

MAFUBE BID COMPLIANCE SUMMARY

1. Unsolicited bid was made to Mafube Local Council ("Mafube") by Rural Maintenance (Pty) Ltd ("Rural") on 19 July 2011 for Electricity Utility Support Services within the area of jurisdiction of Mafube, as per the terms and conditions of the contract and service level agreement to be signed – **Annexure 1 [Bid to Mafube Local Council dated 19/07/2011]**.
2. In accordance with Regulation 37 of the Local Government: Municipal Finance Management Act (56/2003), Municipal Supply Chain Management Regulations published by General Notice No. 868 In Government Gazette No. 27636, Vol 479 of 30 May 2005, as amended, read together with the Supply Chain Management Policy of Mafube Local Municipality, as amended from time to time, and section 21A of the Local Government: Municipal Systems Act, 2000 (32/2000), Mafube took the following steps:
 - 2.1. A notice was published in two national newspapers (Volksblad and the Citizen on 8 August 2011 advising the public of the following:
 - 2.1.1. That an unsolicited bid had been received by Mafube from Rural and was being considered by Mafube, to act as Service Provider to Mafube and whereby it would invest, upgrade, maintain and operate the electrical infrastructure of Mafube at no liability to the Municipality, i.e. no payment or guarantees, Council and/or otherwise, by reason of which the Bid had thus far complied with the requirements of Section 113 of the Municipal Finance Management Act, 2003 (56/2003).
 - 2.1.2. That the Bid should not be subjected to the normal competitive bidding process for the following reasons:
 - 2.1.2.1. The mechanism put forward by Rural demonstrates a unique and innovative concept with exceptional revenue advantages available only from Rural.
 - 2.1.2.2. The potential benefit to the Municipality if this unsolicited Bid is to be accepted and implemented is that it will enable the Municipality to generate revenue without the cost of expertise or otherwise to be employed / incurred by the Municipality – leaving municipal expertise free to cater to other issues of importance.
 - 2.1.2.3. Rural Maintenance is the sole provider of the specialised services through their preferred product supplier, which will enhance electricity cost savings to users in the Municipal supply area.

- 2.1.3. That as part of the immediate improvement in effective electricity service delivery that could be achieved in a relatively short period of time, which will be sustainable in the long terms, this proposal potentially holds a number of further benefits to the Municipality, such as:
- 2.1.3.1. The Council will transfer liability of the Bulk Electricity Supply to Rural Maintenance (Pty) Ltd;
 - 2.1.3.2. Assets will remain the property of the Municipality, i.e. no privatisation;
 - 2.1.3.3. Any additional assets to be constructed or added to the electricity supply network will on expiry of the contract be transferred at no additional cost to the Municipality.
 - 2.1.3.4. No job losses through possible retrenchments.
 - 2.1.3.5. Stimulation of economic development through improved electricity supply and tariff infrastructure.
 - 2.1.3.6. Significantly increase and maintaining of revenue collection with recovery of losses.
 - 2.1.3.7. Job creation through implementation of the program and upgrade of existing operating systems.
 - 2.1.3.8. The National Energy Regulator of South Africa (NERSA) is responsible for the oversight and approval of tariffs, which will ensure fair and transparent tariff application.
 - 2.1.3.9. Regular formal audits to be conducted with intervals of 3 years.
- 2.1.4. That the Municipality is not obliged to consider unsolicited Bids and reserves the right to accept any of the responses in whole or in part.
- 2.1.5. Extending an invitation to all interested parties or stakeholders to submit their comments within 21 days of this notice to the Office of the Municipal Manager.
- 2.1.6. Providing the contact details of the Acting Financial Manager for any enquiries. – **Annexure 2 [Citizen Ad: Mafube Municipality Notice No 01/2011/12 – Notice of Decision to Consider Unsolicited Bid for the Upgrade, Maintenance and Operation of Electricity Supply Services, dated 08/08/2011].**
- 2.2. No comments / objections / alternative bids were received by Mafube [confirmed by the CFO on 12/01/2012.]

- 2.3. The Municipality also conducted a Feasibility Study, as envisaged in section 78(3)(c) of the Local Government: Municipal Systems Act 32 of 2000. See **Annexure 3 – Mafube Local Municipality Feasibility Study into the Outsourcing of Electricity Supply.**
3. In terms of Mafube's Supply Chain Management Policy, the Municipality may decide to consider an unsolicited Bid subject to the following provisions:
- 3.1. The product or service offered in terms of the bids is a unique innovative concept that will be exceptionally beneficial to or have exceptional cost advantages for the municipality;
- 3.2. The person who made the bid is the sole provider of the product or service;
- 3.3. The reasons for not going through the normal biddings processes are found to be sound by the Accounting Officer; and
- 3.4. The need for the product or service by the municipality has been established during its annual performance planning and budgeting process.

This was duly done, as per the newspaper notice above. See **Annexure 4 [Mafube Local Council Supply Chain Management Policy par 19].**

4. All written comments received pursuant to publication of the accepted unsolicited bid, including any responses from the unsolicited bidder, must be submitted to the National Treasury and the Provincial Treasury for comment. No such comments were forthcoming. However, the Municipality still solicited the views of the Free State Provincial Treasury by letter dated 21 October 2011. None were forthcoming. See **Annexure 5 [Treasury No Objection dated 21/10/2011].**
5. Such submission must be made within seven days after the decision on the award of the unsolicited bid is taken, but no contract committing the municipality to the bid may be entered into or signed within 30 days of the submission – **Annexure 4 [Mafube Local Council Supply Chain Management Policy par 19].**
6. On 31 October 2011 Mafube advised Rural that its bid had been successful and that it would accordingly be appointed to render Electricity Utility Support Services within the area of jurisdiction of Mafube, as per the terms and conditions of the contract and service level agreement to be signed, calling on Rural to notify it of its acceptance of the offer within 21 working days of the letter of award – **Annexure 6 [Letter of Award dated 31/10/2011].**
7. The Electricity Management Contract as proposed was negotiated between the parties and was signed by the Municipal Manager and the Acting Financial Manager of Mafube

on behalf of the Council on 15 November 2011 – **Annexure 7 [Electricity Management Contract dated 15/11/2011]**.

8. On 23 November 2011 Mafube provided Rural with a letter confirming Rural's appointment as Mafube's service provider in respect of the management, operation, administration, maintenance and expansion of the municipal electricity network, inclusive of the revenue cycle management process, as well as the implementation of a regional electrification programme and requesting third parties to engage with Rural in relation to matters pertaining – **Annexure 8 [Letter from Mafube Confirming Appointment dated 23/11/2011]**.
 9. A full Council Meeting held on 15 December 2011 approved the Electricity Management Contract and adopted the Royalty Addendum, which was then signed by the Municipal Manager and the Acting Financial Manager of Mafube on behalf of the Council on the same date. In terms of this Addendum:
 - 9.1. The Royalty amount is fixed at 1 c per kWh until 1 July 2015, whereafter it will escalate to 3.1 c per kWh; and
 - 9.2. The formal take-over date is set as 1 February 2012.
- **Annexure 9 [Addendum 1 to Electricity Management Contract dated 15/12/2011]**.