



CEDERBERG MUNICIPALITY

PREFERENTIAL PROCUREMENT POLICY

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1. Definitions

In this policy, unless the context indicates otherwise, any word or expression to which a meaning has been assigned in the Act must bear the meaning so assigned—

"Acceptable Tender" mean any tender which, in all respects, complies with the specification and conditions of tender as set out in tender document.

"Black designated groups" has the meaning assigned to it in the codes of good practice issued in terms of section 9 (1) of the BBBEEA.

"Black people" has the meaning assigned to it in section 1 of the BBBEEA.

"Designated group" means black designated groups, black people, women, people with disabilities; or small enterprises which are enterprises, owned, managed, and controlled by previously disadvantaged persons and which is overcoming business impediments arising from the legacy of apartheid.

"Disability" means in respect of a person, a permanent means, in respect of a person, a permanent impairment of a physical, intellectual, or sensory function, which results in restricted, or lack of, ability to perform an activity in the manner, or within the range, considered normal for a human being.

"EME" means

- (1) exempted micro enterprise in terms of a code of good practice on black economic empowerment issued in terms of section 9(1) of the BBBEEA.
- (2) an entity with an annual turnover of R10 000 00.000 (ten million Rand) or less

"Historically disadvantaged individual (HDI)" means a South African citizen –

- (1) who, due to the apartheid policy that had been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No 110 of 1983); and / or
- (2) who is a female; and / or
- (3) who has a disability:

Provided that a person who obtained South African citizenship on or after the coming to effect of the Interim Constitution, is deemed not to be an HDI.

"Highest acceptable tender" means a tender that complies with all specifications and conditions of tender and that has the highest price compared to other tenders;

"Lowest acceptable tender" means a tender that complies with all specifications and conditions of tender and that has lowest price compared to other tenders;

"Locality" means the local suppliers and/or service providers that reside within the Municipal area and within the district boundaries

"Large Enterprises" is a company with an annual turnover in excess of R50 million.

"Local Content" means that portion of tender price, which is not included in the imported content, provided that local manufacture does take place

“Market Analysis” means a technique used to identify market characteristics for specific goods or services

“National Treasury” has the meaning assigned to it in section 1 of the Public Finance Management Act, 1999 (Act No. 1 of 1999);

“Objective Criteria” for the purpose of section of 2(1)f of the procurement Act must be criteria other than the additional to criteria relating to equity ownership by HDI's or whether or not a bidder was located in a particular province or municipal area

“price” means an amount of money tendered for goods or services, and includes all applicable taxes less all unconditional discounts;

“Proof of B-BBEE status level of contributor” means the B-BBEE status level certificate issued by an authorised body or person

- 1) a sworn affidavit as prescribed by the B-BBEE Codes of Good Practice; or
- 2) any other requirement prescribed in terms of the Broad-Based Black Economic Empowerment Act.

“Qualifying Small Enterprise (QSE)” is a company with a turnover between R10 million and R50 million

“Rand value” means the total estimated value of a contract in Rand, calculated at the time of the tender invitation;

“Region” means the municipal district and/or District Municipality.

“Rural area” means-

- 1) a separately populated area in which people farm or depend on natural resources, including villages and small towns that are dispersed through the area; or
- 2) an area including a large settlement which depends on migratory labour and remittances and government social grants for survival and may have a traditional land tenure system.

“Specific goals” means specific goals as contemplated in section 2(1)(d) of the Act which may include contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender and disability including the implementation of programmes of the Reconstruction and Development Programme as published in Government Gazette No. 16085 dated 23 November 1994;

“SMME” means small, medium and micro enterprises namely Exempted Micro Enterprises and Qualifying Small Enterprises

“Tender” means a written offer in the form determined by a Municipality in response to an invitation to provide goods or services through price quotations, competitive tendering process or any other method envisaged in legislation

“tender for income-generating contracts” means a written offer in the form determined by an organ of state in response to an invitation for the origination of income-generating contracts through any method envisaged in legislation that will result in a legal agreement between the organ of state and a third party that produces revenue for the organ of state, and includes, but is not limited to, leasing and disposal of assets and concession contracts, excluding direct sales and disposal of assets through public auctions;

“The Act” means the Preferential Procurement Policy Act, 2000 (Act No. 5 of 2000).

“Youth” has the meaning assigned to it in section 1 of the National Youth Development Agency Act, 2008 (Act No. 54 of 2008).

2. Introduction

- 2.1 The Constitution of the Republic of South Africa, 1996, provides in sections 152(1)(c) and 152(2) that local government must promote social and economic development and that the municipality must strive within its financial and administrative capacity, to achieve the objects set out in subsection 152(1).
- 2.2 The Constitution provides in Section 217 that an organ of state must contract for goods or services in accordance with a procurement system which is fair, equitable, transparent, competitive, and cost effective and to implement a policy to grant preferences within a framework prescribed by National Legislation.
- 2.3 The Broad-Based Black Economic Empowerment Act, 2003 provides in section 10 (b) that every organ of state and public entity must apply any relevant code of good practice issued in terms of the Act in developing and implementing a preferential procurement policy.
- 2.4 The Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000)-[PPPFA] was promulgated by the Minister in response to the Constitutional provision and allow for a Municipality to develop a preferential procurement policy and to implement such policy within the PPPFA framework.
- 2.4.1 Section 2 (1) (d) (i) and (ii) of the Preferential Procurement Policy Framework Act, 2000 refers to specific goals which may include:
- (i) contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability;
 - (ii) implementing the programmes of the Reconstruction and Development Programme (RDP) as published in *Government Gazette* 16085 dated 23 November 1994.
- 2.4.2 The RDP (1994), as basis for development in South Africa, was meant to provide a holistic, integrated, coherent socio-economic policy that is aimed at mobilising people and resources to work towards the upliftment of the material and social conditions of local communities to build sustainable livelihoods for these communities.
- 2.4.3 In terms of Section 2 (1)(d)(ii), the following activities may be regarded as a contribution towards achieving the goals of the RDP, in addition to the awarding of preference points in favour of HDIs (published in *Government Gazette* No. 16085 dated 23 November 1994):
- (i) The promotion of South African owned enterprises;
 - (ii) The promotion of export orientated production to create jobs;
 - (iii) The promotion of SMMEs;
 - (iv) The creation of new jobs or the intensification of labour absorption;
 - (v) The promotion of enterprises located in a specific province for work to be done or services to be rendered in that province;
 - (vi) The promotion of enterprises located in a specific region for work to be done or services to be rendered in that region;
 - (vii) The promotion of enterprises located in a specific municipal area for work to be done or services to be rendered in that municipal area;

- (viii) The promotion of enterprises located in rural areas;
- (ix) The empowerment of the work force by standardising the level of skill and knowledge of workers;
- (x) The development of human resources, including by assisting in tertiary and other advanced training programmes, in line with key indicators such as percentage of wage bill spent on education and training and improvement of management skills; and
- (xi) The upliftment of communities through, but not limited to, housing, transport, schools, infrastructure donations, and charity organisations.

2.5 The Minister of Finance gazetted the new Preferential Procurement Regulations, 2022 dated 4 November 2022 in terms of section 5 of the Preferential Procurement Policy Framework Act, 2000 (PPPFA).

3. Purpose and Objectives

3.1 (a) The purpose of this policy is to:

- (i) Provide for categories of preference in awarding of bids;
- (ii) Provide for the advancement of persons or categories of persons disadvantaged by unfair discrimination; and
- (iii) Clarify the mechanisms how the above items in paragraph 3.1 (a) (i) and (ii) will be implemented.

3.2 (b) The objectives to be achieved through this policy is to:

- (i) Promote Black-Based Black Economic Empowerment (B-BBEE) - enterprises providing services and goods.
- (ii) Promote local labour and/ or promotion of enterprises located in the municipal area.
- (iii) Promote Small Medium and Micro Enterprises (SMME's), Joint Ventures, Consortiums, and partnerships.
- (iv) Implement recognised best procurement practises through effective planning, strategic purchasing, and contract management.

The policy rests upon certain core principles of behaviour as set out in the Constitution and ratified by the Constitutional Certification Judgements. In this context, the policy will be applied in accordance with a system, which is fair, equitable, transparent, competitive, and cost-effective in terms of Section 217 of the Constitution.

This policy strives to ensure that the objectives for uniformity in the supply chain management systems between Municipalities/Municipal entities, is not undermined and that consistency with the SCM and LED policies in line with sections 152(1)(c) and 152(2) of the Constitution.

The Policy is founded upon the following core principles:

3.1 **Value for money**

Price alone is often not a reliable indicator, and the AO will not necessarily obtain the best value for money by accepting the lowest price offer that meets mandatory requirements. Best value for money means the best available outcome when all relevant costs and benefits over the procurement cycle are considered.

3.2 **Open and effective competition**

All procurement laws, policies, practices, and procedures must be readily accessible to all parties involved in the procurement process. The procurement process must be open and transparent, and reasons must be provided for decisions in terms of current legislation.

3.3 **Ethics and fair dealing**

All procurement officials must comply with the municipal ethical standards to promote mutual trust and respect and an environment where business can be conducted in a fair and reasonable manner. The following is regarded as an acceptable ethical behaviour:

- a) Open, honest, and co-operative business relations.
- b) Confidentiality of commercial information.
- c) Avoidance of conflict of interest or a perception of bias.
- d) Disclosure of conflict of interest as soon as they arise.
- e) Fair dealing and impartiality in the conduct of tender evaluations.
- f) Avoidance of combative or collusive practices.

3.4 **Accountability and reporting**

Procurement officials and other officials involved in SCM must be answerable for their decisions and actions to the public.

3.5 **Equity**

Cederberg Municipality will at all times strive to enhance the development of SMME's and B-BBEE enterprises to allow them to contribute meaningfully to the economy of the Cederberg Municipal Area.

4. Application of Preference Point System

4.1 The Municipality will, in the tender documents, stipulate —

- (a) the preference point system applicable; and
- (b) any specific goal as envisaged in section 2(1)(d) and (e) of the Preferential Procurement Act.

4.2 If it is unclear whether the 80/20 or 90/10 preference point system applies—

- (a) an invitation for tender for income-generating contracts, that either the 80/20 or 90/10 preference point system will apply and that the highest acceptable tender will be used to determine the applicable preference point system; or
- (b) any other invitation for tender, that either the 80/20 or 90/10 preference point system will apply and that the lowest acceptable tender will be used to determine the applicable preference point system.

5. 80/20 preference point system for acquisition of goods or services with Rand value equal to or below R50 million

5.1 The following formula must be used to calculate the points out of 80 for price in respect of a tender with a Rand value equal to or below R50 million, inclusive of all applicable taxes:

$$P_s = 80 \left(1 - \frac{P_t - P_{\min}}{P_{\min}} \right)$$

Where-

P_s = Points scored for price of tender under consideration;

P_t = Price of tender under consideration; and

P_{\min} = Price of lowest acceptable tender.

5.2 A maximum of 20 points may be awarded to a tenderer for the specified goals for the tender.

5.3 The points scored for the specific goal must be added to the points scored for the price and the total must be rounded off to the nearest two decimal places.

5.4 Subject to section 2(1)(f) of the Act, the contract must be awarded to the tendering scoring the highest points.

6. 90/10 preference point system for acquisition of goods or services with Rand value above R50 million

6.1 The following formula must be used to calculate the points out 90 for price in respect of a tender with a Rand value above R50 million, inclusive of all applicable taxes:

$$P_s = 90 \left(1 - \frac{P_t - P_{\min}}{P_{\min}} \right)$$

Where-

- P_s = Points scored for price of tender under consideration;
 P_t = Price of tender under consideration; and
 P_{\min} = Price of lowest acceptable tender.

- 6.2 A maximum of 10 points may be awarded to a tenderer for the specified goals for the tender.
- 6.3 The points scored for the specific goal must be added to the points scored for price and the total must be rounded off to the nearest two decimal places.
- 6.4 Subject to section 2(1)(f) of the Act, the contract must be awarded to the tenderer scoring the highest points.

7. 80/20 preference points system for tenders to for income-generating contracts with Rand value equal to or below R50 million

- 7.1 The following formula must be used to calculate the points for price in respect of an invitation for tender for income-generating contracts, with a Rand value equal to or below R50 million, inclusive of all applicable taxes:

$$P_s = 80 \left(1 + \frac{P_t - P_{\max}}{P_{\max}} \right)$$

Where-

- P_s = Points scored for price of tender under consideration;
 P_t = Price of tender under consideration; and
 P_{\max} = Price of highest acceptable tender.

- 7.2 A maximum of 20 points may be awarded to a tenderer for the specific goal specified for the tender.
- 7.3 The points scored for the specific goal must be added to the points scored for price and the total must be rounded off to the nearest two decimal places.
- 7.4 Subject to section 2(1)(f) of the Act, the contract must be awarded to the tenderer scoring the highest points.

8. 90/10 preference point system for tenders for income-generating contracts with Rand value above R50 million

8.1 The following formula must be used to calculate the points for price in respect of a tender for income-generating contracts, with a Rand value above R50 million inclusive of all applicable taxes:

$$P_s = 90 \left(1 + \frac{P_t - P_{max}}{P_{max}} \right)$$

Where-

- P_s = Points scored for price of tender under consideration;
- P_t = Price of tender under consideration; and
- P_{max} = Price of highest acceptable tender.

- 8.2 A maximum of 10 points may be awarded to a tenderer for the specific goal specified for the tender.
- 8.3 The points scored for the specific goal must be added to the points scored for price and the total must be rounded off to the nearest two decimal places.
- 8.4 Subject to section 2(1)(f) of the Act, the contract must be awarded to the tenderer scoring the highest points.

9. Specified Contract Participation Goals

- 9.1 The tendering conditions will stipulate the specific goals, as contemplated in section 2(1)(d)(ii) of the Preferential Procurement Act, to be attained.
- 9.2 A maximum of 20 points (80/20 preference points system) or 10 (90/10) preference points system), will be allocated for specific goals. These goals are:
 - (a) contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability;
 - (b) local labour and/ or promotion of enterprises located in the municipal area (phased in approach to be applied for other RDP goals)
 - (c) Considering all the data available, this Policy for the **2022/2023** financial years will strive to achieve the following targets:

POLICY OBJECTIVE	TARGET
Improve market share of local SMME's	<ul style="list-style-type: none"> ➤ By year 2023 the market-share of SMME's to be at least 5% of all municipal procurement. ➤ By year 2024 the market-share of SMME's to be at least 10% of all municipal procurement.
Improve the local economic market [local buying]	<ul style="list-style-type: none"> ➤ By year 2023 the market-share of local businesses to be at least 20% of all municipal procurement. ➤ By year 2024 the market-share of local businesses to be at least 25% of all municipal procurement

POLICY OBJECTIVE	TARGET
Employment of local semi-& unskilled workers	<ul style="list-style-type: none"> ➤ By year 2024 at least 20% of construction and related sector wage and allowance costs must represent local labour. ➤ By year 2025 at least 25% of construction and related sector wage and allowance costs must represent local labour.
Empowerment of local registered indigents	<ul style="list-style-type: none"> ➤ By year 2025 at least 5% of procurement must be from business that formed co-operatives with indigents. ➤ By year 2025 at least 10% of procurement must be from business that formed co-operatives with indigents.
Ensure equitable work distribution in Cederberg Municipal area.	Develop a rotation mechanism to employ Cederberg local businesses registered on the Cederberg Municipality Supplier Database for projects below R 200 000, inclusive of construction related services.
Address identified local socio-economic weakness areas i.e: (i) Unemployed Youth	<ul style="list-style-type: none"> ➤ By year 2025 municipal procurement spend to unemployed youth be improved by 10% calculated from data compiled since 2023.

9.3 Regarding paragraph 9.2 (a) at least 50% of the 20/10 points will be allocated to promote this goal and points will be allocated in terms of the BBEE scorecard as follows.

B-BBEE Status Level of Contributor	Number of Points for Preference (80/20)	Number of Points for Preference (90/10)
1	20	10
2	18	9
3	16	8
4	12	5
5	8	4
6	6	3
7	4	2
8	2	1
Non-compliant contributor	0	0

9.4 A tenderer must submit proof of its BBEE status level contributor [scorecard].

9.5 A tenderer failing to submit proof of BBEE status level of contributor –

9.5.1 may only score in terms of the 80/90-point formula for price; and

9.5.2 scores 0 points for BBEE status level of contributor, which is in line with section 2 (1) (d) (i) of the Act, where the supplier or service provider did not provide proof thereof.

9.6 Regarding paragraph 9.2 (b) a maximum of 50% of the 20/10 points will be allocated to promote this goal. Points will be allocated as follows.

Locality of supplier	Points 80/20	Points 90/10
Within the boundaries of the Cederberg Municipality	10	5
Within the boundaries of the West Coast District Municipality	5	2.5
Within the boundaries of the Western Cape	2	1
Outside the boundaries of Western Cape Province or failure to provide proof	0	0

The policy should not include Pre-qualification goals.

- 9.7 Any specific goal, for which a point may be awarded, must be clearly specified in the invitation to submit a tender.
- 9.8 A tenderer failing to submit proof of required evidence to claim preferences for other specified goals, which is in line with section 2 (1) (d) (ii) of the Act.
- (i) may only score in terms of the 80/90-point formula for price; and
- (ii) scores 0 points out of 10/5 for the relevant specific goals where the supplier or service provider did not stipulate locality.
- 9.9 The preference points scored by a tenderer must be added to the points scored for price.
- 9.10 The points scored must be rounded off to the nearest two decimal places.
- 9.11 The contract must be awarded to the tenderer scoring the highest preference points.
- 9.12 Goals can be amended according to the specific requirements of the tender
- 9.13 Evidence of residence will be verified by officials of Cederberg Municipality.

10. Criteria for Breaking Deadlock in Scoring

- 10.1 If two or more tenderers score an equal total number of points, the contract must be awarded to the tenderer that scored the highest points for specific goals.
- 10.2 If two or more tenderers score an equal total number of points, the objective criteria in addition to those contemplated in paragraphs (d) and (e) justify the award to the tenderer that scored the highest points in terms in accordance with section 2(1)(f) of the Act.
- 10.3 If two or more tenderers score equal total points in all respects, the award must be decided by the drawing of lots.

11. Award of contracts to tenderers not scoring highest points

- 11.1 A contract may be awarded to a tenderer that did not score the highest points only in accordance with section 2(1)(f) of the Act.

12. Remedies

- 12.1 If a Municipality is of the view that a tenderer submitted false information regarding a specific goal, it must—

- a) inform the tenderer; accordingly, and
- b) give the tenderer an opportunity to make representations within 14 days as to why the tender may not be disqualified or, if the tender has already been awarded to the tenderer, the contract should not be terminated in whole or in part—

12.2 After considering the representations referred to in paragraph 12 (1)(b), the Municipality may—

- (a) if it concludes that such false information was submitted by the tenderer—
 - (i) disqualify the tenderer or terminate the contract in whole or in part; and
 - (ii) if applicable, claim damages from the tenderer;

13. Performance Management

13.1 The specific goals achieved through the application of the Preferential Procurement Framework Act, 2000 will be monitored in terms of the elements embedded in the Supply Chain Management Policy.

14. Reporting

14.1 The Accounting Officer must align its reporting requirements to the Council as per SCM Regulation 6 to also report on progress with the implementation of this Policy.

15. Payment Cycles

15.1. The payment of invoices is dependent on timely invoicing, approval of invoices and on the payment administration. Responsible officials must process approved invoices within 30 days of receiving the invoice, unless otherwise provided for in the contract.

15.2. Reasons for not approving an invoice must be communicated to the tenderer prior to the lapsing of the said 30 days.

15.3. Officials must endeavour to, where feasible, process invoices of SMME's within 5-7 days in order to promote their cash flow position. Invoices must be submitted before 10:00 on a Wednesday, to facilitate timely payment.

15.4. Depending on the commodity and the procurement process adopted, deposits, establishment fees, upfront payments, front-loaded payments, etc. may be allowed if provided for in the tender specifications and contract provisions. Appropriate control mechanisms and guarantees must support such payments.

16. Cancellation and re-invitation of tenders and formal quotations

16.1. In the event that, in the application of the 80/20 preference point system as stipulated in the tender documents, all tenders received exceed the estimated Rand value of R50 000, the tender invitation must be cancelled.

- 16.2. In the event that, in the application of the 90/10 preference point system as stipulated in the tender documents, all tenders received are equal to, or below R50 000, the tender must be cancelled.
- 16.3. An organ of state which has cancelled a tender invitation as contemplated in sub-regulations (1) and (2) must re-invite tenders and must, in the tender documents, stipulate the preference point system to be applied.
- 16.4. An organ of state may, prior to the award of a tender, cancel a tender if -
- a) due to changed circumstances, there is no longer need for the goods or services tendered for; or
 - b) funds are no longer available to cover the total envisaged expenditure; or
 - c) no acceptable tenders are received.

17. Replace of previous policies

- 17.1. This policy replaces any previous preferential procurement policies adopted or applied by the municipality.
- 17.2. Any tender advertised before the date referred to in subsection 16 must be dealt with in terms of the Preferential Procurement Regulations, 2017.

18. Short Title and Commencement

- 16.1 This policy is called the Cederberg Municipal Preferential Procurement Policy, 2022 and takes effect on 16 January 2023.