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Makana Municipality Budget Analysis (BA) Brief

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Makana Municipality

Budget Analysis Brief

2015/16

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1. Introduction

A government budget is a planning document that outlines projected public revenue and its sources on the one hand and the amount of expenditure on different priorities on the other hand. A government budget has also been defined as ‘the financial expression of government plans and policies’¹. Depending on the level of government budgets are passed by the legislature or council. Budgets have thus come to be viewed as critical component of development policy and draw large amounts of civil society interest. Yet, government do not always follow or implement their own commitments effectively and their actions need to be put under scrutiny to ensure they remain accountable. Concomitantly, independent budget analysis has become an important tool to foster government accountability². As part of social accountability monitoring role, the Public Service Accountability Monitor (PSAM) produces a budget analysis report for Makana Local Municipality on a yearly basis. The Makana Local Municipality budget for 2015/2016 (hereafter Makana Municipality or MLM) comes in the backdrop of the municipality being under administration by the Eastern Cape Provincial Government in terms of section 139(1) of the Constitution.

¹ Handbook on budget analysis and tracking. <https://www.ippfwhr.org/sites/default/files/advocacy-budget-eng-final.pdf>

² Budget Analysis and Policy Advocacy :The Role of Non-governmental Public ActionMark Robinson
September 2006

The objects of local government in South Africa are stated in section 152 Constitution as the following:

- to provide democratic and accountable government for local communities;
- to ensure the provision of services to communities in a sustainable manner;
- to promote social and economic development;
- to promote a safe and healthy environment; and
- to encourage the involvement of communities and community organisations in the matters of local government.”

The key question to be asked of the budget can be stated as follows: To what extent does the 2015/16 Makana Local Municipality Budget ensure that the key objects of local government are progressively realised within available resources through the prioritisation of public resources within the annual budget? This report focuses on three critical areas of the MLM budget for 2015/2016 which are Revenue collection, Maintenance and infrastructure and Human resources. It assesses the challenges that exist in each of these areas and provides recommendations to deal with some of these challenges.

The report is divided into the following sections: Section 2 provides the contextual background, Section 3 gives a summarised overall picture of the MLM budget for 2015/2016, Section 4 provides both the challenges and recommendations to the challenges related to the MLM budget for 2015/2016 and Section 5 is the Conclusion of the report.

2. Contextual Background

MLM is faced with number of challenges which include financial and governance problems which have impacted on its ability to meet its financial commitments and the provision of basic services which resulted in it been placed under administration section 139(1) (b) of the Constitution in August 2014 by the Eastern Cape Provincial Executive.³ An Administrator Ms. Pam Yako was appointed and assumed duty on 1 October 2014 initially for three months after which her contract was extended by the Eastern Cape MEC for Cooperative Governance and Traditional Affairs (hereafter MEC for COGTA) for a further three months. The Eastern Cape Province took over Key executive functions as part of the intervention in MLM and some of these functions were further delegated to the administrator who was given a number of key executive functions which formed part of her terms of reference.⁴ These key executive functions included the following:

³ Makana municipality Budget 2015/2016

⁴ Parliamentary Monitoring Group. Available at <http://pmg-assets.s3-website-eu-west-1.amazonaws.com/150901presentation.pdf>

1. Corporate services (including the recruitment process and appointment of Senior Mangers)
2. Financial Management and administration (in particular credit control and debt collection, supply chain management and the development of a financial recovery plan) and thirdly.
3. Infrastructure development (this included the provision of basic services, in particular sanitation, water, municipal roads, sewer ,solid waste disposal and electricity)

Ms Yako's contract extension ended on 22nd July 2015, and a second administrator Mr. Jongosizwe Gomomo was seconded and appointed by the MEC for COGTA for a three month period.⁵ Twelve months since the intervention by the Eastern Cape Province MLM continues to be under administration.

3. Makana Municipality Budget 2015/2016 at a Glance

3.1 MLM Budget and main sources of revenue

The total budget for MLM 2015/2016 year is R 427,637 million. According to the 2015/2016 MLM budget the municipality's own revenue is budgeted at R342, 717 million which is (80.1%) of the total of R427, 637 million.⁶ The table below illustrates MLM own revenue, Makana municipality is highly reliant on the revenue from electricity provision, Electricity is the largest source at R168, 727 million (49.2%); followed by Water rates at R54, 900 million (16.0%) and Property rates at R52, 695 million (15.4%) and other R66, 395 million is at (20%).⁷ The current debt collection rate which includes the rates above for the 2015/2016 financial year is 85% which is a 10% improvement from 75% in the previous financial year of 2014/2015.⁸

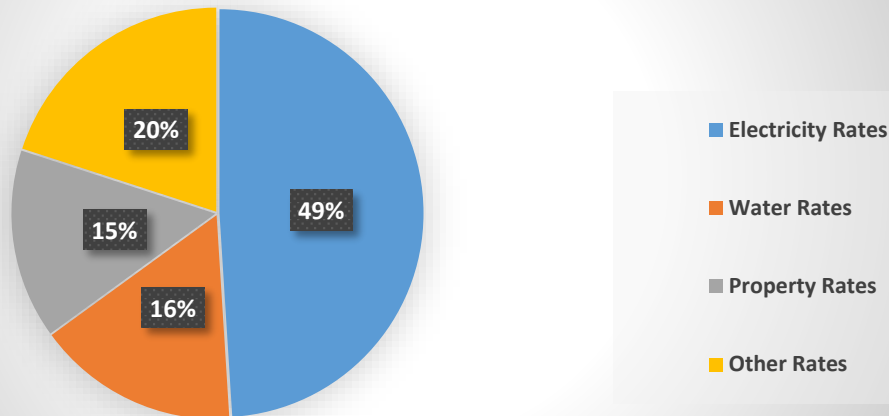
⁵ New Administrator Steps up, Grocott's Mail. 6th August 2015. Available at <http://www.grocotts.co.za/content/news-new-administrator-steps-06-08-2015>

⁶ Makana municipality Budget 2015/2016

⁷ Ibid.

⁸ Ibid.

Sources of own revenue for Makana Municipality 2015/2016



3.2 MLM Financial Recovery Plan (FRP)

Given MLM financial and service delivery challenges and to ensure the provision of services the municipality was required to develop a Financial Recovery Plan .⁹ The FRP was developed and the implementation was approved and endorsed by the MLM council in early 2015.¹⁰ The Financial Recovery Plan clearly outlines the challenges MLM faces, such as the continued poor budgeting, where unachievable revenue and expenditure budgets have been set and not achieved, weak expenditure controls and poor management of assets which have had an adverse impact on the current financial status of the municipality.¹¹

The following were key strategies identified in the Financial Recovery Plan to ensure implementation of financial and service delivery sustainability:¹²

- Enhancing the operations of the municipality through organisational realignment, human resource development and restructuring, appropriate comprehensive system of delegations, improved governance and political oversight, and the filling of critical positions including the permanent appointment of a Municipal Manager and Chief Financial Officer;
- Improving financial sustainability through budget restructuring, revenue enhancement and management, expenditure management/ cost containment, cash management, tariff restructuring and review of all core and non-core functions and development of a long term financial plan, amongst others;

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid

- Enhancing asset management through integrated infrastructure development and asset management planning to ensure sustainability through planned maintenance and replacement, growth readiness as well as proper fleet and facilities management; and
- Improving financial administration through proper supply chain management, risk management and addressing audit related issues including those pertaining to the effective functioning of the Internal Audit Unit and the Audit Committee, amongst others.¹³

4. Key Challenges and Recommendations

Low Revenue Collection Rate

Makana municipality is facing a low revenue collection rate. The revenue collection rate in Makana municipality is said to stand currently at 85%, which is an improvement from 75% in the previous financial year of 2014/2015.¹⁴ Despite this improvement in the collection rate it is still low: standard practice points out that a collection rate of 95% is required for effective administration and service delivery and the South African Local Government Association (SALGA) further points out that Revenue collection rates of between 90-95% are required for sustainability.¹⁵ Thus Makana municipality has not yet reached a collection rate which allows for financial sustainability in terms of its revenue collection and here lies one of the key challenges which the MLM has been grappling with for a number of years as shown by the table below.

Table 1: Summarised table of Collection Rate Makana Municipality (2012-2015)

Financial Year	Percentage
2011/2012	75%
2012/2013	73.5%
2013/2014	65%
2014/2015	75%
2015/2016	85%

According to the Financial and Fiscal Commission *Analysis of Local Government*

¹³ Ibid.

¹⁴ Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

¹⁵ South African Local Government Association (SALGA). ***Sustainable Financial system and appropriate fiscal framework for local government***. Available at: [www.parliament.gov.za/.../5.%20SALGA%20Presentation %20Session%...](http://www.parliament.gov.za/.../5.%20SALGA%20Presentation%20Session%...)

Revenue and Expenditure report, some of the root causes for poor collection rates in municipalities in general (and which seem relevant to Makana) can be traced to: ¹⁶

- Inadequate and improperly implemented financial policies including rates by-laws and policies and credit control policies;
- Failing billing systems;
- The deployment of incompetent or unqualified personnel to senior management positions (especially financial management positions);
- Increasing indigent populations;
- An ongoing culture of not paying for services on the part of local communities; and
- Systemic losses of water and electricity through theft and inadequate maintenance.”¹⁷

In response to this and other financial challenges Makana municipality’s adopted a revenue enhancement strategy in 2014/2015 which sought to address the challenge of low revenue collection rate in addition to other financial challenges. The revenue enhancement strategy is proposed as a solution to the municipality’s financial crisis¹⁸ which is built around the following key components:

- “The review and enforcement of policies relating to credit and debtors policies
- Realistic strategies/projects which concentrate on core service delivery, of which the municipality can properly provide services to the community, and in return has a right to monetary returns.
- Minimising the current water and electricity losses
- Cost-containment measures instructed by National Treasury
- Development of the revenue enhancement strategy with at least a three-year period with attainable goals as the 95 per cent collection rate may not be achieved in one financial year.”¹⁹

Despite the measures outlined in the revenue enhancement strategy, which are encouraging it remains firstly to be seen whether these measures will be enforced and monitored rigorously by senior administrators and the municipal council. Secondly, if the measures are failing to gather momentum, will Makana municipality hold its officials accountable? And if so what

¹⁶ Analysis of Local Government Revenue and Expenditure report 2012/13. www.ffc.co.za/.../398-chapter-3-analysis-of-local-government-revenue-a..

¹⁷ Ibid.

¹⁸ Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

¹⁹ Ibid.

corrective measures will be applied to address the situation? Furthermore, the turnaround strategy will require not only improving revenue but also tighter controls on expenditure.

Poor and aging infrastructure

Table 2: Five year Total operational budget for infrastructure and Maintenance in MLM

Financial Year	R Millions
2010/2011	16 039
2011/2012	10 887
2012/2013	18 047
2013/2014	17 120
2014/2015	18 359
2015/2016	23 657
2016/2017	25 054

**Table adapted from Makana Municipality budget 2014/2015 and 2015/2016. Available at <http://www.makana.gov.za/statutory-documents/budget/>*

Makana municipality is currently facing a huge challenge related to aging and poorly maintained infrastructure, especially with regards water infrastructure. In the 2014/2015 budget for MLM the operational repairs and maintenance was a mere R18, 36 million, given the gravity of the challenges this was by far no means enough to address these challenges.²⁰ In the 2015/2016 the operational and repairs budget for MLM which includes the maintenance of assets, including public roads, is set at R23.6 million.²¹

This is an increase of R5, 0 million or 21%. This is an encouraging sign and if it is supported in addition with the development of an asset plan and the implementation of the maintenance plan which has been developed but not yet implemented; due to financial constraints this will assist greatly with regards efficient and effective service delivery to communities in MLM.

MLM must continue to devote a large proportion of the budget towards maintenance and upgrading infrastructure especially with regards to water infrastructure. The operationalization of the asset plan and the implementation of the maintenance plan which has been developed

²⁰ Makana Municipality Final Budget 2014/2015. Available at <http://www.makana.gov.za/statutory-documents/budget/2014-15-ec104-makana-final-budget/>

²¹ Makana Municipality Budget 2015/2016.

but not yet implemented must become a key priority. In addition the news outlined in the MLM budget 2015/2016 that the municipal asset reconciliations, verification of movables and updating of work-in-progress (WIP) have been updated in the municipal asset register²² is also a welcome initiative in this regard.

Human Resources

Table 3: Annual performance as per key performance indicators in Municipality Transformation and Organisational Development 2014/2015

Indicator Name	Total Number of people planed for During the year under review	Achievement Level during the year under review	Achievement Percentage during the year under review	Comments on the GAP
1.Vacancy rate for all approved and budgeted posts	30	20	80%	The outstanding posts have been advertised
2.Percentage of appointment in strategic positions (Municipal Manager and Section 57 Managers)	6	3	33%	Various resignations were experienced at this level
3.Percentage of Section 57 Managers including Municipal Managers who attended at least one skills development training course within the financial year	5	2	20%	The Director: LED and Director Corporates Services were part of the CPMD Training process
4.Percentage of Managers in Technical Services with a professional qualification	6	6	100%	
5.Percentage of municipalities within the district that have a fully functional Performance Management System (District Municipality only)	Not applicable			

²² Ibid.

6. Percentage of staff that have undergone a skills audit (including competency profiles) within the current five year term	612	0	1%	Process will be addressed as one of the outcomes of the Organisational development process of the Municipality
7. Percentage of councillors who attended skills development training within the current five year term	27	0	0%	Training was hampered by a severe lack of funds
8. Percentage of staff complement with disability	1	1	100%	
9. Percentage of female employees	131	131	100%	
10. Percentage of employees that are aged 35 or younger	57	44	77%	

NB: Table adapted from Makana Municipality Draft Annual plan 2014/2015 available at <http://www.makana.gov.za/wp-content/uploads/2013/06/DRAFT-ANNUAL-REPORT-201415.pdf>

The table above provides a summary of some of the key human resource indicators for MLM in 2014/2015. One of the key challenges which MLM faces is related to human resource management especially with regards to strategic positions of Municipal manager and section 57 Managers where only 33% of vacancies were able to be filled in 2014/2015 financial year.²³ The 2014/2015 Makana Intervention Plan (MIP) report which was developed as part of the intervention by the EC Province by the Administrator for Makana municipality identified some of the following key challenges with regards to the human resource challenges the MLM faces.²⁴

- The appointment of Senior Management (MM & CFO) – this will bring the much needed stability to the institution. The filling of these critical posts will also ensure that these senior managers are an integral part of the intervention plan
- There is an urgent need to develop performance contracts for Senior Managers tied to performance contracts. Furthermore according to the MLM Draft annual report for

²³ Makana Municipality Draft Annual Report 2014/2015. Available at <http://www.makana.gov.za/wp-content/uploads/2013/06/DRAFT-ANNUAL-REPORT-201415.pdf>

²⁴ Makana Intervention Plan, 2014. Available at: <http://www.makana.gov.za/statutory-documents/general/>

2014/2015 the Performance Management System was not implemented in 2015. Performance Agreements were not signed and no reviews could be conducted. The target to cascade the Performance Management System to lower levels which would include the Managers reporting to the Directors, could also not be achieved because the senior level of Management had not signed performance agreement and critically also the absence of an Accounting Officer affected this process negatively.²⁵

- A Performance Management System must be in place.
- Revise and implement the Workplace Skills Development Plan and ensure the training committee is functional and the areas prioritised in the intervention plan are also given immediate attention.

Makana municipality needs to urgently address the challenges in its human resource management system and this requires improved oversight by the municipal council. Of key importance in the immediate future is filling the positions of Municipal Manager and CFO. These are integral positions in the financial, administrative and organisational leadership of a municipality. One of the reasons that could explain why Makana municipality has faced financial challenges is the lack of a permanent CFO and Municipal Manager in addition to the poor budgeting and planning processes.

5. Conclusion

From the evidence above through this budget analysis MLM is certainly making concerted efforts to improve its financial position and sustainability and thus provide efficient and effective service delivery to the residents of MLM. Critical to achieving some of these goals will be the following:

- The implementation and monitoring and evaluating of the Financial Recovery Plan (FRP)
- The swift filling in of the critical vacancies (i.e MM and CFO). This is critical as an absence especially of a permanent CFO and MM leaves room for volatility due to there been people acting and leaving the position without a permanent person been employed, it can also lead to disorganization a lack of accountability and transparency.
- The swift development of an asset plan and the implementation of the maintenance plan must become a key priority of MLM.

²⁵ Makana Municipality Draft Annual Report 2014/2015. Available at <http://www.makana.gov.za/wp-content/uploads/2013/06/DRAFT-ANNUAL-REPORT-201415.pdf>

The situation in Makana municipality is comparable to severe service delivery challenges that have been experienced in Emalahleni and Bushbuckridge where these municipalities capacity to function had virtually disintegrated.²⁶ Thankfully these municipalities have been the subject of section 139 interventions and are beginning to show signs of turnaround. One now hopes that Makana municipality will also show signs of a turnaround given that it has been under administration for just over a year now.²⁷

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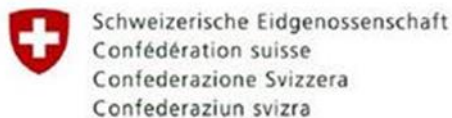
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