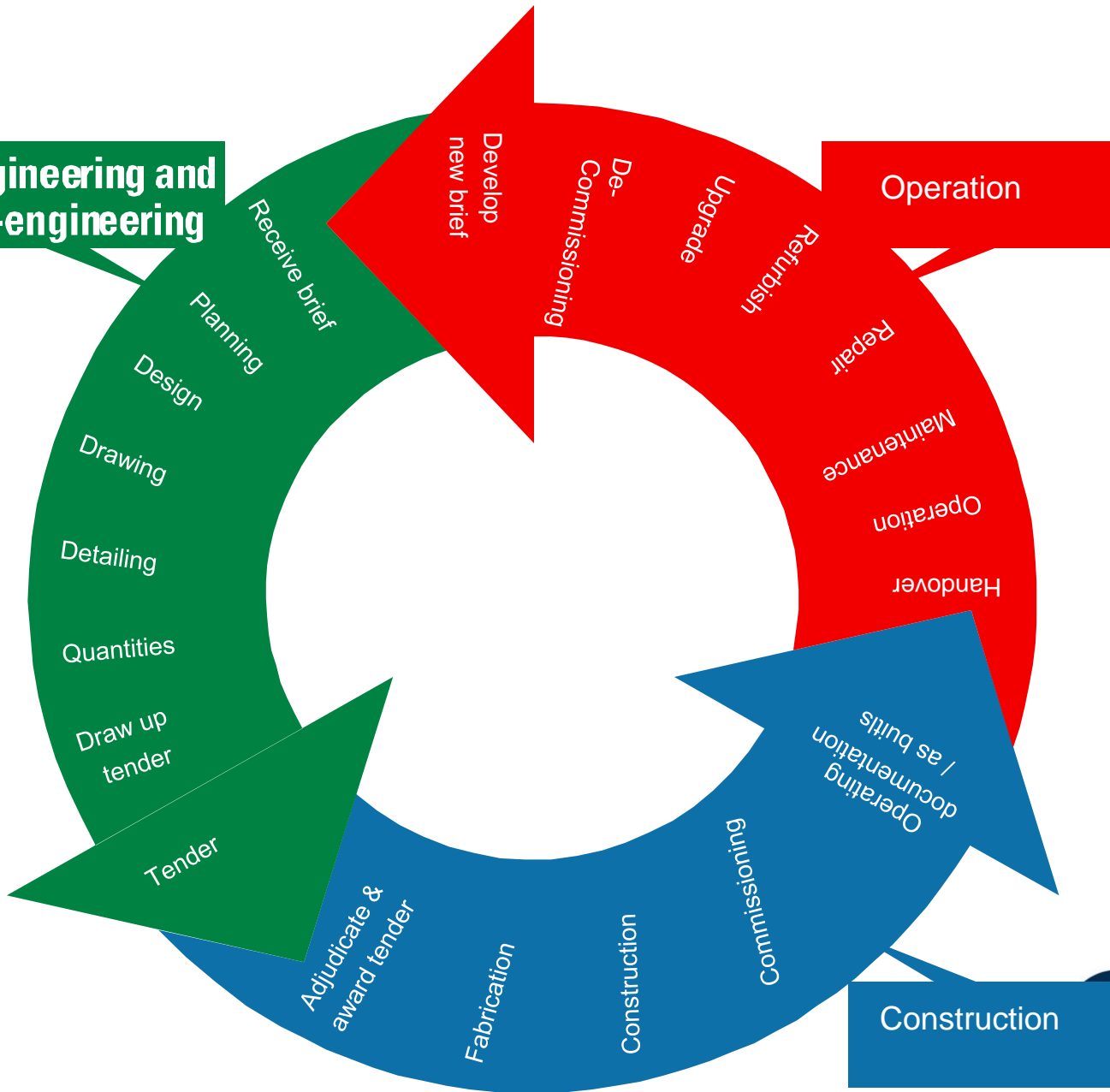
Recent initiatives by national government

Presentation to
National Treasury investigative committee on:

The impact of current procurement
regulations on their ability to provide
infrastructure in a sustainable manner

- "... institutions involved with the procurement of capital/infrastructure projects ...
- concerns about the current regulatory requirements associated with such procurement.
- the long term impacts of not using functionality as a criterion on which to compete for bids (but rather, only as a minimum requirement).
- prudent to engage in discussions with a view to determining the impact of the current procurement regulations on their ability to provide infrastructure in a sustainable manner ..."

Engineering and re-engineering



Construction



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Whole cycle from identification of need through to decommissioning

- Identification of need.
- Project definition.
- Project specification.
- Project design.
- Construction contract documentation.
- Construction.
- Operation, maintenance and repair through the lifetime.
- Refurbishment and upgrading (if any).
- Decommissioning.

Procurement can be for any of these.

"Functionality as a criterion on which to compete for bids"

- An infrastructure project is situation-specific and site-specific.
- (Could also be community-specific.)
- Project definition and specification recognize this specificity (uniqueness).
- However procurement must also recognize this uniqueness.
- Bids must be judged on functionality to meet the specifics/uniqueness.
- Infrastructure projects are not "off the shelf" items.

"Bold plans to fast-track transport projects"

"Business Day": 2012/02/14

- "The Presidential Infrastructure Co-ordinating Commission is proposing the adoption of legislation that it hopes will accelerate the development and implementation of infrastructure projects.
- The proposed Infrastructure Development Act was inspired by the speed with which projects related to the 2010 Soccer World Cup were completed....
- Such an act would allow for a more co-ordinated flow of approval processes that may be required for the development of a large new port or rail project"



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If the suggestion is to tackle the infrastructure backlog with the same spirit as the stadiums were built, then we must do it the way the stadiums were built, including:

- political and top level management drive -- "service delivery" was driven hard, and where hiccups in the process were encountered, they were overridden; and
- there was total recognition of site-specificity and other aspects of product differentiation, and this was taken into account in the procurement process -- especially in the procurement of the design team.



- “Delivery” needs to be understood as embracing not just the construction of infrastructure but the operation and maintenance of that infrastructure throughout its intended life.

NIMS

Pointers

- Where is weakest link?
- One size does not fit all.
- Not lowest initial price award.
 - Especially disastrous if applied to procurement of feasibility, planning or design.
- Life-cycle costing must rule.
- Capacity-building, on its own, does not help much.
- Need powerful drivers, focused on service delivery.
- Need accountability.

Conclusion: two main points:

- Service delivery considerations must rule -- the process needs to be driven, and if any component of delivery of an infrastructure project takes longer than scheduled, questions need to be asked, and remedial action taken, by top management.
- A separate supply chain management track must be set up for engineering and building infrastructure.

If this is not done, service delivery will suffer -- as indeed is happening.

Recommendations - the first point:

We do not suggest the watering down of SCM regulations

- On the contrary, we argue that municipalities' top management should set clear timeframes for each part of the service delivery process, the SCM process included, and hold the respective officials accountable should they take longer without good reason.

Recommendations - the second point:

- Establish a separate *SCM* system for the delivery and maintenance of infrastructure
- Better use can be made of the skills and capacity available in the consulting sector to address critical areas in the supply chain
- There is a strong case for putting in place separate **Preferential Procurement Regulations**, for the delivery and maintenance of infrastructure, which include quality as an evaluation criterion
- **CESA** is willing to partner with Treasury in drafting revised regs to enhance project delivery whilst adhering to the govt objectives of job creation, poverty alleviation, and fair & transparent procurement practices



Let's put this dog to rest!

